



CITY OF HOUSTON - CITY COUNCIL

Meeting Date:

District I

Item Creation Date: 8/4/2023

HAS – Amendment No. 2 to the Airport Use and Lease Agreement with Southwest Airlines Co. at HOU

Agenda Item#:

Background:

RECOMMENDATION:

Enact an ordinance appropriating \$150,000,000.00 from the Airport System Consolidated 2011 Construction Fund (8206) and \$100,000,000.00 from the Airports Improvement Fund (8011), and authorizing Amendment No. 2 to the Airport Use and Lease Agreement between the City of Houston and Southwest Airlines Co. at William P. Hobby Airport (HOU).

SPECIFIC EXPLANATION:

On February 13, 2013, City Council approved Airport Use and Lease Agreement No. 75187 (U&L) with Southwest Airlines Co. (Southwest) at William P. Hobby Airport (HOU). The U&L defines the terms and conditions by which Southwest may conduct its commercial air transportation of persons, property, cargo, and mail as a certificated air carrier; use the airfield for aircraft operations; lease space in the terminal and concourses; have preferential use of ticket counters and aircraft gates; and use the Federal Inspection Services (FIS) area at HOU. Pursuant to a competition plan review by the Federal Aviation Administration (FAA), the City was required to enter into Amendment No. 1 to the U&L to include provisions regarding passenger facility charges and clarification on gate usage, which City Council approved on March 12, 2014, by authority of Ordinance No. 2014-214.

Subsequent to entering into the U&L, Southwest constructed a West Concourse with five international gates, four leased preferentially to Southwest, and one reserved as a City gate to be used on a common-use basis. Under the provisions of the U&L allowing the City to purchase the completed West Concourse, the City reimbursed Southwest for such Concourse taking over full control thereof.

Due to expected growth needs, Southwest proposes to expand the West Concourse with seven additional gates, six to lease preferentially, and one additional City gate to use for common-use by airlines for international or domestic operations. By authority of Ordinance No. 2022-176, adopted on March 2, 2022, the parties entered into Memorandum of Agreement No. 4600017128 pertaining to the expansion project ("2022 Project"), and the City appropriated \$20,000,000.00 for Southwest to beginning planning and design on the 2022 Project.

Southwest has now completed a project definition manual outlining the components of the 2022 Project and the parties are ready to proceed with this Amendment No. 2 to the U&L. The requested \$250,000,000.00 appropriation will allow the City to reimburse Southwest on a monthly basis, with title vesting in the City on a brick-by-brick basis, for Southwest to construct the West Concourse expansion and related components. A supplemental appropriation request of \$200,000,000 will be made between 12 to 15 months after the initial appropriation. Project costs are fully recoverable from the airlines following project completion in 2027 through the airline use and lease agreements. The project also includes additional concession space, generating additional non-aeronautical revenue.

The pertinent terms of the U&L include the following:

1. Term: The U&L is currently in effect and will expire on June 30, 2040. Southwest may terminate the agreement with 60 days' advance written notice upon the occurrence of certain events affecting its right to provide air carrier service or rights to use the airport.
2. Rentals: Under the U&L, Southwest pays various fees under airport rates and charges including landing fees, terminal rents and fees, and FIS charges, which are set each fiscal year. Southwest shall also pay a base capital charge of \$2.50 per square foot for all areas of HOU terminal space which have not been demolished or replaced, the original cost of which has been fully amortized.
3. 2022 Project Reimbursement: Southwest shall construct a seven-gate expansion in the West Concourse, including holdrooms, concession shell space, restrooms, aircraft apron, outbound and inbound baggage handling system expansion, baggage claim area renovation, restroom improvements, clerestory modifications in the central processor, and a canopy across the departure ramp/roadway from the garage to the terminal building for passenger convenience. The City shall reimburse the actual costs on a monthly basis, and title to such elements shall vest in the City on a brick-by-brick basis. An MWBE goal has been established for the scope of work pertaining to the 2022 Project consisting of 25% for design, 5.3% for construction of the baggage handling system, and 30% for construction of all elements other than construction of the baggage handling system.
4. Permitted Uses: At HOU, Southwest leases private offices and operations areas for exclusive use. It leases, on a preferential basis, ticket counters, queuing areas, baggage makeup areas, aircraft gates, holdrooms, and aircraft apron areas. All HOU airlines

use the baggage claim area, the FIS, and the security checkpoint pursuant to access and assignment procedures.

5. Other: Southwest shall be required to provide standard insurance and indemnification as required in the U&L, as well as compliance with the Living Wage Executive Order. Southwest currently has the ability to receive up to \$3.9 Million annually in inside concession revenue sharing, based on the growth in passengers against a 2015 baseline. A new baseline of 2019 will be established which will also result in the annual cap on inside concession revenue participation to increase to \$4.2 Million annually.

Fiscal Note:

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

Director's Signature:

DocuSigned by:

Mario Diaz

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Mario C. Diaz
Houston Airport System

DocuSigned by:

Andy Icken

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Andy Icken
Chief Development Officer

Prior Council Action:

2/13/13 (O) 2013-129

3/12/14 (O) 2014-214

3/02/22 (O) 2022-176

Amount and Source of Funding:

\$150,000,000.00 Airport System Consolidated 2011 Construction Fund (8206)

\$100,000,000.00 Airports Improvement Fund (8011)

\$250,000,000.00 TOTAL

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