

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

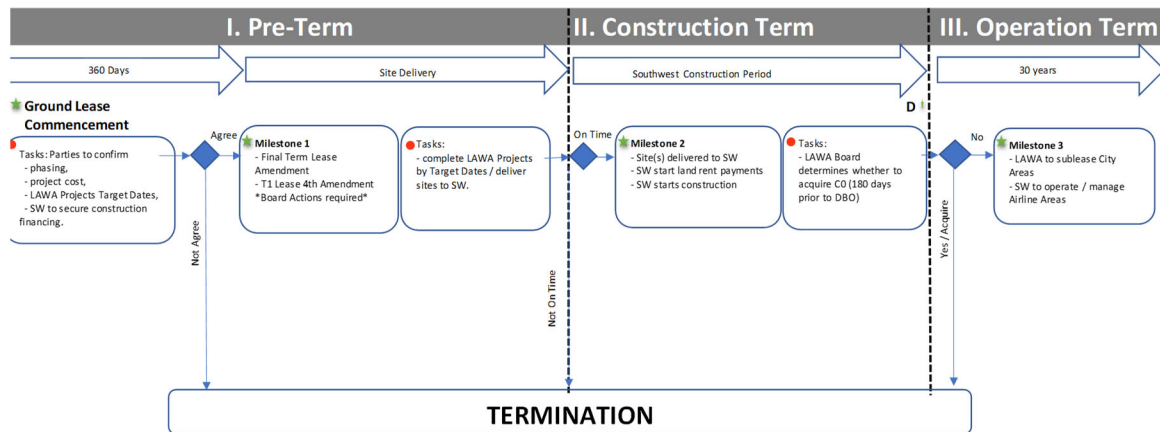
Valeria C. Velasco
Vice President

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 | <p>Rate = \$4.07/square foot/year</p> <p>Approximately \$2.9 million in first year, excluding CPI adjustment</p> <p>Approximately \$85.8 million over the term, excluding CPI adjustment</p> |
| 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", is positioned above the printed name.

Grace Miguel – Secretary
BOARD OF AIRPORT COMMISSIONERS

Attachment:
-Exhibit A

EXHIBIT A

to RESOLUTION 27716

