

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: May 18, 2022

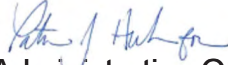
CAO File No. 0150-11835-0001

Council File No. 11-0416

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 SECOND AMENDMENT TO LEASE LAA-8565 WITH FEDERAL EXPRESS CORPORATION TO ADJUST THE LEASED PREMISES TO ADVANCE THE CONSTRUCTION OF THE TAXIWAY D EXTENSION PROJECT**

RECOMMENDATION

That the Mayor:

1. Approve a proposed Second Amendment to Lease LAA-8565 with Federal Express Corporation to reduce the leased premises at 7401 World Way West at Los Angeles International Airport, to enable the construction of the Taxiway D Extension Project, subject to City Attorney approval as to form and compliance with the City's Standard Provisions, including the: Living Wage Ordinance, 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 Bidder Contributions CEC Form 50;
2. Authorize the Chief Executive Officer to execute the proposed Second Amendment to Lease LAA-8565 with Federal Express Corporation, upon approval by the Los Angeles City Council, and prior to the execution of the Second Amendment, Federal Express 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 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. 27458, authorizing a proposed Second Amendment (Amendment) to Lease LAA-8565 with Federal Express Corporation (FedEx) located at 7401 World Way West at Los Angeles International Airport (LAX). The proposed Second Amendment is to reduce the demised premises by approximately 120,000 square feet (SF) to enable the construction of the Taxiway D Expansion Project. The term of the lease expires on June 30, 2024.

The property is comprised of 982,796 SF of land and 193,570 SF of various building types, such as a hangar, offices, and shops. FedEx, a tenant since 1989, utilizes the property for its aircraft maintenance operations and currently employs approximately 500 staff at the facility, including approximately 317 Aircraft Maintenance Technicians. In addition, FedEx employs 110 Aircraft Maintenance Technicians who are mobile between the maintenance facility and its LAX cargo facility on Imperial Highway.

In March 2011, the BOAC approved Lease LAA-8565 (Lease; Agreement) with FedEx for a ten-year term, effective in April 2011, with an expiration date of April 13, 2021. An ensuing Second Amendment was executed before the expiration of the lease term, to extend FedEx's Agreement to June 30, 2024, inclusive of two one-year extension options. In exchange for the lease extension, FedEx agreed to: 1) an increase in land and building rates; 2) relinquish 80,700 SF of land, and 3) give up two additional parcels at LAWA's future discretion needed to accommodate the forthcoming Taxiway D Extension Project.

Currently, LAWA is implementing 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 initial airfield improvement project launched. The primary objective of the airfield project is to reduce congestion and enhance airfield safety by reducing runway incursions. To carry out the process, LAWA must minimize FedEx's leasehold by approximately 120,000 SF. The affected areas are essentially land, which includes auto asphalt and aircraft concrete. No building structures are subject to reduction.

According to LAWA and as illustrated in Attachment 2 (Impacted Area), the land identified is the only portion of the property that is subject to reduction. LAWA intends to initially remove 161,218 SF from the leasehold and give back 40,975 SF of replacement space on an adjacent parcel to provide employee parking. The total square footage reduction is 120,243 SF and it is estimated that LAWA will reclaim the required land areas by January 1, 2023. Although the City obtains the right to reduce the demised premises, the Department does not anticipate any further property reductions to the FedEx premises to accommodate the Taxiway D Extension Project.

The financial ramifications for reducing the demised premises will result in a revenue reduction of approximately \$493,000 per year. LAWA anticipates that rental revenue will be approximately \$6,381,000 for the first fiscal year (July 1, 2022 to June 30, 2023) and \$12,513,000 over the remaining term of the lease, exclusive of annual and periodic rent adjustments. The table below summarizes FedEx's payment schedule during the first year of the proposed Second Amendment.

Property Description	Area (Square Feet)	Rent (Per Square Foot Per Year)	Annual Rent	Monthly Rent
Aircraft Hangar	77,552	\$16.58	\$1,285,812	\$107,151
Office/Shop	83,448	\$15.45	\$1,289,272	\$107,439
Outparcel Building	16,920	\$15.45	\$261,414	\$21,785
Training Building	15,650	\$15.45	\$241,793	\$20,149
Land/Maintenance	902,096	\$3.38	\$3,049,084	\$254,090
Aircraft Parking Paving	316,522	\$0.88	\$278,539	\$23,212
Auto Parking Paving	409,028	\$0.44	\$179,972	\$14,998
FedEx Payment Schedule			\$6,585,886	\$548,824

*Revenue is subject to a reduction in January 2023 when LAWA repossesses the required parcel to accommodate the Taxiway Project.

The BOAC approved the proposed Second Amendment to Lease LAA-8565 with Federal Express Corporation at its meeting on March 17, 2022. Actions taken on this item by the BOAC will become final pursuant to the provisions of the Los Angeles City Charter Section 606.

FISCAL IMPACT STATEMENT

Approval of the proposed Second Amendment to Lease LAA-8565 with Federal Express Corporation to reduce the lease premises to enable the construction of the Taxiway D Extension Project at Los Angeles International Airport will have no impact on the City's General Fund. The actions of the proposed Second Amendment comply with LAWA's adopted Financial Policies.