



Legislation Text

File #: 20-2134, **Version:** 1

STRATEGIC PRIORITY: Economic and Neighborhood Vitality

AGENDA DATE: November 11, 2020

COUNCIL DISTRICT(S): 2

DEPARTMENT: Office of Economic Development

EXECUTIVE: Dr. Eric A. Johnson

SUBJECT

Authorize City nomination of Southwest Airlines' Crew Base Project to receive designation as an Enterprise Zone Project under the Texas Enterprise Zone Act, as amended (Texas Government Code, Chapter 2303) to the Office of the Governor, Economic Development and Tourism division, through the Economic Development Bank - Financing: No cost consideration to the City

BACKGROUND

Founded in 1967, Dallas-headquartered Southwest Airlines ("Southwest" or "Company") has become a significant fixture in the low-cost domestic travel market and has been the leading US domestic air carrier since 2003. Southwest employs more than 12,000 in the Dallas area, and recently invested \$700 million in its corporate headquarters on Denton Drive, directly to the west of Love Field airport, including state of the art training facilities, aircraft simulators, office space, and parking facilities.

A significant reduction in travel due to Covid-19 has resulted in an unprecedented economic impact to the aviation industry. Per a company announcement on July 24, Southwest had lost approximately \$1.6 billion year-to-date (with 95% of that loss occurring in Quarter 2 2020). To compensate, the company has cut projects, cut shareholder returns, worked with the US government to secure \$3.2 billion in funds via the CARES Act, sold \$2.2 billion in company stock to investors, and borrowed more than \$12 million from lenders. Nearly 17,000 Southwest employees have taken voluntary separation packages and extended time off from the company, at a cost of \$1.7 billion. Earlier this month the company announced a plan to use cost reductions, executive pay cuts, and negotiated worker concessions to avoid layoffs and furloughs through the end of 2021.

Accordingly, to mitigate its losses and maintain its goal of no layoffs or furloughs due to the pandemic, Southwest is looking for strategies to retain employees during the remainder of the pandemic, and has approached the City for assistance in applying for state incentives.

Southwest has requested, and Office of Economic Development staff recommends, City Council consideration of City of Dallas nomination of one of the company's upcoming capital investment projects as a Texas Enterprise Zone (TEZ) project. This nomination would allow Southwest to receive a refund of the state portion of sales and use taxes paid as part of the capital investment. TEZ funds are paid solely by the State of Texas - the incentive does not involve any City of Dallas funding. The next application date is December 1, 2020. The TEZ program requires a minimum investment of \$5 Million and also requires that each nominated project retain a minimum of 500 jobs.

The project under consideration for nomination will be located at the Southwest Airlines Crew Base facility at 8008 Herb Kelleher Way in Dallas. The facility is owned by the City and leased to Southwest, with the lease terminating September 30, 2028.

The Crew Base upgrades include a minimum investment of \$5,000,000.00, but potentially up to \$12,000,000.00, in flight training updates, technology-based updates, and equipment-based upgrades for use at the project site. Specifically, the updated technology, software and equipment upgrades will provide the crew near real time updates to gate details, boarding progress, delay impacts, connecting passenger details, flight status changes, and other pertinent flight/passenger information, to optimize the flight to get passengers where they want to go and when they want to go in a timely, efficient manner.

PRIOR ACTION/REVIEW (COUNCIL, BOARDS, COMMISSIONS)

City Council was briefed in Executive Session to discuss City nomination of Southwest Airlines' Crew Base Project to receive designation as an Enterprise Zone Project, under Section 551.087 of the Texas Government Code on November 2, 2020.

FISCAL INFORMATION

No cost consideration to the City.