



CITY OF HOUSTON - CITY COUNCIL

Meeting Date:

District B

Item Creation Date: 10/9/2023

HAS – Memorandum of Agreement (MOA) with United Airlines for IAH Terminal B
Redevelopment

Agenda Item#:

Background:

RECOMMENDATION:

Enact an ordinance appropriating \$150,000,000.00 from the Airport System Consolidated 2011 Construction Fund (8206) and approving and authorizing a Memorandum of Agreement (MOA) between the City of Houston and United Airlines, Inc. at George Bush Intercontinental Airport/Houston (IAH).

SPECIFIC EXPLANATION:

Pursuant to Ordinance 2011-0899, enacted by Houston City Council on October 19, 2011, the City of Houston, Texas and Continental Airlines, Inc. (with United Airlines as successor-in-interest) entered into a Second Amended and Restated Special Facilities Lease Agreement (SFL) for the redevelopment, expansion, and operation of Terminal B at IAH in multiple phases. The City subsequently entered into multiple amendments to the SFL, as follows:

- Amendment No. 1 to change certain provisions required by the Federal Aviation Administration (FAA) under the Houston Airport System (HAS) Competition Plan;
- Amendment No. 2 to allow United to issue bonds to fund certain passenger terminal facilities, and to allow an extension for United to give notice of future Terminal B redevelopment phases up until December 31, 2024; and,
- Amendment No. 3 to issue bonds to fund certain improvements to the baggage handling system.

United's continued growth at IAH requires the improvement and expansion of its existing facilities to maintain and enhance the passenger experience. With the introduction of the "United Next" initiative, United anticipates the expansion of its aircraft fleet and the up-gauging of aircraft at IAH. With the first two phases of the Terminal B Redevelopment having been completed, United is now ready to undertake Phase III of the Terminal B Redevelopment in accordance with the SFL to accommodate its growth.

Phase III of the Terminal B Redevelopment includes three milestone projects: (1) improvements to and expansion of the Terminal B Processor; (2) replacement of the Terminal B North Concourse to provide 22 narrow-body aircraft equivalent gates; and (3) replacement of the regional gate configuration on Terminal B South to provide 18 large regional gates, all as incorporated in a project definition manual approved by the Director in writing, October 2023.

In order to accomplish Phase III, several enabling projects must be undertaken as further described in the MOA, including relocation of impacted tenants, engaging additional resources in the HAS Building Standards Group to oversee the project, making certain improvements to portions of the airfield and roadways, adding additional aircraft parking areas in certain locations at IAH, adding an 8,000-space remote employee parking lot to free up space in the terminal garages for airline passengers, and accommodating a relocation of Houston Police personnel assigned to IAH. Additionally, United is committing to renovate restrooms in all of its leased terminals in accordance with HAS design standards for restrooms in order to provide a 5-star passenger experience.

It is the intent of the parties to amend the SFL, to the extent necessary, to add certain aircraft areas to United's leasehold and to address other matters to facilitate Phase III of the Terminal B Redevelopment. United expects to expend more than \$1,500,000,000.00 on Phase III work, and the City commits to expend \$624,000,000.00 in three tranches, the first appropriation being \$150,000,000.00 under this MOA, to allow the City to reimburse United on a monthly basis, with title vesting in the City on a brick-by-brick basis, for United to construct Phase III redevelopment and certain enabling projects. Supplemental appropriation requests totaling \$474,000,000.00 will be made, with the first occurring approximately 12 months after the initial appropriation, and the second occurring approximately 24 months after the initial appropriation. Project costs are fully recoverable from multiple sources: from United after project completion in 2026 through the SFL, from other airlines for applicable airfield components through rates and charges under other airline use and lease agreements, or from other users of certain facilities, such as airport parking.

The pertinent terms of the MOA include the following:

1. **Term:** The MOA will continue until the completion of the enabling projects listed in the MOA, or as to certain provisions when incorporated into Amendment No. 4 to the SFL, which is expected to be completed in 2024 and brought to City Council for approval.
2. **Rentals:** Under the SFL, United pays various fees under airport rates and charges, including landing fees, terminal rents and fees, system charges, and FIS charges, which are set each fiscal year. United shall repay the City for projects financed by City and

constructed by United which are attributable to United's benefit only, including an amount equal to the City's cost of capital or the interest rate charged on special facility revenue bonds. For portions of Terminal B which are demolished and redeveloped at United's cost, ground rent shall be charged.

3. MWBE Participation: MWBE goals have been established for the scope of work under the MOA, consisting of 25% for design and 30% for construction.

4. Permitted Uses: At IAH, United leases private offices, operations areas, ticket counters, queuing areas, baggage makeup areas, aircraft gates, holdrooms, baggage claim areas, and aircraft apron areas, and it uses a security checkpoint. All IAH airlines with international arrivals, other than pre-cleared flights, use the FIS.

5. Other: United shall be required to provide standard insurance and indemnification as required in the SFL, as well as compliance with the Living Wage Executive Order.

Fiscal Note:

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

Director's Signature:

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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:

10/19/2011 (O) 2011-0899
02/13/2013 (O) 2013-0128
04/01/2015 (O) 2015-0269
08/04/2021 (O) 2021-0655

Amount and Source of Funding:

\$150,000,000.00

Airport System Consolidated 2011 Construction Fund
Fund 8206

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