



CITY OF HOUSTON - CITY COUNCIL

Meeting Date:

District B

Item Creation Date: 2/13/2019

HAS - Amendment No. 1 to Special Facilities Lease (SFL) with United Airlines and Additional Appropriation

Agenda Item#:

Background:

RECOMMENDATION:

Enact an ordinance approving and authorizing Amendment No. 1 to Special Facilities Lease Agreement (SFL) with United Airlines, Inc. (United) for its aircraft maintenance hangar complex at George Bush Intercontinental Airport/Houston (IAH) and appropriating the sum of \$7,000,000 out of the Renewal and Replacement Fund (Fund 8010).

SPECIFIC EXPLANATION:

By authority of Ordinance No. 2016-681, countersigned on September 14, 2016, the City and United entered into a Memorandum of Agreement No. C76887, (UTOC MOA) with respect to the construction and development of United's Technical Operations Center (UTOC); and City Council appropriated \$12.5 million from the HAS Airport Renewal and Replacement Fund. Subsequently, the City and United entered into the Special Facilities Lease Agreement No. 4600014011 (United Airlines, Inc. Technical Operations Center), by authority of Ordinance No. 2017-0887, countersigned on November 21, 2017 (UTOC SFL) with respect to the development, expansion, financing, construction, use and lease of the UTOC Project, comprised of City Project Components and United Project Components; and in connection therewith, City Council appropriated \$10 million from the HAS Airport Improvement Fund for environmental remediation of former car rental sites at IAH. However, by authority of Ordinance No. 2018-76, passed and adopted on January 31, 2018, City Council de-appropriated \$10 million previously appropriated, as provided, from the HAS Airport Improvement Fund and instead appropriated \$10 million from the HAS Airport Renewal and Replacement Fund in connection with the UTOC SFL.

After receiving sufficient documentation to justify additional monies be expended on environmental remediation on the UTOC site, City Council authorized, by authority of Ordinance No. 2018-1039, a Restated and Amended Memorandum of Agreement for the IAH Terminal Redevelopment Project where City and United agreed to enter into Amendment No. 1 to the UTOC SFL, to provide for a supplemental allocation for additional environmental remediation for the UTOC site in consideration for an increase in the Ground Rental Rate to provide cost recovery for the City. Additionally, the City has determined it needs an additional \$2 million to complete two City Project Components Managed by United: drainage and detention work in support of the UTOC development; and the relocation of the livestock quarantine and exportation facility. Exhibit D of the UTOC SFL obligates the City to fund these City Project Components.

All environmental costs will be recovered through Customer Facility Charges (CFCs) and an increase in ground rent. All drainage/detention work will go into the airfield rate base to be recovered through rates and charges assessed to airlines for use of the airfield.

1. Supplemental Allocation:

The UTOC SFL provided for the ability to request a supplemental allocation above the Original Allocation of \$10,000,000. The Director has received and accepted documentation justifying the need for the original maximum reimbursable amount for the UTOC Project Environmental Work to be increased to a maximum of \$15,000,000. An additional \$2,000,000 is needed to complete the two aforementioned City Project Components Managed by United. Accordingly, City Council is requested to approve a supplemental allocation of \$7,000,000.

2. Ground Rental Rate:

In order to achieve cost recovery of the supplemental allocation for the environmental work, United has agreed to incremental adjustments to the initial ground rental rate as follows:

\$0.35 per square foot per annum (PSFPA) plus a \$0.011 step increase above \$0.35 for each additional increment of \$500,000 above the initial \$10 million for which the City reimburses United for the cost of the UTOC Project Environmental Work; provided, however, in no event shall the aggregate increase in the Ground Rental Rate, exceed \$0.11 PSFPA (or, in other words, cause the Ground Rental Rate to be in excess of an initial \$0.46 PSFPA).*

*By way of illustration and not limitation, if the City reimburses United \$12,000,000 (i.e., \$2 million above \$10 million) for the UTOC Project Environmental Work, the Ground Rental Rate shall increase to \$0.394 PSFPA, which is an increase of \$0.044 PSFPA.

Fiscal Note:

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

Director's Signature:

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DocuSigned by:
Mario Diaz
Mario C. Diaz
Houston Airport System

DocuSigned by:
Andy Icken
Andy Icken
Chief Development Officer

Prior Council Action:

09/07/2016 (O) 2016-0681
11/15/2017 (O) 2017-0887
01/31/2018 (O) 2018-0076
12/19/2018 (O) 2018-1039

Amount of Funding:

\$7,000,000.00
HAS Renewal and Replacement Fund
Fund 8010

Contact Information:

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ATTACHMENTS:

Description	Type
9.7.16 RCA	Backup Material
Sept 2016 Ordinance and Exhibit	Backup Material
11.15.17 RCA	Backup Material
Nov 2017 Ordinance and Exhibit	Backup Material
1.31.18 RCA	Backup Material
Jan 2018 Ordinance	Backup Material
12.19.18 RCA	Backup Material
Dec 2018 Ordinance and Exhibit	Backup Material
SAP Documents	Financial Information