



CITY OF LONG BEACH

C-13

LONG BEACH AIRPORT

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December 13, 2016

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager, or designee, to execute all documents necessary for a Sublease to Lease No. 9351 between Million Air North, Inc., a California corporation, and the City of Long Beach for office space at 4401 Donald Douglas Drive, to house the Engineering, Accounting and Security Divisions of the Airport Department; and,

Increase appropriations in the Airport Fund (EF 320) in the Airport Department (AP) by \$302,031. (District 5)

DISCUSSION

On January 3, 1968, the City of Long Beach (City) executed Lease No. 9351 with Millie & Severson, Inc., for approximately 5.7 acres of land for the development of an office building at 4401 Donald Douglas Drive (Site) for a 55-year total term. The Lease has been assigned three times, most recently to Million Air North, Inc. (MANI), the current Master Tenant. The Lease terminates on January 2, 2023.

Properties located on Donald Douglas Drive, such as the Airport's historic Terminal building (Terminal), are primarily used for aviation-related businesses such as Flight Safety International, Gulfstream Aerospace, JetBlue Airways, and the Transportation Security Administration. Office and meeting space in the Terminal is limited. Despite the physical constraints, the Airport Department (Airport) operates onsite with the majority of its office space located in the Terminal, while also providing for office space for commercial airline partners.

Approximately 32 Airport employees from the Airport's Engineering, Accounting, Noise and Operations Divisions occupy approximately 2,700 square feet (SF) of office space located on the third and fourth floors of the Terminal, with only one common bathroom, no breakroom space, and accessible only by a flight of stairs, which do not meet current accessibility standards due to the age of the Terminal. In addition, the Airport Security Officers and Police Department's Airport Unit operate out of modular trailers north of the Terminal and use locker rooms and showers located in the Terminal's basement, which is not conducive for such functions.

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In early 2016, MANI informed the Airport that a subtenant was downsizing and that approximately 6,033 SF of office space would be available for lease at the Site. With the Airport in need of office space, negotiations commenced to secure office space for the relocation of Airport staff. The additional space at the Site will provide the Airport Security Division with adequate office, locker and shower rooms, allow for improved accessibility, and provide kennel space for the Airport's Canine Security teams. The leased office space will also serve as a secondary Airport Security Communication Center.

With the relocation of the Airport's Accounting and Engineering Divisions, the Airport Operations and Noise Divisions can remain on the upper floors of the Terminal. A reorganization of space on the upper floors will serve to optimize and improve the efficiencies of these two critical teams who benefit from remaining in the Terminal and having direct airfield visibility for their operations and functions.

The proposed sublease with MANI contains the following major terms and provisions:

- Master Lessor: City of Long Beach, a municipal corporation.
- Master Tenant: Million Air North, Inc., a California corporation.
- Sublessee: City of Long Beach, a municipal corporation.
- Subleased Premises: A portion of the first and second floors consisting of approximately 6,033 SF located at 4401 Donald Douglas Drive.
- Sublease Term: Sublease shall commence upon the completion of the necessary improvements for occupancy of the Subleased Premises and shall be coterminous with the Master Lease on January 2, 2023, for an approximate five-year, ten-month term.
- Base Rent: The initial monthly base rent shall be \$2.10 per SF with annual increases of 3 percent as follows:
 - Year 1 - \$12,669 per month (\$2.10 per square foot);
 - Year 2 - \$13,049 per month (\$2.16 per square foot);
 - Year 3 - \$13,441 per month (\$2.23 per square foot);
 - Year 4 - \$13,844 per month (\$2.29 per square foot);
 - Year 5 - \$14,259 per month (\$2.36 per square foot);
- Utilities: Due to the 24-hour nature of the Airport's operations, electricity and water for the Subleased Premises shall be submetered separately and reimbursed to the Master Tenant based on actual costs.

- Operating Expenses: All operating expenses, excluding electricity and water, are included in the base rent. The City shall not be liable for any increase in operating expenses for the first 12 months of the lease term, nor shall the City be responsible for any increase in property taxes through the lease term. Any future expense escalations shall be calculated using a base year of 2017 and grossed up to 95 percent occupancy. The City shall not be responsible for any increase in "controllable" operating expenses that are in excess of 5 percent per year.
- Tenant Improvements: MANI shall provide the City with a Tenant Improvement (TI) Allowance of \$573,135 (\$95.00 per SF) to complete necessary improvements to the Subleased Premises for occupancy. The TI Allowance is incorporated into the monthly base rent based on a ten-year amortization at a rate of 6 percent. As such, the City shall be responsible for payment of the outstanding principal balance of the TI Allowance at the end of the Sublease Term. Based on a five-year, ten-month Sublease Term, the one-time payment would be approximately \$281,000.
- Additional TI Allowance: If needed, the City shall be entitled to an Additional TI Allowance of up to \$150,000. The Additional TI Allowance shall be reimbursed to MANI proportionately throughout the construction of the Tenant Improvements.
- Parking: As part of the Tenant Improvements, the City will install chain-link fencing to secure the western parking lot for use at no charge. In addition, a portion of this lot will be used as a dog run for the Airport's security canine teams.

This matter was reviewed by Deputy City Attorney Richard F. Anthony on November 7, 2016 and by Budget Management Officer Rhutu Amin Gharib on November 10, 2016.

TIMING CONSIDERATIONS

City Council action is requested on December 13, 2016, in to execute the Sublease in a timely manner to commence improvements to the Subleased Premises.

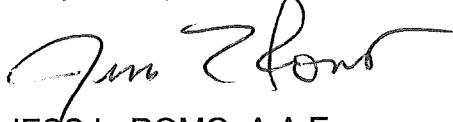
FISCAL IMPACT

The annual base rent costs shall be \$152,031 and shall increase annually by 3 percent. The City shall also reimburse MANI up to \$150,000 for the Additional TI Allowance. An appropriation increase is requested in the Airport Fund (EF 320) in the Airport Department (AP) in the amount of \$302,031, which will be offset by Airport operating revenue. Funding for subsequent year's expense increases and one-time expenses will be included as part of the annual budget process. There is no local job impact associated with this recommendation.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



JESS L. ROMO, A.A.E.
DIRECTOR, LONG BEACH AIRPORT

JR:JLR:MC:km
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APPROVED:



PATRICK H. WEST
CITY MANAGER