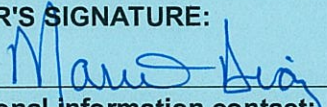


TO: Mayor via City Secretary

REQUEST FOR COUNCIL ACTION

<b>SUBJECT:</b> Agreements with United Airlines, Inc. - George Bush Intercontinental Airport/ Houston (IAH) for: (1) Amendment No. 2 to Second Amended & Restated Special Facilities Lease - Terminal B (2) Construction Management & Reimbursement Agreement (3) Amendment No. 2 to Airport Use and Lease Agreement - Terminal C (4) Terminal C South Net Lease and Use Agreement; Projects 830, 831 (WBS A-000800-0002-4-01-01, A-000800-0003-4-01-01, A-0008000-0004-4-01-01, A-000800-0005-4-01-01)		<b>Category #</b>	<b>Page 1 of 3</b>	<b>Agenda Item #</b>
<b>FROM (Department or other point of origin):</b> Houston Airport System		<b>Origination Date</b> March 19, 2015		<b>Agenda Date</b>
<b>DIRECTOR'S SIGNATURE:</b> 		<b>Council District affected:</b> B		
<b>For additional information contact:</b> Kathy Elek <i>KAE</i> Phone: 281-233-1826 Ian Wadsworth <i>IW</i> 281-233-1682		<b>Date and identification of prior authorizing Council action:</b> 3/12/97 (O) 97-271 ; 10/14/98 (O) 98-905 12/9/98 (O) 98-1143; 4/23/08 (O) 08-0357; 10/19/11 (O) 11-899; 2/13/13 (O) 13-128; 6/18/14 (O) 14-631		
<b>AMOUNT &amp; SOURCE OF FUNDING:</b> A-0800.35 \$ 51,667,000 Airport Improvement Fund (8011) A-0800.36 \$ 11,111,000 HAS Consd 2011 AMT Fund (8205) A-0800.37 \$ 21,833,000 HAS Consd 2011 AMT Fund (8205) A-0422.105 \$ 389,000 Airport Improvement Fund (8011) \$ 85,000,000 Subtotal  A-0800.32 \$ 36,500,000 HAS Consd ITRP AMT Fund (8207) \$121,500,000 TOTAL Funds 8205 and 8207 are Commercial Paper funds		<b>Prior appropriations:</b> N/A		
<b>RECOMMENDATION: (Summary)</b> Enact an ordinance concerning the following agreements with United Airlines, Inc. at George Bush Intercontinental Airport/Houston (IAH): (1) approving and authorizing the execution of Amendment No. 2 to the Second Amended & Restated Special Facilities Lease for Terminal B Redevelopment Program; (2) appropriating the sum of \$85,000,000 out of the Airport Improvement Fund (8011) and the HAS Consd 2011 AMT Fund (8205) (Proj. No.831) and approving and authorizing the execution of a Construction Management and Reimbursement Agreement related to Terminal B City Project Components of the Terminal B Redevelopment Program; (3) appropriating the sum of \$36,500,000 out of the HAS Consd ITRP AMT Fund (8207) (Proj. No. 830) and approving and authorizing the execution of Amendment No. 2 to Airport Use and Lease Agreement for Terminal C in support of the Intercontinental Terminal Redevelopment Program; and (4) approving and authorizing the execution of Terminal C South Net Lease and Use Agreement.				
<b>SPECIFIC EXPLANATION:</b> On June 18, 2014, the City of Houston (City) and United Airlines, Inc. (United), after consultation with other airlines operating in the existing Mickey Leland International Terminal (MLIT) at IAH, entered into Memorandum of Agreement No. 75846, approved by Ordinance No. 2014-631 (MOA) regarding the redevelopment of gates and federal facilities at IAH to expand the conduct of international operations. In accordance with the terms of the MOA, the following agreements are being presented to City Council for approval:				
<b>REQUIRED AUTHORIZATION</b>				
<b>Finance Department:</b>		<b>Other Authorization:</b>		<b>Other Authorization:</b>

<b>Date</b> 3/19/15	<b>Subject:</b> Agreements with United Airlines, Inc. - George Bush Intercontinental Airport/ Houston (IAH) for: (1) Amendment No. 2 to Second Amended & Restated Special Facilities Lease - Terminal B (2) Construction Management & Reimbursement Agreement (3) Amendment No. 2 to Airport Use and Lease Agreement - Terminal C (4) Terminal C South Net Lease and Use Agreement; Projects 830, 831 (WBS A-000800-0002-4-01-01, A-000800-0003-4-01-01, A-0008000-0004-4-01-01, A-000800-0005-4-01-01)	<b>Originator's Initials</b>	<b>Page</b> 2 of 3
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(1) **Amendment No. 2 to the Second Amended & Restated Special Facilities Lease for Terminal B Redevelopment Program:**

- Reassigning responsibility for the construction management of the City Project Components of the Terminal B North ramp work, to create a single Project Manager overseeing both aspects of the Phase II project for matters of expediency and project coordination;
- Extending the option period for exercising future phases of the Terminal B Redevelopment Program from December 31, 2017 to December 31, 2024;
- Adding a requirement to follow the Hire Houston First Program and the City's Civic Art Program.

(2) **Construction Management and Reimbursement Agreement:**

- Appropriating and allocating the sum of \$85MM to reimburse United for taking over responsibility of the City Project Components of the New C-North Ramp, the TX4 Baggage Transfer Belt and the New Consolidated Ramp Control Tower and for Civic Art;
- A portion of the spending may be eligible for reimbursement under either the FAA AIP or PFC program;
- United and its contractors are required to comply with State statutes and City ordinances, policies and Executive Orders including but not limited to Hire Houston First and Civic Art programs.

(3) **Amendment No. 2 to Airport Use and Lease Agreement for Terminal C:**

- Bifurcating the Use and Lease Agreement by deleting Terminal C South to include in a separate Net Lease and Use Agreement with United for Terminal C South and continuing with the Airport Use and Lease Agreement only as to Terminal C North;
- Requiring United to vacate Terminal C North upon the earlier of 30 days after the date of beneficial occupancy of the new Terminal B North Phase II pier or March 31, 2017, with expiration of the Airport Use and Lease Agreement upon such vacation of premises;
- Appropriating and allocating an early termination fee payable by the City to United in the amount of \$36.5MM in exchange for terminating the lease prior to its expiration date of December 31, 2027 and United vacating Terminal C North.

(4) **Terminal C South Net Lease and Use Agreement:**

Term:

- United shall net lease remaining portions of Terminal C, not affected by the MLIT, to be designated as Terminal C South for a term continuing until December 31, 2037.

<b>Date</b> 3/19/15	<b>Subject:</b> Agreements with United Airlines, Inc. - George Bush Intercontinental Airport/ Houston (IAH) for: (1) Amendment No. 2 to Second Amended & Restated Special Facilities Lease - Terminal B (2) Construction Management & Reimbursement Agreement (3) Amendment No. 2 to Airport Use and Lease Agreement - Terminal C (4) Terminal C South Net Lease and Use Agreement; Projects 830, 831 (WBS A-000800-0002-4-01-01, A-000800-0003-4-01-01, A-0008000-0004-4-01-01, A-000800-0005-4-01-01)	<b>Originator's Initials</b>	<b>Page 3 of 3</b>
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Premises:

- United shall lease the entire Terminal C South, including public space, and shall have the exclusive use of all gates, and preferential use of the apron area, subject to the right of HAS to accommodate other airlines if necessary during times of non-use by United at such gates, and subject to take-back rights by HAS as noted in the agreement.

Payment to City:

- United shall pay a ground lease rate of \$0.42 per square foot per year, escalated every five years on a schedule aligned with ground rental rate increases in Terminals B and E.
- United shall pay amortization of the unamortized net costs allocable to Terminal C South, landing fees, and all other charges allocated on an airport-wide basis, or City expenses allocable to the terminal under existing rates and charges methodology.

Operation of Terminal:

- United shall be responsible for all utilities, maintenance, repair and cleaning of all areas of Terminal C South, including all public areas, at its own cost, unless expressly reserved by HAS for the necessity of maintaining and operating shared systems at the airport, such as technology infrastructure, fire alarm system monitoring, above-ground people mover system, etc.
- United shall be responsible for the operations of all Inside Concessions in Terminal C South, following all City policies regarding same, in exchange for receiving the revenue from such Inside Concessions less 10% which shall be paid to the City as additional rent until December 31, 2025, up to an annual limit of \$500,000.

Insurance & Indemnity:

- United shall carry insurance coverage on Terminal C South, and it shall release and indemnify the City in accordance with the terms of the agreement.

Other Terms:

- United and HAS shall negotiate prior to March 2017, for the benefit of all signatory airlines operating at IAH, a sharing of IAH non-airline revenue and/or modifications to the IAH rates and charges methodology in the event that the debt service coverage ratio for HAS exceeds 1.50 at the end of any fiscal year after completion of the MLIT. These changes will likely also require the renegotiation of existing leases with respect to IAH rates and charges calculation provisions.