



CITY OF HOUSTON - CITY COUNCIL

Meeting Date:

District I

Item Creation Date: 1/21/2022

HAS – Memorandum of Agreement (MOA) for a Gate Expansion Project at William P. Hobby Airport (HOU) with Southwest Airlines Co.

Agenda Item#:

Background:

RECOMMENDATION:

Enact an ordinance appropriating \$20,000,000.00 from the Airport System Consolidated 2011 Construction Fund (8206) and approving and authorizing a Memorandum of Agreement between Southwest Airlines Co. (Southwest) and the City of Houston through the Houston Airport System (HAS) for a gate expansion project on the west concourse at William P. Hobby Airport (HOU).

SPECIFIC EXPLANATION:

On May 30, 2012, the City entered into a Memorandum of Agreement (2012 MOA) with Southwest Airlines Co. (Southwest) which provided for the development of gates and support facilities at William P. Hobby Airport (HOU) to allow for international operations. Subsequently, the City entered into an airport Use and Lease Agreement (U&L) with Southwest, pursuant to Ordinance No. 2013-129, concerning the use of facilities at HOU for both the Central Concourse and future West Concourse and other facilities at HOU. Under the 2013 project, Southwest constructed a West Concourse comprised of five international gates which was completed in 2015. Southwest preferentially leases four of the five international gates, and the fifth gate is a City common-use gate available for use by any airline, as assigned by HAS.

Southwest has now expressed an interest in constructing seven more gates in the West Concourse, of which six will be used by Southwest as domestic gates, and one additional gate will be a City common-use international gate. In order to support this expansion, additional infrastructure renovations will be made to HOU. The City will appropriate \$20 Million under this 2022 Memorandum of Agreement (2022 MOA) in order to allow Southwest to begin planning and design efforts, to prepare a project definition manual for the expansion, and to begin construction planning efforts. The parties expect to return to City Council by the end of 2022 with an amendment to the U&L (U&L Amendment) to appropriate additional funds to reimburse Southwest for the construction of the 2022 Project. Amounts reimbursed to Southwest for the 2022 Project, in addition to any other terminal or infrastructure renovation projects deemed necessary by Houston Airport System (HAS), to support the expansion or growth in passengers, will be recovered by the City and charged back to the airlines under rates and charges methodology.

The pertinent terms of this 2022 MOA are as follows:

1. Project Scope: Southwest will plan, design, and construct 7 new gates (including holdrooms, passenger loading bridges and aircraft parking position) in the West Concourse (comprised of 1 new common-use international gate, to be assigned by HAS to any airline, and 6 new preferential-use domestic gates) capable of handling Aircraft Design Group III (narrow-body such as Boeing 737 series and Airbus 320 series) (the "Additional Gates"), to be architecturally similar to the initially-constructed West Concourse gates. Other infrastructure improvements will be made as necessary for the gate expansion.

2. Project Planning and Management: Southwest will take the lead in planning and designing the 2022 Project, which shall be accomplished in coordination with HAS, all in accordance with the mutually-agreed-upon Project Definition Manual.

3. Payment to Southwest: The budget is currently estimated to be, in a rough order of magnitude, approximately \$250 Million. The City shall appropriate \$20 Million in conjunction with this 2022 MOA for Southwest to commence planning and design efforts, including the Project Definition Manual. The 2022 Project budget will be refined pursuant to the Project Definition Manual. The parties will return to City Council with the U&L Amendment and an appropriation of the balance of the 2022 Project Costs to pay for the construction of the gate expansion project.

4. Rates & Charges: The U&L Amendment will provide that costs for the West Concourse gates will be recovered based on cost per square foot rather than cost per international deplaned passengers, and the U&L Amendment will reflect such methodology.

5. Revenue-Sharing: The parties intend to have the U&L Amendment replace the incremental inside concession revenue credit currently applicable only to long-term signatory carriers with a new global revenue sharing program with all HOU signatory carriers. If HAS's debt service coverage ratio exceeds 1.50 at the end of any Fiscal Year immediately following completion of the 2022 Project, one half of the Net Revenues (as defined in HAS's Master Bond Ordinance, adjusted for any expenditures and/or debt service funded by the Airport Improvement Fund, that cause the debt service coverage ratio to exceed 1.50) will be shared with all signatory commercial airlines during such Fiscal Year based on each airline's percentage of the aggregate landed weight.

6. MOA Term: This 2022 MOA will be effective on the date of countersignature by the City Controller and shall expire (i) upon the effective date of the U&L Amendment; or (ii) upon the earlier termination by Southwest pursuant to terms of the 2022 MOA, provided however, any unexpended amount under the 2022 MOA shall be available to pay invoices from Southwest for any part of the 2022 Project. The Term of the U&L Agreement will expire on June 30, 2040 and will govern the terms of construction of the 2022 Project.

7. MWBE Goals: 25% for design, 5.3% for baggage handling system construction, and 30% for construction other than the baggage handling system construction to be further categorized after consultation with the City's Office of Business Opportunity.

8. Other: Southwest's planning, design and construction of the 2022 Project will be subject to, and performed in compliance with, all applicable local, state, and federal laws, City MWBE good faith goal requirements, Hire Houston First, Pay or Play, Drug Free Workplace Policy, Civic Art Program, Living Wage, and Prevailing Wages ordinances/executive orders.

Fiscal Note:

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

Director's Signature:

DS
CR

DocuSigned by:

Mario Diaz

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Mario C. Diaz
Houston Airport System

Andy Icken
Chief Development Officer

Prior Council Action:

5/30/12 (O) 2012-477

2/13/13 (O) 2013-129

Amount and Source of Funding:

\$20,000,000.00

Airport System Consolidated 2011 Construction Fund

Fund 8206

Contact Information:

Todd Curry 281/233-1896

Charlene Reynolds 281/233-1682