



CITY OF HOUSTON - CITY COUNCIL

Meeting Date:

District E

Item Creation Date: 8/24/2021

HAS – Ground Lease Agreement for a Lunar Operations Center Development at Houston Spaceport at Ellington Airport (EFD) with Intuitive Machines, LLC

Agenda Item#:

Background:

RECOMMENDATION:

Enact an ordinance appropriating \$38,000,000.00 from the Airports Improvement Fund (Fund 8011) and approving and authorizing a Ground Lease Agreement between Intuitive Machines, LLC and the City of Houston through the Houston Airport System for a Lunar Operations Center Development at Houston Spaceport at Ellington Airport (EFD).

SPECIFIC EXPLANATION:

Intuitive Machines, LLC (IM) is the first tenant of the Houston Spaceport, having leased 9,635 square feet in the Houston Aerospace Support Center (HASC) located at 13150 Space Center Blvd., where, under contract with NASA, it has been developing and testing its lunar lander for deployment on the Moon. Subsequent to IM's tenancy, the City procured and completed construction of certain infrastructure improvements on 153 acres of Houston Spaceport to facilitate development and occupancy by aerospace companies to stimulate and grow aerospace development in the region. Based on its initial success and growth in aerospace operations, IM determined that it needs to greatly expand its operations at Houston Spaceport, and it entered into a Memorandum of Agreement (MOA) No. 4600016740, authorized by Ordinance No. 2021-0493, to begin planning and design of a lunar operations center development on approximately 12.491 acres of land (inclusive of initial tract and option tract) related to the assembly of spacecraft, including its lunar lander, which is scheduled for deployment in early 2022, with an additional deployment in late 2022.

IM will commence construction in two phases. The first component will be a small engine verification facility on less than an acre of the initial tract. The second component will be an approximately 125,000-square-foot facility, which will also include Department of Defense-sponsored Sensitive Compartmented Information Facility (SCIF) space, for use by commercial entities, the first of its kind in Houston. Thereafter, IM will vacate its tenancy of the HASC building, freeing up that space for another small aerospace company. As an anchor tenant of Houston Spaceport, and provider of SCIF space which will benefit the City in attracting commercial aerospace companies needing such DoD-sponsored space, up to \$40 Million of capital improvements (including \$36 Million appropriated under this lease, along with \$4 Million previously appropriated under the MOA) will be reimbursed by the Houston Airport System (HAS) and charged back to IM under a cost-recovery methodology. Additionally, it has been determined that in order to facilitate increased throughput of traffic to the Spaceport, completion of a widening of Columbia Shuttle Street will be accelerated to align with opening of operations for recent Spaceport developments, and an additional \$2 Million of the total \$38 Million appropriated under this lease will be available to reimburse IM for the actual cost to widen the roadway as an enabling project.

The pertinent terms of this lease are as follows:

1. Leased Premises and Project Scope: IM will lease approximately 10.741 acres at Houston Spaceport, along Columbia Shuttle Street, with an option tract of 1.75 acres. IM will construct a small engine verification facility in its first phase, followed by approximately 125,000 square feet of facilities including development, manufacturing, assembly and testing space, offices, and SCIF space to attract key aerospace innovation accelerants in the second phase. The option tract, if exercised, will likely accommodate additional parking for the growth in employee numbers.
2. Rentals and Reimbursement: In exchange for tenant improvements vesting in the City on a brick-by-brick basis, eligible capital costs, supported by proper documentation, shall be reimbursed to IM on a monthly basis, subject to appropriation of funds, and a rental rate methodology has been established to achieve cost recovery.
 - a) Due Diligence & Construction Period. From the effective date of the MOA until the completion of construction, which shall be reflected by the City's issuance of a certificate confirming that a portion of the Project may be legally occupied, the rental rate shall be \$100.00 per month.
 - b) Ground Rent During the Initial Term. Beginning with the first year

following completion of construction of phase 1, as reflected by the City's issuance of a certificate confirming that a portion of the Project may be legally occupied, IM will pay annual ground rent for .75 acres, and beginning with the certificate of occupancy on the phase 2 larger facility, IM will pay annual ground rent for the remaining 10 acres. For the 20-year initial term, IM shall pay ground rent at the appraised value, with 15% escalations every five years thereafter throughout the initial term. If the 1.75-acre option tract is exercised in accordance with the lease, IM shall pay appraised ground rent for such tract and the escalations and expiration shall run concurrently with the initial tract.

c) Cost Recovery Rent During the Initial Term. Beginning with the first year following completion of construction, as reflected by the City's issuance of a certificate confirming that a portion of the Project may be legally occupied, rent shall be charged as follows:

- i. For lease years 1-5, rent shall be charged in an amount that permits project costs to be recovered from IM at the rate of 2.5% of the total cost reimbursed by City, escalated annually 2.5% throughout the initial five Lease years.
- ii. For lease years 6-10, rent shall be charged at the rate of 5% of the total cost reimbursed by City, escalated annually 2.5% throughout such five Lease years.
- iii. For lease years 11-15, rent shall be charged at the rate of 10% of the total cost reimbursed by City.
- iv. For lease years 16-20, rent shall be charged at the rate of 11.5% of the total cost reimbursed by City, recognizing a 15% increase at the beginning of lease year 16.

d) Option Period Rent. Rent for the option periods shall be at fair market value of land plus improvements set by independent appraisal, with 15% escalations every five years thereafter throughout the remainder of the Lease term.

3. Term: IM shall be obligated to an initial 20-year term for up to \$40 Million in reimbursable project costs. IM shall have the right to exercise up to four additional 5-year option periods, recognizing that the total term may not exceed 40 years.
4. Other: An MWBE goal is estimated to be 24% for design and 30% for construction of the project, to be further defined in coordination with the Office of Business Opportunity.

Fiscal Note:

No significant Fiscal Operating impact is anticipated as a result of this project.

Director's Signature:

DocuSigned by:

Mario Diaz

9C60E3A4A7CB4BB

Mario C. Diaz
Houston Airport System

DocuSigned by:

Andy Icken

F405371A27C1498

Andy Icken
Chief Development Officer

Prior Council Action:

6/16/21 (O) 2021-0493

Amount of Funding:

\$38,000,000.00
HAS-Airports Improvement Fund
Fund 8011

Contact Information:

Todd Curry 281/233-1896
Molly Waits 281/233-1860

DS
JS
DS
MW