



CITY OF LONG BEACH

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LONG BEACH AIRPORT

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April 11, 2017

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 \$303,036. (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 for a 55-year total term. The Lease has been assigned three times, most recently in 2009 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 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.

In early 2016, MANI informed the Airport that a subtenant at 4401 Donald Douglas Drive (Site) was downsizing and that approximately 6,073 SF of office space would be available for lease. With the Airport in need of office space, a site search in the vicinity of the Airport was initiated with the assistance of CRESSA, one of the City's on-call vendors for broker representation services. Available office space was identified at the Long Beach Airport Business Park, the Kilroy Business Center, Douglas Park and at the Site. Negotiations, led by CRESSA, resulted in the best competitive rate and terms at the Site. The Site, with the closest proximity to the Terminal, 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 Site will also serve as a secondary Airport Security Communications 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 the efficiencies of these two critical teams who benefit from remaining in the Terminal and maintaining 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 6,073 SF located at 4401 Donald Douglas Drive.
- Sublease Term: The term of the sublease shall commence upon the completion of the improvements necessary for occupancy of the Subleased Premises and shall be coterminous with the Master Lease on January 2, 2023. The anticipated commencement date is August 1, 2017, which provides for an approximate five-year, five-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 - \$12,753 per month (\$2.10 per square foot);
 - Year 2 - \$13,118 per month (\$2.16 per square foot);
 - Year 3 - \$13,543 per month (\$2.23 per square foot);
 - Year 4 - \$13,907 per month (\$2.29 per square foot);
 - Year 5 - \$14,332 per month (\$2.36 per square foot);
 - Year 6 - \$14,757 per month (\$2.43 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 \$576,935 (\$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, five-month Sublease Term, the one-time payment to be paid at that time would be approximately \$307,329.
- 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 TIs.
- Parking: As part of the TIs, the City will install chain-link fencing to secure the western parking lot for use at no additional charge. A portion of this lot will be used as a dog run for the Airport's security canine teams.

On December 13, 2016, the City Council requested the City Attorney to seek an opinion from the California Fair Political Practices Commission (FPPC) regarding whether or not the City could legally enter into a lease with MANI because its principal, Mr. Glenn Ray, was a current member of the Airport Advisory Commission (AAC). The City Attorney's office reports that on December 19, 2016, it communicated in writing with the FPPC seeking a legal opinion regarding the ability of MANI to enter into a lease with the City given Mr. Ray's status as an AAC member. Since the initial communication with the FPPC on December 19, 2016, the City Attorney further reports that it has contacted the FPPC several times, both in writing and telephonically, to determine when the FPPC would be issuing an opinion in this matter. As of the date of this letter, the FPPC has not provided the City Attorney with any information to suggest when an opinion from the FPPC might be issued.

On March 10, 2017, Mr. Ray provided the Mayor and the City with notification that he was resigning from the AAC effective March 10, 2017. The City Attorney conveyed this information to the FPPC and received an acknowledgement of receipt from the FPPC. It

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is important to note that this proposed lease was never submitted to the AAC for a recommendation or for any other purpose. Matters involving leases or subleases of property by the Airport are not submitted to the AAC for its consideration.

This matter was reviewed by Deputy City Attorney Richard F. Anthony on March 27, 2017 and by Revenue Management Officer Geraldine Alejo on March 24, 2017.

TIMING CONSIDERATIONS

City Council action on this matter is requested on April 11, 2017, to execute the Sublease in a timely manner to commence improvements to the Subleased Premises.

FISCAL IMPACT

The FY 17 base rent is \$153,036 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 for the first year's cost is requested in the Airport Fund (EF 320) in the Airport Department (AP) in the amount of \$303,036, which will be offset by Airport operating revenue. Funding for subsequent year's expense will be requested 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:km
SICLLBA - Keystone Lease.rev6

APPROVED:



PATRICK H. WEST
CITY MANAGER