

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: June 16, 2023

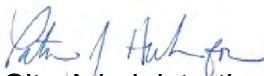
CAO File No. 0150-12326-0000

Council File No.

Council District: 11

To: The Mayor

From: Matthew W. Szabo, City Administrative Officer



Reference: Correspondence from Los Angeles World Airports Board of Airport Commissioners (Board) dated April 11, 2023 and April 19, 2023; referred by the Mayor for a report on April 11, 2023

Subject: **RESOLUTION NO. 27716 AND PROPOSED GROUND LEASE WITH SOUTHWEST AIRLINES CO. FOR APPROXIMATELY 702,750 SQUARE FEET OF LAND AT LOS ANGELES INTERNATIONAL AIRPORT TO DEVELOP AND OPERATE A NEW PASSENGER CONCOURSE FACILITY**

RECOMMENDATION

That the Mayor:

1. Approve Los Angeles World Airports (LAWA) Resolution No. 27716 authorizing approval of a proposed ground lease with Southwest Airlines Co. for approximately 702,750 square feet of vacant parcel at Los Angeles International Airport for up to 30 years, to allow the development and operation of a new passenger concourse facility known as Concourse Zero. The proposed lease will generate LAWA approximately \$2.9 million in gross revenue during the initial year after site delivery and \$85.8 million over the 30-year term;
2. Adopt the California Environmental Quality Act (CEQA) determinations of the April 19, 2023 Board of Airport Commissioners (Board) Resolution 27716, that this action is exempt from CEQA pursuant to Article III, Class 1 (18)(c) and Article II, Section 2(i) of the Los Angeles City CEQA Guidelines; and
3. Authorize the LAWA Chief Executive Officer, or designee, to execute the proposed agreement and return the Resolution to LAWA for further processing, including Council consideration.

SUMMARY

The Los Angeles World Airports (LAWA) Board of Airport Commissioners (Board) requested approval of its April 19, 2023 Resolution 27716 authorizing the execution of a proposed ground lease with Southwest Airlines Co. (SWA) to facilitate the development and operation of a new

passenger concourse facility, adjacent to Terminal 1 (T1), known as “Concourse Zero.” The lease will generate approximately \$2.9 million in gross revenues to LAWA during the first year after the site is delivered to SWA and \$85.8 million over the 30-year term. Site delivery is contingent on the completion of the Automated People Mover project, currently projected for sometime in 2024. Provisions of the proposed lease affirms that LAWA has the option to: 1) buy back the capital improvements from SWA at any time after completion of the construction, as well as amend SWA’s Terminal 1 Lease (LAA-8757) to allow SWA to operate its international flight operations from the new concourse, or 2) allow SWA to manage and operate Concourse Zero while LAWA subleases the common areas of the concourse comprising public spaces, concessions, and Federal Inspection Services. Per LAWA, approval of the lease will help the department to advance a specific strategic plan goal and objective to deliver facilities and guest experiences that are exceptional.

The proposed lease has been approved as to form by the City Attorney. Pursuant to Charter Section 606 and Los Angeles Administrative Code Section 10.5, Council approval is required because the cumulative contract term exceeds five years. Our Office has reviewed the request and recommends approval.

BACKGROUND

SWA occupies space in Terminal 1 (T1) under the conditions of Terminal Facilities Lease and License Agreement LAA-8757 that was approved on January 14, 2013 by the Board. On April 19, 2023 and April 11, 2023, the Board approved Resolution 27716 and a LAWA staff report requesting approval to execute a proposed ground lease with SWA for a period of up to 30 years. The proposed lease indicates that SWA will construct a new concourse, adjacent to its operations in T1, on approximately 702,750 square feet of land at the northeast corner of the Central Terminal Area (CTA) at Los Angeles International Airport (LAX). By SWA expanding its operations to a new facility at LAX, SWA will be able to enhance its air transportation services and initiate international flights from the new location.

The Concourse Zero project is a multi-layered undertaking with a variety of complex challenges that must be solved through prudent planning, innovative designs, and effective construction management to successfully develop the facility, connect it to the adjacent terminal, and mitigate risks to SWA’s operations. Because of the logistical complexities of constructing a new facility adjacent to an active terminal, it has been deemed impractical for LAWA to solicit competitive proposals for the assembly of a new structure. As a result of the highly active operations in and around T1, LAWA determined that SWA is best positioned to manage the construction of the project. Given that the new structure will not be developed as a full-service terminal, it is essential that efficient pathways are constructed to connect passengers with the two facilities. Passengers utilizing the new facility must be processed through T1 prior to entering the boarding gates that will be created at Concourse Zero.

Ground Lease Terms - The proposed ground lease agreement consists of a three phased approach to progressively advance and complete the development of Concourse Zero. Prerequisites of each phase must be fulfilled sequentially and within a fixed time frame to achieve full commission of the facility.

- **Phase 1** or Pre-Term is divided into two parts to allow LAWA and SWA to: 1) clearly define the scope of the project and final terms of the lease amendment which includes confirmation of the maximum project cost and SWA's financing plan 2) Site delivery of three components: employee and contractor parking at Park One, LAX-It lot which is contingent on operation of the Automated People Mover (APM) scheduled for activation in 2024, and the Skyway Bridge;
- **Phase 2** is Construction and must be aligned with the activation of the APM and development of an apron area of the airfield that connects to the concourse which LAWA will buy back; and
- **Phase 3** is Operations of the facility following completion of the construction. SWA will own, operate and control the capital improvements for 30 years subject to other conditions and LAWA will sublease the common areas.

If the conditions of the individual phases are not fulfilled, LAWA has the authority to terminate the lease, purchase the design plans, and deliver the project independently. A detailed overview of each phase of the ground lease is contained in the April 11, 2023 Board report and further delineated in the proposed ground lease (Attachment 1).

Post Construction Completion – The Department will promptly redeem the apron area zones of two preferential gates that will be permanently closed in T1 and each apron area associated with Concourse Zero because of their essential role to the operations of the airport. The premises will be surveyed upon completion and reduced in accordance with the survey lease line demarcations. Additionally, LAWA can exercise its option to either buy back the facility and lease it to SWA or take no action and sublease the common areas from SWA. The options are summarized below but discussed in detail in Attachment 2.

LAWA's Acquisition (Buy Back) of Concourse Zero - The determining factor in deciding whether LAWA will buy back the facility or not is contingent on LAWA's financial capacity and Board approval. The cost to purchase the facility from Southwest cannot exceed the total cost of the project.

SWA Maintains Ownership of Concourse Zero – SWA will own and operate the capital improvements and will be the sole airline operator of Concourse Zero. LAWA will sublease the common areas of the concourse and make a one-time payment to SWA equal to the airline's debt service cost, plus maintenance fees. LAWA's management of the common areas will enable the Department to control and operate the concession for revenue generation opportunities.

Boarding Gate Capacity - Currently, there are a total of 13 boarding gates in T1. As part of the Concourse Zero project, two boarding gates are scheduled to be removed from T1 and an additional 11 boarding gates will be added to the concourse, for a total of 22 boarding gates.

Timeline to Conclude the Project – There is no definite timetable to complete the project considering that the design and phasing is still being investigated, however, it is anticipated that the construction component will conclude in 2028 or 2029.

SWA Financing - SWA, according to LAWA, may need to secure a loan from a combination of third-party financing sources to complete the construction of the project. It has also been determined that LAWA could provide an additional source of funds to SWA through a tenant improvement loan (TIF Loan) under the condition that LAWA has the ability to secure the funds in the bond market at a favorable cost. As part of the loan agreement, any funds delivered to SWA from this source are limited to specific project elements. Subsequently, both LAWA and SWA must agree on the parameters of how the funds shall be used. Options include SWA securing 1) a lender or lending institution; 2) a special purpose entity, or 3) Regional Airports Improvement Corporation funding, 4) use of the California Municipal Finance Authority or 5) another similar financing entity. All options are subject to review and approval of the LAWA Chief Executive Officer. If SWA is unable to fulfill the financial requirements to develop the land within 90 days from the execution date of the Final Terms Lease Amendment, the lease will terminate at no cost to LAWA.

Financial Benefits to LAWA – Southwest is required to begin remitting monthly rent installments to LAWA upon delivery of the first site in the amount of \$4.07 per square foot per year. Note, as previously indicated, the timeline for delivery of these sites is still undefined and contingent on completion of the APM sometime in 2024. Once the time schedules are determined, they will be included in the Concourse Zero Final Lease Terms Amendment. The land rent payments are structured to incrementally increase with each successive site delivery, proportional to the amount of land square footage delivered until the demised premises are fully turned over to Southwest. LAWA estimates that the ground lease will generate \$2.9 million in gross revenue during the first year after the site delivery and \$85.8 million over the 30-year term. The land rent is subject to annual rate adjustments by a Consumer Price Index on July 1 of each year. Further, additional revenue-generating opportunities will be developed as a result of LAWA controlling the concessions program of the concourse.

CITY COMPLIANCE

The City Attorney has reviewed the proposed ground lease as to form and legality. The proposed ground lease includes provisions to ensure compliance with applicable City Ordinances, contracting, and insurance requirements. In accordance with Charter Section 606 and Administrative Code Section 10.5(c), the Agreement requires Council approval because the total term of the Agreement exceeds five years.

California Environmental Quality Act (CEQA) – On April 11, 2023, the Board determined that the proposed ground lease with Southwest Airlines Co. for approximately 702,750 square feet of land at the northeast corner of the Central Terminal Area at Los Angeles International Airport will not directly impact the environment and is exempt from CEQA pursuant to Article III, Class 1 (18)(c) and Article II, Section 2(i) of the Los Angeles City CEQA Guidelines.

FISCAL IMPACT STATEMENT

Approval to award a proposed ground lease to Southwest Airlines Co. for a term of up to 30 years at Los Angeles International Airport will have no impact on the City's General Fund. By executing the proposed ground lease, LAWA will receive an estimated \$2.9 million in annual land rent during

the first year and an estimated \$85.8 million over the 30-year term. The Department further indicates that additional non-aeronautical revenue will be earned as a result of new concessions that will be awarded and managed by LAWA's Concessions Program. Southwest Airlines Co. may secure financing from third-party lending sources to fund certain components of the project and additional funding from LAWA through bond financing. The loan amounts are not yet determined, however, the terms and conditions of each financing option must be reviewed and approved by LAWA and subsequently reviewed and approved by the Board. The actions of the proposed lease comply with Los Angeles World Airports' adopted Financial Policies.

Attachment 1 – Southwest Airlines Co. – Ground Lease Terms for Concourse Zero
Attachment 2 – April 11, 2023 BOAC Report and April 19, 2023 Resolution No. 27716

MWS/PJH/JVW:DG:10230192

Overview of Lease Terms Between Los Angeles World Airports and Southwest Airlines Co. for Concourse Zero at Los Angeles International Airport

Phase 1 - Part 1 (*Pre-Term*)

Final Terms of the Lease Amendment:

- Establish the scope and construction schedule of the project;
- Confirm the maximum project cost; and
- Southwest Airlines' plan to finance the project.

Phase 1 - Part 2 (*Pre-Term*)

Site delivery:

- Park One parking lot (employee and contractor parking);
- LAX-it lot (delivery is contingent on the operations of the Automated People Mover (APM) which is scheduled for activation in 2024); and
- Skyway Bridge

Phase 2 – Construction Term

Southwest Airlines Co. commences construction as outlined in the Final Lease Term Agreement:

- Begins construction activities of Concourse Zero in 2024 to align with the activation of the APM;
- Develop an apron area of the airfield that connects to the concourse which LAWA will buy back; and

Phase 3 - Operation Term

Operations commences upon construction completion and initiation of flight operations:

- Southwest will own, operate, and control the capital improvements for 30 years to depreciate the investment (unless LAWA acquires Concourse Zero and terminates the lease); and
- LAWA will sublease the common areas (concessions, public spaces, and Federal Inspection Services)



April 14, 2023

The Honorable Karen Bass
Mayor, City of Los Angeles
City Hall – Room 303
Los Angeles, CA 90012

ATTN: Heleen Ramirez, Legislative Coordinator
ATTN: Thomas Arechiga, Deputy Legislative Coordinator

LAX

Van Nuys

City of Los Angeles

Karen Bass
Mayor

Board of Airport
Commissioners

Beatrice C. Hsu
President

Valeria C. Velasco
Vice President

Gabriel L. Eshaghian
Matthew M. Johnson
Nicholas P. Roxborough
Belinda M. Vega
Karim Webb

Justin Erbacci
Chief Executive Officer

RE: Request for approval of a Ground Lease with Southwest Airlines Co

In accordance with Executive Directive No. 4, we are transmitting a copy of the specified board report for the request for approval of a Ground Lease with Southwest Airlines Co. for approximately 702,750 square feet of land at the northeast corner of the Central Terminal Area at Los Angeles International Airport, with a term of up to 30 years, to allow for development and operation of Concourse 0, a new passenger concourse facility. The lease will generate approximately \$2.9 million gross revenue in the first year after site delivery and \$85.8 million over the 30-year term, excluding annual rate adjustments.

City Council approval is required pursuant to Section 606 of the Los Angeles City Charter.


Sincerely,


Justin Erbacci
Chief Executive Officer


JPE:MSA:ksf
Attachments



**Report to the
BOARD OF AIRPORT COMMISSIONERS**

Approver: 
 Dave Jones, Deputy Executive Director
 Commercial Development Division

Reviewer: 
 Brian C. Ostler, City Attorney


Justin Erbacci (Apr 5, 2023 10:30 PDT)
 Justin Erbacci, Chief Executive Officer

<u>Meeting Date</u>			
4/11/2023			
Needs Council Approval: <input checked="" type="checkbox"/> Y			
Reviewed for/by	Date	Approval Status	By
Finance	12/6/2022	<input checked="" type="checkbox"/> Y <input checked="" type="checkbox"/> NA	NEO
CEQA	12/1/2022	<input checked="" type="checkbox"/> Y	JO
Procurement	12/2/2022	<input type="checkbox"/> Y <input checked="" type="checkbox"/> Cond	QM
Guest Experience	12/1/2022	<input checked="" type="checkbox"/> Y	TB
Strategic Planning	12/1/2022	<input checked="" type="checkbox"/> Y	BNZ

SUBJECT

Request for approval of a Ground Lease with Southwest Airlines Co. for approximately 702,750 square feet of land at the northeast corner of the Central Terminal Area at Los Angeles International Airport, with a term of up to 30 years, to allow for development and operation of Concourse 0, a new passenger concourse facility. The lease will generate approximately \$2.9 million gross revenue in the first year after site delivery and \$85.8 million over the 30-year term, excluding annual rate adjustments.

RECOMMENDATIONS

Management RECOMMENDS that the Board of Airport Commissioners:

1. ADOPT the Staff Report.
2. DETERMINE that this action is exempt from the California Environmental Quality Act (CEQA) pursuant to Article III, Class 1 (18)(c) and Article II, Section 2.i of the Los Angeles City CEQA Guidelines.
3. FIND that, pursuant to Charter Section 370(e)(10) and Administrative Code §10.15(a)(10), under the circumstances presented, that the use of a competitive bidding process for construction of certain site improvements at the present time would be impractical and undesirable because certain site improvements cannot be constructed without significantly impacting the current Southwest Airlines Co. Terminal 1 operations.
4. APPROVE the proposed Ground Lease for Concourse 0 with Southwest Airlines Co.

5. AUTHORIZE the Chief Executive Officer, or designee, to execute the proposed Ground Lease with Southwest Airlines Co., subject to approval as to form by the City Attorney and approval of the Los Angeles City Council.

DISCUSSION

1. Purpose

Los Angeles World Airports (LAWA) staff request approval of the proposed ground lease with Southwest Airlines Co. (Southwest) to allow for the development and operation of Concourse 0 at Los Angeles International Airport (LAX).

2. Prior Related Actions/History of Board Actions

- **January 14, 2013 – Resolution No. 25009 (LAA-8757)**
The Board of Airport Commissioners (Board) approved an 11-year and three-month Terminal Facilities Lease and License Agreement for space in Terminal 1 with Southwest that contemplated approximately \$400,000,000 in terminal renovations to be constructed by Southwest and obligated LAWA to acquire \$384,008,000 of these improvements through cash purchase and rent credits upon completion.
- **April 2, 2013 – Resolution No. 25077 (LAA-8757)**
The Board authorized the Chief Executive Officer to exercise the option to purchase from Southwest instead of issuing rent credits for certain renovations in accordance with the Lease LAX-8757 and approved appropriation of \$146,929,000 from the LAX Revenue Fund.
- **May 19, 2014 – Resolution No. 25414 (LAA-8757A)**
The Board approved the First Amendment to Lease LAA-8757 with Southwest to increase the acquisition of renovations from \$384,008,000 to \$509,801,000.
- **July 13, 2017 – Resolution No. 26289 (LAA-8757B)**
The Board approved the Second Amendment to Lease LAA-8757 with Southwest to provide additional operations space of 48,557 square feet (SF).
- **July 13, 2017 – Resolution No. 26290 (LAA-8975)**
The Board approved a ground lease with Southwest with an option for LAWA to acquire the facilities improved to allow the construction and operation of a terminal check-in, arrival baggage claim, and bus gate facility, including a LAMP Core, at LAX.
- **December 14, 2017 – Resolution No. 26398**
The Board approved exercising an option to purchase the facility improvements to be constructed between Terminal 1 and Terminal 2 at LAX from Southwest, in accordance with Lease LAA-8975, and appropriation of \$432,600,000 for said purchase.

3. Background

The LAX Airfield and Terminal Modernization Project (ATMP) includes the addition of new terminal and concourse facilities at LAX, including the proposed Concourse 0 Project. On October 7, 2021, the Board approved the ATMP, certified an Environmental Impact Report (EIR), adopted findings under CEQA, and adopted a Mitigation Monitoring and Reporting

Program for construction of the airfield and terminal facilities work contemplated in the ATMP. Subsequently, the ATMP was approved by the Los Angeles City Council and a Record of Decision for the project was issued by the Federal Aviation Administration.

Southwest currently occupies Terminal 1 (T1) pursuant to Terminal Facilities Lease and License Agreement, LAA-8757 (T1 Lease). Pursuant to the T1 Lease, Southwest operates domestic flights from 14 preferential use gates. Southwest has effectively utilized these facilities and, in accordance with the ATMP, is seeking new facilities to increase service and launch international flights from LAX. Southwest and LAWA staff analyzed options to construct the new Concourse 0 facility and determined that it would be mutually beneficial for Southwest to construct Concourse 0 due to the extensive and complex tie-in of Concourse 0 into the existing T1 facility and infrastructure. Both LAWA and Southwest staff believe that Southwest is best able to manage this construction to mitigate the risk to Southwest's active ongoing operations in T1, which is adjacent to the proposed construction site.

4. Current Action/Rationale

The Concourse 0 facility will not be an independent full-service terminal and, therefore, does not include dedicated ticket counters, passenger screening, or baggage systems. Instead, Concourse 0 will be dependent on T1's existing passenger and baggage processing infrastructure. Therefore, the Concourse 0 Project will require connectivity with T1, including the redesign, enhancement, expansion, and integration of the existing T1 passenger and baggage processing infrastructure and facilities, as well as connection of interfacility passageways and conveyances.

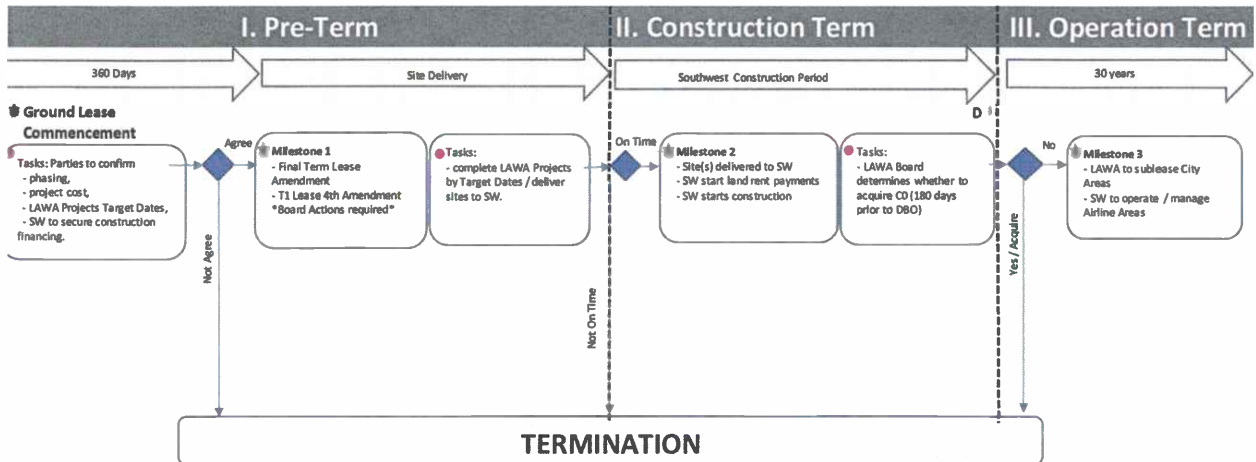
Construction of Concourse 0 will be complicated and challenging due to its immediate proximity to T1, which will remain active and operational during construction. Therefore, LAWA and Southwest have determined that Southwest is better equipped to manage the logistical challenges as well as operation and construction risks to develop Concourse 0, because Southwest is the current user and operator of T1, and because Southwest has successfully completed similar projects, including the T1 renovation and the new T1.5 facility, both of which were constructed in and adjacent to active operations in T1.

Proposed Concourse 0 Project Scope

As defined in the Draft Project Definition Book, shown in Exhibit B of the proposed ground lease, the Concourse 0 Project delivers a net increase of nine new ADG-III Gates and two new ADG-III aircraft parking and holding positions. The Concourse 0 Project also will deliver a Multiple Aircraft Ramp System to accommodate wide-body aircraft in accordance with the EIR for the ATMP. Concourse 0 is expected to be a new, three-level concourse facility with approximately 650,000 – 700,000 square feet of new usable building area, including hold-rooms, concessions, restrooms, domestic bag claim, circulation areas, airline and airport operations areas, pet relief areas, offices, and storage. The Concourse 0 Project also will include approximately 100,000 square feet of "Core & Shell" area at Level 1 for LAWA's future use as potential Federal Inspection Services (FIS) areas that may be activated at a future time.

Proposed Concourse 0 Ground Lease

As described in the following sections and the table below, LAWA and Southwest have negotiated the proposed ground lease to establish a framework for Southwest to design, develop, and operate the Concourse 0 Project over the course of three distinct and successive lease terms: (a) the Pre-Term, (b) the Construction Term, and (c) the Operations Term. As described in more detail below, if specified conditions are not met during each phase, then the proposed ground lease will terminate.



Ground Lease Framework

- Pre-Term**
 During the Pre-Term, LAWA and Southwest must agree on the final scope of the Concourse 0 Project, including project phasing, site delivery, and total construction costs. In addition, Southwest must secure project financing to construct Concourse 0. If LAWA and Southwest cannot agree on the final scope of the Concourse 0 Project within 18 months of the ground lease execution, which may be extended by the LAWA Chief Executive Officer (CEO), then the ground lease will terminate. If the ground lease is terminated, then LAWA and Southwest will split evenly the costs directly related to planning the Concourse 0 Project. Such cost must be documented and reasonable, and may include inspection, design, engineering, and fees paid to outside counsel in connection with review, preparation, and negotiation of the ground lease. The total costs currently are estimated at \$170 million, meaning that each party's share of the costs is capped at \$85 million maximum pursuant to the ground lease.

If Southwest and LAWA agree on the final scope of the Concourse 0 Project within the Pre-Term, then LAWA staff will present to the Board an amendment to the ground lease (The Final Terms Lease Amendment) that incorporates the final agreed terms of the project development and a maximum acquisition amount that LAWA would pay if it exercises an option to acquire the Southwest improvements at any point after the construction completion. At the same time, LAWA staff also will present to the Board an amendment to Southwest's T1 lease. The T1 lease amendment will incorporate changes to the T1 demised premises that will be required to enable construction and operation of Concourse 0. Additionally, the T1 lease will incorporate preferential flight rights that would transfer to Southwest should LAWA terminate the Concourse 0 lease after construction completion. If Southwest's financing to construct Concourse Zero is not in full force and

effect 90-days after executing of the Final Terms Lease Amendment, then the ground lease will terminate and the proposed amendment to the Terminal 1 lease will be voided.

Following approval of the Final Terms Lease Amendment, LAWA will proceed with site delivery projects to deliver the Concourse 0 Project site to Southwest. Los Angeles World Airports will be responsible for the following:

- Vacating Park One and LAX-it lots.
- Demolition of buildings, parking areas, and outdated facilities outside of the project area, including, but not limited to, LAX Police Headquarters building, Vicksburg Avenue, 96th Street, Alverstone Avenue, and Vehicle service road "E."
- Design and construction of Concourse 0 airfield work, and the associated roads, bridges, ramps, and intersection-improvements, just north of the Concourse 0 aircraft parking area.
- *Construction Term*
The Construction Term will commence after execution of the Final Terms Lease Amendment and LAWA delivery of the Concourse 0 Project site to Southwest. If LAWA fails to deliver the Concourse 0 project site within the timeframes established in the final Concourse 0 Project scope, Southwest must coordinate with LAWA to mitigate the adverse impact due to the delay. Southwest and LAWA may request the Board to approve additional funds and time to complete the project. However, if the delay is material and causes irreversible impacts on the project cost and completion date, then Southwest has the right to terminate the ground lease early by providing 180-days advanced written notice. Upon such termination, LAWA will reimburse Southwest for all actual and reasonable out-of-pocket costs associated with the Concourse 0 Project, including financing costs.

Conversely, if the Concourse 0 Project site is delivered in accordance with the ground lease, Southwest must carry out the construction and complete the Concourse 0 Project.

If Southwest completes the construction and is ready to operate flights in or at Concourse 0, but the LAWA airfield improvements are not yet completed, thereby preventing Southwest from commencing operations, LAWA will pay damages, including financing and maintenance costs, that continue to accrue until airfield improvements are completed and Southwest aircraft can operate from Concourse 0. If the LAWA airfield improvements are not completed within twelve months of completion of Concourse 0, then LAWA will purchase the improvements, thereby terminating the ground lease. Los Angeles World Airports also must complete a set of roadway and related improvements needed for Concourse 0 access.

Option to Acquire the Concourse 0 Improvements

The ground lease also provides that at any point after construction completion, LAWA may, subject to Board approval, exercise an option to purchase the Concourse 0 improvements from Southwest at a cost no greater than the not-to-exceed project cost, which will be specified in the ground lease amendment. In addition, LAWA may request Board approval to exercise the option to acquire 180 days prior to the estimated date of

construction completion. Should the Board authorize the purchase option, then the ground lease will terminate upon completion of the acquisition transactions.

- *Operations Term*

Should LAWA choose not to exercise the purchase option, the Operations Term will commence on construction completion and initiation of flight operations in the new Concourse 0. Upon completion, Concourse 0 will consist of three areas: (i) City Areas, comprised of the public, concession, and FIS areas; (ii) Airline Areas, comprised of areas used for processing passengers, hold-rooms, gates, ticketing, offices, baggage systems; and (iii) Apron Areas where aircraft are parked for loading, unloading, refueling, and maintenance. LAWA will acquire Apron Areas immediately upon completion. The Operations Term for the City and Airline Areas will be for 30 years from the first date of operation in the new Concourse 0.

To maintain the uniform rate structure related to use of the passenger processing facilities, commencing on the date of construction completion, LAWA will sublease the City Areas and pay a lump sum rent to Southwest equal to Southwest's Debt Service Cost applicable to common area operations, plus the maintenance costs allocable to these areas. Los Angeles World Airports' control of the City Area also will allow LAWA to control the concessions program in Concourse 0. In addition, LAWA will acquire the Apron Area to provide LAWA control of operation and billing of these areas.

Demised Premises and Ground Rent

Upon delivery of the Demised Premises, Southwest will pay ground rent which will be adjusted annually by a Consumer Price Index adjustment within a range between two and seven percent. The Demised Premises will be delivered in accordance with the final scope of the Concourse 0 Project as approved by the Board. Further, upon LAWA's acquisition of the Apron Areas, the ground lease premises will be adjusted to remove those areas from the lease. Southwest will pay ground rent on the actual demised premises as it is adjusted through the term of the lease.

Project Financing

Southwest has advised LAWA that it may need to secure third-party short-term construction financing, which may involve one or more of the following: (1) a lender or lending institution; (2) a special purpose entity; (3) the Regional Airports Improvement Corporation (RAIC); (4) the California Municipal Finance Authority (the "CMFA"); or (5) another similar financing entity. All such financing arrangements and related instruments are subject to review and written approval by the LAWA CEO. If Southwest's financing is not in full force and effect within 90-days of execution of the Final Terms Lease Amendment, then the lease will terminate at no cost to LAWA, although LAWA may elect to purchase the design plans to complete the construction.

If LAWA elects not to exercise its option to acquire Concourse 0 or chooses to exercise this option after Concourse 0 project completion, Southwest may need to secure long-term financing. Southwest has advised LAWA that some or all of such long-term financing may be sourced through the proceeds of one or both of tax-exempt and taxable bonds issued by RAIC, CMFA, or a similar financing entity. Bond financing and related documents will require written consent by the LAWA CEO.

Tenant Improvement Fund

Los Angeles World Airports has agreed to provide Southwest with a tenant improvement fund in the form of a loan to finance the development cost of the Airline Areas (TIF Loan). The proposed ground lease provides that during the Pre-Term, the parties shall use good faith efforts to work cooperatively to reach timely agreement on all aspects of the TIF Loan, including, but not limited to: (1) maximum amount of the TIF Loan; (2) itemized Airline Areas project elements (non-Proprietary Improvements only) and the respective estimated costs for which this TIF Loan may be used; (3) loan and payment terms; and (4) program governance process, such as the procedures for Southwest's election to utilize the TIF Loan. The ability of LAWA to provide a TIF Loan is dependent on LAWA's ability to obtain funds in the then current bond market at a cost that does not adversely impact LAWA. Further, the parties are to agree upon the terms and conditions of the definitive loan documentation, including a loan agreement, promissory note, and security instruments (TIF Loan Documentation), a copy of which will be made a part of the Final Lease.

Competitive bidding is addressed in Charter Section 372

Due to the logistical complications of construction adjacent to an active terminal, seeking competitive proposals for the construction of the Apron Areas of Concourse 0 Project is neither reasonably practicable nor compatible with the City's interests. Structural integration of the existing baggage system and construction of the passenger pathway will require the permanent removal of two existing T1 Preferential Gates, together with construction of replacement gates in Concourse 0, all of which requires highly effective coordination between the operations and construction functions. Los Angeles World Airports staff has determined that it is essential for Southwest to develop the Concourse 0 Project and LAWA to acquire the Apron Areas from Southwest in order to maximize efficiency, reduce cost, control the impacts to ongoing flight operations, mitigate the risk of delays to the Concourse 0 Project, and help assure safe operations. As the current and future user and operator of T1 and Concourse 0, Southwest is best equipped to manage the construction of the Apron Areas contemplated in the Concourse 0 Project.

The table below provides a summary of the proposed ground lease terms:

Description	Proposed Terms
Commencement	Subject to approval by the Board and City Council, upon full execution
Term	30-years, subject to early termination
Early Termination	(1) LAWA and Southwest can terminate if parties cannot reach agreement on final project phasing and the not-to-exceed project costs, and if Southwest cannot secure financing. If terminated, the costs to date will be split evenly between Southwest and LAWA, but LAWA may acquire all design documents developed by Southwest by paying the full cost. (2) Southwest has the right to terminate if site delivery is materially delayed and LAWA will absorb all cost to date and retain ownership of all design documents and may complete the project. (3) LAWA has the right to acquire Concourse 0 after construction completion and terminate the ground lease.
Demised Premises	702,750 square feet of land located at the northeast corner of the Central Terminal Area, immediately adjacent to Terminal 1, as shown in Exhibit A
Required Improvements	As defined in PDB, as shown in Exhibit Bs of the Ground Lease
Permitted Use	Development and operation
Rent Commencement	Upon first site delivered to Southwest
Land Rent	Rate = \$4.07/SF/year Approximately \$2.9 million in first year, excluding CPI adjustment Approximately \$85.8 million over the term, excluding CPI adjustment
Annual Adjustment	July 1 of each year, Land Rent shall be adjusted on the Annual Adjustment Date according to the percentage increases over the prior year, if any, in the Consumer Price Index, All Urban Consumers for the Los Angeles-Riverside-Orange County, California area, 1982-84=100 ("CPI-U"), as published by the U.S. Department of Labor, Bureau of Labor Statistics ("B.L.S.")
Project Financing	Short-term and long-term financing obtained by Southwest; TIF Loan fund may be provided by LAWA

How This Action Advances a Specific Strategic Plan Goal and Objective

This action advances this strategic goal and objective: *Deliver Facilities & Guest Experiences that are Exceptional: Develop, maintain and operate first class facilities.* In leasing the 702,750 square feet of land located at the northeast corner of the Central Terminal Area to Southwest to construct Concourse 0, LAWA will execute the Board-approved ATMP, which contemplates adding new terminal and concourse facilities at LAX.

5. Fiscal Impact

Approval of the proposed ground lease will provide approximately \$2.9 million in revenue from the first full year following site delivery date to Southwest and approximately \$85.8 million over the 30-year term, excluding annual rate adjustments. In addition, upon completion of the facility, LAWA will receive additional non-aeronautical revenue from new concessions that will be awarded and managed by LAWA's Concessions Program.

6. Alternatives Considered

- **Take No Action**

Not executing the proposed ground lease will eliminate the opportunity to add the new Concourse 0 facilities at LAX that would improve the passenger experience in the most used domestic terminal at LAX.

- **LAWA Builds Concourse 0**

As the construction of Concourse 0 is adjacent to an active terminal and the structural integration between Concourse 0 and T1 requires permanent removal of two gates in T1, it is impossible to carry out the construction without disruption to Southwest's operation at T1. For LAWA to build Concourse 0, LAWA would be required to bear the responsibility and related cost of seamless coordination with Southwest to ensure its operations at T1 without any disruptions. This is neither practicable nor achievable.

APPROPRIATIONS

No appropriation of funds is required for this action.

STANDARD PROVISIONS

1. The issuance of permits, leases, agreements, gate and space assignments, and renewals, amendments or extensions thereof, or other entitlements granting use of existing airport facilities or its operations is exempt from California Environmental Quality Act (CEQA) requirements pursuant to Article III, Class 1 (18)(c) of the Los Angeles City CEQA Guidelines. In addition, any activity (approval of bids, execution of contracts, allocation of funds, etc.) for which the underlying project has previously been evaluated for environmental significance and processed according to the requirements of CEQA is exempt from further review pursuant to Article II, Section 2.i of the Los Angeles City CEQA Guidelines. The environmental impacts of Concourse 0 were evaluated under the Airfield and Terminal Modernization Project (ATMP) Environmental Impact Report (EIR) certified by the Board of Airport Commissioners on October 7, 2021 (Resolution 27351). Additionally, the environmental impacts of Skyway, Vicksburg Avenue and 96th Street were evaluated under the Landside Access Modernization Project (LAMP), EIR was certified by the Board of Airport Commissioners on March 2, 2017 (Resolution No. 26185)
2. The proposed document(s) is/are subject to approval as to form by the City Attorney.
3. Actions taken on this item by the Board of Airport Commissioners will become final pursuant to the provisions of Los Angeles City Charter Section 606.

4. Southwest Airlines Co. must comply with the provisions of the Living Wage Ordinances.
5. The Small Business, Local Business, Local Small Business, and Disabled Veterans Business Enterprise Programs do not apply to leases.
6. Southwest Airlines Co. must comply with the provisions of the Affirmative Action Program.
7. Southwest Airlines Co. must submit a Business Tax Registration Certificate prior to execution of the lease agreement.
8. Southwest Airlines Co. must comply with the provisions of the Child Support Obligations Ordinance.
9. Southwest Airlines Co. must have approved insurance documents, in the terms and amounts required, on file with the Los Angeles World Airports prior to execution of the lease.
10. This action is not subject to the provisions of City Charter Section 1022 (Use of Independent Contractors).
11. Southwest Airlines Co. must submit the Contractor Responsibility Program Pledge of Compliance and comply with the provisions of the Contractor Responsibility Program.
12. Southwest Airlines Co. must be determined by Public Works, Office of Contract Compliance, to be in compliance with the provisions of the Equal Benefits Ordinance prior to execution of the lease agreement.
13. Southwest Airlines Co. will be required to comply with the provisions of the First Source Hiring Program for all non-trade LAX Airport jobs.
14. This action is not subject to the provisions of the Bidder Contributions CEC Form 55.
15. Southwest Airlines Co. must submit the Municipal Lobbying Ordinance CEC Form 50 and comply with its provisions.
16. This action is not subject to the provisions of the Iran Contracting Ordinance of 2010.

Exhibit A





April 19, 2023

The Honorable City Council
of the City of Los Angeles
(via email)

Subject: Ground Lease with Southwest Airlines Co.

Pursuant to Section 606 of the City Charter, enclosed for your approval is a Ground Lease with Southwest Airlines Co. that was approved by the Board of Airport Commissioners at its April 11, 2023 meeting. There is no impact to the General Fund.

LAX

Van Nuys

City of Los Angeles

Karen Bass
Mayor

Board of Airport
Commissioners

Beatrice C. Hsu
President

Valeria C. Velasco
Vice President

Gabriel L. Eshaghian
Matthew M. Johnson
Nicholas P. Roxborough
Belinda M. Vega
Karim Webb

Justin Erbacci
Chief Executive Officer

RECOMMENDATIONS FOR CITY COUNCIL:

1. Adopt the determination by said Board that the action is exempt from the California Environmental Quality Act (CEQA) pursuant to Article III, Class 1 (18)(c) and Article II, Section 2.i of the Los Angeles City CEQA Guidelines; and
2. Approve a Ground Lease with Southwest Airlines Co., for term of up to thirty (30) years, covering approximately 702,750 square feet of land at the northeast corner of the Central Terminal Area at Los Angeles International Airport, to allow for development and operation of Concourse 0, a new passenger concourse facility; and
3. Concur with said Board's action on April 11, 2023, by Resolution 27716, authorizing the Chief Executive Officer, or designee, of Los Angeles World Airports to execute said Ground Lease with Southwest Airlines Co.

Very truly yours,

Grace Miguel, Commission Executive Assistant II
BOARD OF AIRPORT COMMISSIONERS

GM/lfc

Enclosures

- cc: Trade, Travel and Tourism Committee
Councilmember Park, e-file
Councilmember McOsker, e-file
Councilmember Soto-Martinez, e-file
CAO (Airport Analyst), e-file
CLA (Airport Analyst), e-file
City Clerk's Office, e-file



RESOLUTION NO. 27716

WHEREAS, on recommendation of Management, there was presented for approval, Ground Lease with Southwest Airlines Co., for term of up to thirty (30) years, covering approximately 702,750 square feet of land at the northeast corner of the Central Terminal Area at Los Angeles International Airport, to allow for development and operation of Concourse 0, a new passenger concourse facility; and

WHEREAS, the Los Angeles International Airport (LAX) Airfield and Terminal Modernization Project (ATMP) includes addition of new terminal and concourse facilities at the airport, including the proposed Concourse 0 Project. Said project will deliver a net increase of nine (9) new ADG-III Gates and two (2) new ADG-III aircraft parking and holding positions. It will also deliver a Multiple Aircraft Ramp System to accommodate wide-body aircraft in accordance with the Environmental Impact Report (EIR) for ATMP. Concourse 0 is expected to be a new, three (3)-level concourse facility with approximately 650,000 – 700,000 square feet of new usable building area, including hold-rooms, concessions, restrooms, domestic bag claim, circulation areas, airline and airport operations areas, pet relief areas, offices, and storage. The Concourse 0 Project will also include approximately 100,000 square feet of "Core & Shell" area at Level 1 for future use by Los Angeles World Airports (LAWA) as potential federal inspection services (FIS) areas that may be activated at a future time; and

WHEREAS, Concourse 0 will not be an independent full-service terminal and, therefore, does not include dedicated ticket counters, passenger screening, or baggage systems. Instead, Concourse 0 will be dependent on the existing passenger and baggage processing infrastructure in Terminal 1 (T1). Therefore, the Concourse 0 Project will require connectivity with T1, including the redesign, enhancement, expansion, and integration of the existing T1 passenger and baggage processing infrastructure and facilities, as well as connection of interfacility passageways and conveyances; and

WHEREAS, Southwest Airlines Co. (Southwest) currently occupies T1 pursuant to its Terminal Facilities Lease and License Agreement LAA-8757 (T1 Lease). Pursuant to the T1 Lease, Southwest operates domestic flights from fourteen (14) preferential use gates. Southwest has effectively utilized those facilities and, in accordance with the ATMP, is seeking new facilities to increase service and launch international flights from LAX; and

WHEREAS, Southwest and Los Angeles World Airports (LAWA) analyzed options to construct Concourse 0 and determined that it would be mutually beneficial for Southwest to construct the new facility due to extensive and complex tie-in of Concourse 0 into the existing T1 facility and infrastructure. Both LAWA and Southwest believe that Southwest is best able to manage said construction to mitigate risk to Southwest's active ongoing operations in T1, which is adjacent to the proposed construction site. LAWA and Southwest have determined that Southwest is better equipped to manage the logistical challenges as well as operation and construction risks to develop Concourse 0, because Southwest is the current user and operator of T1, and because Southwest has successfully completed similar projects, including the T1 renovation and the new T1.5 facility, both of which were constructed in and adjacent to active operations in T1; and

WHEREAS, LAWA and Southwest have negotiated the Ground Lease to establish a framework for Southwest to design, develop, and operate the Concourse 0 Project over the course of three (3) distinct and successive lease terms: [a] the Pre-Term, [b] the Construction Term, and [c] the

LAX
Van Nuys
City of Los Angeles

Karen Bass
Mayor

Board of Airport
Commissioners

Beatrice C. Hsu
President

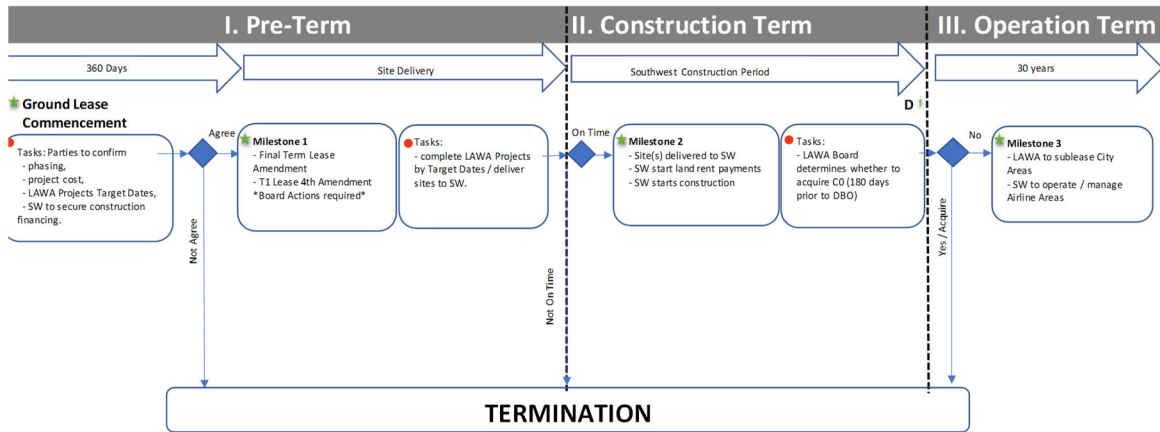
Valeria C. Velasco
Vice President

Gabriel L. Eshaghian
Matthew M. Johnson
Nicholas P. Roxborough
Belinda M. Vega
Karim Webb

Justin Erbacci
Chief Executive Officer



Operations Term. As described in more detail in the following, if specified conditions are not met during each phase, then the Ground Lease will terminate.



A. Pre-Term

During the Pre-Term, LAWA and Southwest must agree on the final scope of the Concourse 0 Project, including project phasing, site delivery, and total construction costs. In addition, Southwest must secure project financing to construct Concourse 0. If LAWA and Southwest cannot agree on the final scope of the Concourse 0 Project within eighteen (18) months of the Ground Lease execution, which may be extended by the LAWA Chief Executive Officer (CEO), then the Ground Lease will terminate. If the Ground Lease is terminated, then LAWA and Southwest will split evenly the costs directly related to planning the Concourse 0 Project. Such cost must be documented and reasonable, and may include inspection, design, engineering, and fees paid to outside counsel in connection with review, preparation, and negotiation of the Ground Lease. The total costs currently are estimated at \$170 million, meaning that each party's share of the costs is capped at \$85 million maximum pursuant to the Ground Lease.

If Southwest and LAWA agree on the final scope of the Concourse 0 Project within the Pre-Term, then LAWA staff will present to the Board of Airport Commissioners (Board) an amendment to the Ground Lease (Final Terms Lease Amendment) that incorporates the final agreed terms of the project development and a maximum acquisition amount that LAWA would pay if it exercises an option to acquire the Southwest improvements at any point after construction completion. At the same time, LAWA staff will also present to the Board an amendment to Southwest's T1 Lease that will incorporate changes to the T1 demised premises that will be required to enable construction and operation of Concourse 0. Additionally, the T1 Lease will incorporate preferential flight rights that would transfer to Southwest should LAWA terminate the Concourse 0 lease after construction completion. If Southwest's financing to construct Concourse 0 is not in full force and effect ninety (90) days after execution of the Final Terms Lease Amendment, then the Ground Lease will terminate and the proposed amendment to the T1 Lease will be voided.

Following approval of the Final Terms Lease Amendment, LAWA will proceed with site delivery projects to deliver the Concourse 0 Project site to Southwest. LAWA will be responsible for the following:

- vacating Park One and LAX-it lots
- demolition of buildings, parking areas, and outdated facilities outside of the project area, including, but not limited to, LAX Police Headquarters building, Vicksburg Avenue, 96th Street, Alverstone Avenue, and vehicle service road "E"

- design and construction of Concourse 0 airfield work, and associated roads, bridges, ramps, and intersection-improvements, just north of the Concourse 0 aircraft parking area

B. Construction Term

The Construction Term will commence after execution of the Final Terms Lease Amendment and LAWA delivery of the Concourse 0 Project site to Southwest. If LAWA fails to deliver the Concourse 0 project site within the timeframes established in the final Concourse 0 Project scope, Southwest must coordinate with LAWA to mitigate the adverse impact due to the delay. Southwest and LAWA may request the Board to approve additional funds and time to complete the project. However, if the delay is material and causes irreversible impacts on the project cost and completion date, then Southwest has the right to terminate the Ground Lease early by providing 180-days advanced written notice. Upon such termination, LAWA will reimburse Southwest for all actual and reasonable out-of-pocket costs associated with the Concourse 0 Project, including financing costs.

Conversely, if the Concourse 0 Project site is delivered in accordance with the Ground Lease, Southwest must carry out the construction and complete the Concourse 0 Project.

If Southwest completes the construction and is ready to operate flights in or at Concourse 0, but the LAWA airfield improvements are not yet completed, thereby preventing Southwest from commencing operations, LAWA will pay damages, including financing and maintenance costs, that continue to accrue until airfield improvements are completed and Southwest aircraft can operate from Concourse 0. If the LAWA airfield improvements are not completed within twelve (12) months of completion of Concourse 0, then LAWA will purchase the improvements, thereby terminating the Ground Lease. LAWA also must complete a set of roadway and related improvements needed for Concourse 0 access.

The Ground Lease also provides that at any point after construction completion, LAWA may, subject to Board approval, exercise an option to purchase the Concourse 0 improvements from Southwest at a cost no greater than the not-to-exceed project cost, which will be specified in the Ground Lease amendment. In addition, LAWA may request Board approval to exercise the option to acquire 180 days prior to the estimated date of construction completion. Should the Board authorize the purchase option, then the Ground Lease will terminate upon completion of the acquisition transactions.

C. Operations Term

Should LAWA choose not to exercise the purchase option, the Operations Term will commence on construction completion and initiation of flight operations in Concourse 0. Upon completion, Concourse 0 will consist of three (3) areas: [i] City Areas, comprised of the public, concession, and FIS areas; [ii] Airline Areas, comprised of areas used for processing passengers, hold-rooms, gates, ticketing, offices, baggage systems; and [iii] Apron Areas where aircraft are parked for loading, unloading, refueling, and maintenance. LAWA will acquire Apron Areas immediately upon completion. The Operations Term for the City Areas and Airline Areas will be for thirty (30) years from the first date of operation in the new Concourse 0.

To maintain the uniform rate structure related to use of the passenger processing facilities, commencing on the date of construction completion, LAWA will sublease the City Areas and pay a lump sum rent to Southwest equal to Southwest's Debt Service Cost applicable to common area operations, plus the maintenance costs allocable to those areas. LAWA's control of the City Areas will also allow LAWA to control the concessions program in

Concourse 0. In addition, LAWA will acquire the Apron Areas to provide LAWA control of operation and billing of those areas; and

WHEREAS, upon delivery of the Demised Premises, Southwest will pay ground rent which will be adjusted annually by a Consumer Price Index (CPI) adjustment within a range between 2% and 7%. The Demised Premises will be delivered in accordance with the final scope of the Concourse 0 Project as approved by the Board. Furthermore, upon LAWA's acquisition of the Apron Areas, the Ground Lease premises will be adjusted to remove those areas from the lease. Southwest will pay ground rent on the actual demised premises as it is adjusted through the term of the lease; and

WHEREAS, Southwest has advised LAWA that it may need to secure third-party short-term construction financing, which may involve one or more of the following: (1) a lender or lending institution; (2) a special purpose entity; (3) the Regional Airports Improvement Corporation (RAIC); (4) the California Municipal Finance Authority (CMFA); or (5) another similar financing entity. All such financing arrangements and related instruments are subject to review and written approval by the LAWA CEO. If Southwest's financing is not in full force and effect within ninety (90) days of execution of the Final Terms Lease Amendment, then the lease will terminate at no cost to LAWA, although LAWA may elect to purchase the design plans to complete the construction; and

WHEREAS, if LAWA elects not to exercise its option to acquire Concourse 0 or chooses to exercise the option after Concourse 0 project completion, Southwest may need to secure long-term financing. Southwest has advised LAWA that some or all of such long-term financing may be sourced through the proceeds of one or both of tax-exempt and taxable bonds issued by RAIC, CMFA, or a similar financing entity. Bond financing and related documents will require written consent by the LAWA CEO; and

WHEREAS, LAWA has agreed to provide Southwest with a tenant improvement fund (TIF) in the form of a loan to finance the development cost of the Airline Areas (TIF Loan). The Ground Lease provides that during the Pre-Term, the parties shall use good faith efforts to work cooperatively to reach timely agreement on all aspects of the TIF Loan, including, but not limited to: (1) maximum amount of the TIF Loan; (2) itemized Airline Areas project elements (non-Proprietary Improvements only) and the respective estimated costs for which the TIF Loan may be used; (3) loan and payment terms; and (4) program governance process, such as the procedures for Southwest's election to utilize the TIF Loan. The ability of LAWA to provide a TIF Loan is dependent on LAWA's ability to obtain funds in the then current bond market at a cost that does not adversely impact LAWA. Further, the parties are to agree upon the terms and conditions of the definitive loan documentation, including a loan agreement, promissory note, and security instruments. A copy of such documentation will be made a part of the Final Lease; and

WHEREAS, due to the logistical complications of construction adjacent to an active terminal, seeking competitive proposals for construction of the Apron Areas of Concourse 0 Project is neither reasonably practicable nor compatible with the City of Los Angeles (City) interests. Structural integration of the existing baggage system and construction of the passenger pathway will require the permanent removal of two (2) existing T1 Preferential Gates, together with construction of replacement gates in Concourse 0, all of which requires highly effective coordination between the operations and construction functions. LAWA has determined that it is essential for Southwest to develop the Concourse 0 Project and LAWA to acquire the Apron Areas from Southwest in order to maximize efficiency, reduce cost, control the impacts to ongoing flight operations, mitigate the risk of delays to the Concourse 0 Project, and help assure safe operations. As the current and future user and operator of T1 and Concourse 0, Southwest is

best equipped to manage the construction of the Apron Areas contemplated in the Concourse 0 Project; and

WHEREAS, following is a summary of the terms of the Ground Lease:

Description	Terms
Commencement	Subject to approval by the Board and City Council, upon full execution
Term	Thirty (30) years, subject to early termination
Early Termination	<p>(1) LAWA and Southwest can terminate if parties cannot reach agreement on final project phasing and the not-to-exceed project costs, and if Southwest cannot secure financing. If terminated, the costs to date will be split evenly between Southwest and LAWA, but LAWA may acquire all design documents developed by Southwest by paying the full cost.</p> <p>(2) Southwest has the right to terminate if site delivery is materially delayed and LAWA will absorb all cost to date and retain ownership of all design documents and may complete the project.</p> <p>(3) LAWA has the right to acquire Concourse 0 after construction completion and terminate the Ground Lease.</p>
Demised Premises	702,750 square feet of land located at the northeast corner of the Central Terminal Area, immediately adjacent to T1, as shown in Exhibit A, attached hereto and made part hereof
Required Improvements	As defined in Project Definition Booklet, as shown in Exhibit Bs of the Ground Lease
Permitted Use	Development and operation
Rent Commencement	Upon first site delivered to Southwest
Land Rent	Rate = \$4.07/square foot/year Approximately \$2.9 million in first year, excluding CPI adjustment Approximately \$85.8 million over the term, excluding CPI adjustment
Annual Adjustment	July 1 of each year, Land Rent shall be adjusted on the Annual Adjustment Date according to the percentage increases over the prior year, if any, in the Consumer Price Index, All Urban Consumers for the Los Angeles-Riverside-Orange County, California area, 1982-84=100, as published by the US Department of Labor, Bureau of Labor Statistics
Project Financing	Short-term and long-term financing obtained by Southwest; TIF Loan fund may be provided by LAWA; and

WHEREAS, the Ground Lease will provide approximately \$2.9 million in revenue from the first full year following site delivery date to Southwest and approximately \$85.8 million over the thirty (30)-year term, excluding annual rate adjustments. In addition, upon completion of the facility, LAWA will receive additional non-aeronautical revenue from new concessions that will be awarded and managed by LAWA's Concessions Program; and

WHEREAS, issuance of permits, leases, agreements, gate and space assignments, and renewals, amendments or extensions thereof, or other entitlements granting use of existing airport facilities or its operations is exempt from California Environmental Quality Act (CEQA) requirements pursuant to Article III, Class 1 (18)(c) of the Los Angeles City CEQA Guidelines. In addition, any activity (approval of bids, execution of contracts, allocation of funds, etc.) for which the underlying project has previously been evaluated for environmental significance and processed according to the requirements of CEQA is exempt from further review pursuant to Article II, Section 2.i of the Los Angeles City CEQA Guidelines. The environmental impacts of Concourse 0 were evaluated under the ATMP EIR certified by the Board on October 7, 2021 (Resolution 27351). Additionally, the environmental impacts of Skyway, Vicksburg Avenue and 96th Street were evaluated under the Landside Access Modernization Program EIR certified by the Board on March 2, 2017 (Resolution 26185); and

WHEREAS, Southwest must comply with the provisions of the Living Wage Ordinances; and

WHEREAS, Southwest must comply with the provisions of the Affirmative Action Program; and

WHEREAS, Southwest must submit a Business Tax Registration Certificate prior to execution of the Ground Lease; and

WHEREAS, Southwest must comply with the provisions of the Child Support Obligations Ordinance; and

WHEREAS, Southwest must have approved insurance documents, in the terms and amounts required, on file with LAWA prior to execution of the Ground Lease; and

WHEREAS, Southwest must submit the Contractor Responsibility Program Pledge of Compliance, and comply with the provisions of said program; and

WHEREAS, Southwest must be determined by Public Works, Office of Contract Compliance, to be in compliance with the provisions of the Equal Benefits Ordinance prior to execution of the Ground Lease; and

WHEREAS, Southwest will be required to comply with the provisions of the First Source Hiring Program for all non-trade LAX jobs; and

WHEREAS, Southwest must submit the Municipal Lobbying Ordinance CEC Form 50, and comply with its provisions; and

WHEREAS, actions taken on this item by the Board of Airport Commissioners will become final pursuant to the provisions of Los Angeles City Charter Section 606;

NOW, THEREFORE, BE IT RESOLVED that the Board of Airport Commissioners adopted the Staff Report; determined that this action is exempt from the California Environmental Quality Act (CEQA) pursuant to Article III, Class 1 (18)(c) and Article II, Section 2.i of the Los Angeles City CEQA Guidelines; found pursuant to Charter Section 370(e)(10) and Administrative Code Section 10.15(a)(10), under the circumstances presented, that use of a competitive bidding process for construction of certain site improvements at the present time would be impractical and undesirable because certain site improvements cannot be constructed without significantly impacting the current Southwest Airlines Co. Terminal 1 operations; approved the Ground Lease with Southwest Airlines Co., for term of up to thirty (30) years, covering approximately 702,750 square feet of land at the northeast corner of the Central Terminal Area at Los Angeles International Airport, to allow for development and operation of Concourse 0, a new passenger

concourse facility; and authorized the Chief Executive Officer, or designee, to execute said Ground Lease with Southwest Airlines Co. after approval as to form by the City Attorney and approval by the Los Angeles City Council.

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I hereby certify that this Resolution No. 27716 is true and correct, as adopted by the Board of Airport Commissioners at its Special Meeting held on Tuesday, April 11, 2023.

A handwritten signature in blue ink, appearing to read "Grace Miguel".

Grace Miguel – Secretary
BOARD OF AIRPORT COMMISSIONERS

Attachment:
-Exhibit A