



CITY OF HOUSTON - CITY COUNCIL

Meeting Date: 12/6/2016

District I

Item Creation Date:

HAS - Southwest Airlines Memorandum of Agreement

Agenda Item#: 61.

Summary:

ORDINANCE appropriating the sum of \$14,400,000 out of the Renewal and Replacement Fund (8010); approving and authorizing a memorandum of agreement between the City of Houston, Texas and SOUTHWEST AIRLINES, CO. for a Maintenance Hangar Development Project at William P. Hobby Airport (HOU); and declaring an emergency.

Background:

Enact an ordinance approving and authorizing a Memorandum of Agreement with Southwest Airlines, Co. for a Maintenance Hangar Development at William P. Hobby Airport (HOU) and appropriating \$14,400,000 out of the HAS Renewal and Replacement Fund.

Specific Explanation:

Southwest Airlines Co. (Southwest) is seeking to expand its existing maintenance operations at William P. Hobby Airport (HOU) consisting of one or more hangars along with ancillary support facilities and related employee parking. The City of Houston (City) and Southwest have reached agreement for the development of such aircraft maintenance facility expansion on the south sector at HOU.

The pertinent terms and conditions of the agreement have been formalized in a Memorandum of Agreement (MOA) as follows:

- Southwest will ground lease approximately 43.53 acres (1,896,249 square feet) located west of Paul B. Koonce Rd. on the south sector at HOU. During the due diligence and construction phase, rental shall be \$100 per month. Thereafter, ground rent shall be \$.32 per square foot per annum (\$606,799.88 annually) and the ground will be re-appraised every ten years throughout the term of the lease.
- Southwest shall use the premises to construct and operate a maintenance hangar complex consisting of approximately 200,000 square feet of hangar, office space, and support facilities along with associated employee parking, in addition to apron space capable of parking eight B737 aircraft. Southwest will expend at least \$60 million in capital investment.
- In order to ready the south sector of HOU for real estate development, for the benefit of multiple airport tenants and the commercial benefit of the City, a number of enabling projects must be completed. The enabling projects include managing, constructing and relocating FAA navigational aids, stormwater detention, and relocation of existing airport and TSA operations, along with Houston Police Department canine facilities. The City has determined that it will minimize disruption to HOU operations and the traveling public, streamline coordination efforts, and be more time-efficient if Southwest manages all of the enabling projects which are in the critical path of the project. Although within the critical path, HAS will undertake the new vehicle maintenance facility that is already under contract to be rebuilt, along with using best efforts to relocate certain other facilities identified in the MOA. If HAS cannot relocate its assigned portion of the enabling projects before January 2018, Southwest can request to manage such projects for reimbursement from funds appropriated in the MOA, subject to the terms stated therein.
- The City shall reimburse Southwest the actual costs of those enabling projects that Southwest undertakes, subject to appropriation of funds by the City. The cost of the enabling projects is initially estimated to be \$14,400,000, including a 20% contingency, which is to be appropriated with this MOA. For such City enabling project components managed by Southwest, Southwest shall use best efforts to meet a 23% goal on MBEs, 7% goal on WBEs and may substitute up to 4% with SBEs on either or a combination of the other two categories.
- Southwest agrees to comply with all rules and regulations adopted by the airport and/or TSA and/or the FAA, and to comply with all federal, state and local statutes, ordinances, regulations and policies including Hire Houston First, Pay or Play, Drug Free Workplace Policy and Prevailing Wages.
- Southwest and the City agree to negotiate in good faith a ground lease agreement substantially similar to the terms of this MOA prior to the commencement of any construction and will return to City Council for approval of that lease agreement. Under this MOA, Southwest may begin development of the maintenance hangar complex immediately, the term of which will be the earlier of the effective date of the new lease or forty (40) years.

Fiscal Note:

There is no anticipated impact to the FY17 Adopted Operating Budget for this item. Therefore, no fiscal note is required as stated in the


Financial Policy Ord. 2014-1078 as an Operating Budget Item.

This item is considered to be a capital project. See below for funding information and the required fiscal notes associated with a capital project. No impact to the operating budget is anticipated as the project relocates existing facilities and structures to similar facilities and structures at HOU. The existing facilities and structures will then be demolished and the site turned over to Southwest. Southwest will then construct its Maintenance Hangar Complex at the site and all future operating and maintenance expenses for the Complex shall be borne by Southwest.

Capital Project Information

See attached Form A
CIP A-0530.01

Director's Signature:



Maria C. Diaz
Houston Airport System

Chief Economic Development Officer's Signature:



Andy Icken
Office of the Mayor

Amount of Funding:

\$14,400,000 HAS-Renewal and Replacement Fund (8010)

Revenue: \$608,799.68 per year

Contact Information:

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ATTACHMENTS:

Description

Signed RCA Coversheet
Ordinance
Ordinance Exhibit A
Financial Documents - CIP
Financial Information
Signed Contract
Form A
PMSS Equivalent of Form A

Type

Signed Cover sheet
Ordinance/Resolution/Motion
Contract/Exhibit
Financial Information
Financial Information
Other
Backup Material
Backup Material