

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: May 18, 2022

CAO File No. 0150-12064-0000

Council File No. 22-0554

Council District: 11

To: The Mayor

From: Matthew W. Szabo, City Administrative Officer 

Reference: Communication from Los Angeles World Airports dated March 17, 2022; referred by the Mayor for a report on March 17, 2022

Subject: **PROPOSED AGREEMENT TO AUTHORIZE A THIRD AMENDMENT TO LEASE AND NON-EXCLUSIVE RIGHT-OF-WAY LICENSE AGREEMENT LAA-5316 WITH LAXFUEL CORPORATION TO REDUCE THE DEMISED PREMISES AND REIMBURSE LAXFUEL FOR THE RELOCATION OF THE FUEL LOAD RACK AT LOS ANGELES INTERNATIONAL AIRPORT**

RECOMMENDATION

That the Mayor:

1. Approve a proposed Third Amendment to Lease and Non-Exclusive Right-of-Way License Agreement LAA-5316 with LAXFUEL Corporation to reduce the leased premises and reimburse LAXFUEL up to \$4 million for the initial design, permit procurement, and construction of the fuel load rack and associated equipment at Los Angeles International Airport, subject to City Attorney approval as to form and compliance with the City's Standard provisions, including: Living Wage / Service Contractor Worker Retention Ordinances, Affirmative Action Program, Business Tax Registration Certification, Child Support Obligations Ordinance, Contractor Responsibility Program, First Source Hiring Program, Bidder Contributions CEC Form 55, and MLO CEC Form 50;
2. Authorize the Chief Executive Officer to execute the proposed Third Amendment to Lease and Non-Exclusive Right-of-Way License Agreement LAA-5316, upon approval by the Los Angeles City Council, and prior to the execution of the Third Amendment, LAXFUEL Corporation must:
 - a. Have approved insurance documents, in the terms and amounts required, on file with Los Angeles World Airports; and
 - b. Be determined by the Public Works, Office of Contract Compliance to be in full compliance with the provisions of the Equal Benefits Ordinance; and

3. Return the request to the Los Angeles World Airports for further processing, including Council Consideration.

SUMMARY

The Los Angeles World Airports (LAWA) Board of Airport Commissioners (BOAC) requests approval of Resolution No. 27459, authorizing a proposed Third Amendment (Amendment) to Lease and Non-Exclusive Right-of-Way License Agreement LAA-5316 (Agreement) with LAXFUEL Corporation (LAXFUEL; Contractor). The primary objective of the proposed Amendment is to reduce the demised premises to create space for the construction of the Taxiway D Project and reimburse LAXFUEL up to \$4 million to design and complete the work related to relocating LAXFUEL's fuel load rack.

LAWA and LAXFUEL entered into a 44-year lease agreement on January 23, 1987, for approximately 715,000 square feet of land at 9900 LAXFUEL Road at Los Angeles International Airport (LAX) for the construction, operation, and maintenance of a fuel storage facility. Two subsequent amendments were executed in 1991 and in 1997, in which: 1) allowed for LAXFUEL financing improvements; and 2) amended the demised premises and Right-of-Way License Agreement to add, delete, and reconfigure portions of the property. The term of the lease agreement expires on December 21, 2031.

LAXFUEL controls, operates, and maintains the aviation fuel distribution system to fuel aircraft through the use of underground fueling systems, apparatuses, and equipment at LAX. The company is composed of a consortium of airlines operating at LAX and provides jet fuel for aircraft included in the union. The facility is comprised of 65 domestic and international carriers and it features a fuel system infrastructure, 15 fuel storage tanks, distribution piping, materials, and equipment that dispense an average of more than four million gallons of fuel per day.

Currently, LAWA is engaged in airfield improvement initiatives as part of the Airfield and Terminal Modernization Improvement Project (ATMP), and the Taxiway D Extension project is anticipated to be the first airfield improvement project launched. The airfield project aims to reduce congestion and enhance airfield safety by reducing runway incursions. To carry out this process, LAWA must minimize LAXFUEL's leasehold by approximately 65,000 square feet. According to LAWA, it is necessary to demolish, reconfigure, and relocate the fuel truck loading racks, in addition to realigning fuel connections and the distribution piping, and building new storage facilities for equipment and materials.

According to LAWA and as shown in Attachment 2 (Impacted Area) of the BOAC report, the land identified is the only portion of the property that is affected by the reduction. No building structures or storage tanks are included. The attachment also depicts additional space that may be allocated to LAXFUEL in the future through a subsequent amendment or separate agreement. It is expected that the reduced square footage will cause a decrease in LAWA's annual revenue by approximately \$224,000, conversely, some of the lost revenue will be offset when the new storage facility is built.

The design engineer, Burns and McDonnell Engineering Company, Inc. is working on behalf of LAXFUEL and has yet to provide a comprehensive cost estimate for the fuel rack reconfiguration and its associated elements. LAWA indicates that the estimated cost is \$23 million. Given that LAXFUEL and its design engineer are in the process of refining the total project costs, LAWA has agreed to reimburse LAXFUEL up to \$4 million for expenses incurred for design and permitting, determining if additional space may be required, and confirming a sound total project cost estimate. After the project costs are established, LAWA staff expects to return to the BOAC to request a subsequent appropriation to finalize the construction components of the project.

The fuel rack relocation project is being coordinated closely with LAWA to ensure proper integration with the Taxiway D project. LAWA is targeting the demolition phase to commence in June 2022 and ultimately take possession of the area necessary to accommodate the Taxiway D Extension project by August 2023. This allows sufficient time for LAXFUEL to complete the full design and engineering plans, permit process, and the required construction to vacate the impacted area without disrupting the taxiway project.

Fuel operations will not be impacted during the construction of the property as the vast majority of fueling efforts are delivered through the fuel hydrant system, which is a system that contains an underground network of fuel supply lines that reach from the airport fuel farm to the aircraft stands and dispenses fuel to idle aircraft. Additional load racks on the southeast portion of LAX are available for use if a disruption to the hydrant system occurs.

The BOAC approved the proposed Third Amendment to Lease and Non-Exclusive Right-of-Way License Agreement LAA-5316 with LAXFUEL Corporation at its meeting on March 17, 2022. Actions taken on this item by the BOAC will become final pursuant to the provisions of Los Angeles City Charter Section 606.

FISCAL IMPACT STATEMENT

Approval of the proposed Third Amendment to the Lease and Non-Exclusive Right-of-Way License Agreement LAA-5316 with LAXFUEL Corporation, to reduce the demised premises and appropriate an amount not-to-exceed \$4 million for the reconfiguration, relocation, and construction of the fuel load rack at LAX will have no impact on the City's General Fund. LAWA staff requests that funds are appropriated from the LAX Revenue Fund and allocated to WBS # 1.22.12A-700 (ATMP Airfield Program). This appropriation excludes LAWA overhead and program services costs required to administer and manage the CIP, which are appropriated separately by the BOAC. This project complies with LAWA's adopted Financial Policies.