CAFR

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEARS ENDED JUNE 30, 2017 AND JUNE 30, 2016

PREPARED BY OFFICE OF THE CITY CONTROLLER, CHRIS BROWN

HOUSTON AIRPORTS

THE AIRPORT SYSTEM FUND

AN ENTERPRISE FUND OF THE CITY OF HOUSTON, TEXAS

CITY OF HOUSTON TEXAS

Cover Art: *Houston, Can You Hear Me?*
Artist: Hana Hillerova

Airport System Fund

An Enterprise Fund of the

City of Houston, Texas

Comprehensive Annual Financial Report

Fiscal Years Ended June 30, 2017 and June 30, 2016

Prepared by:
Office of City Controller

Chris Brown
City Controller

Carl Medley
Deputy Director Controller

COMPREHENSIVE ANNUAL FINANCIAL REPORT

TABLE OF CONTENTS

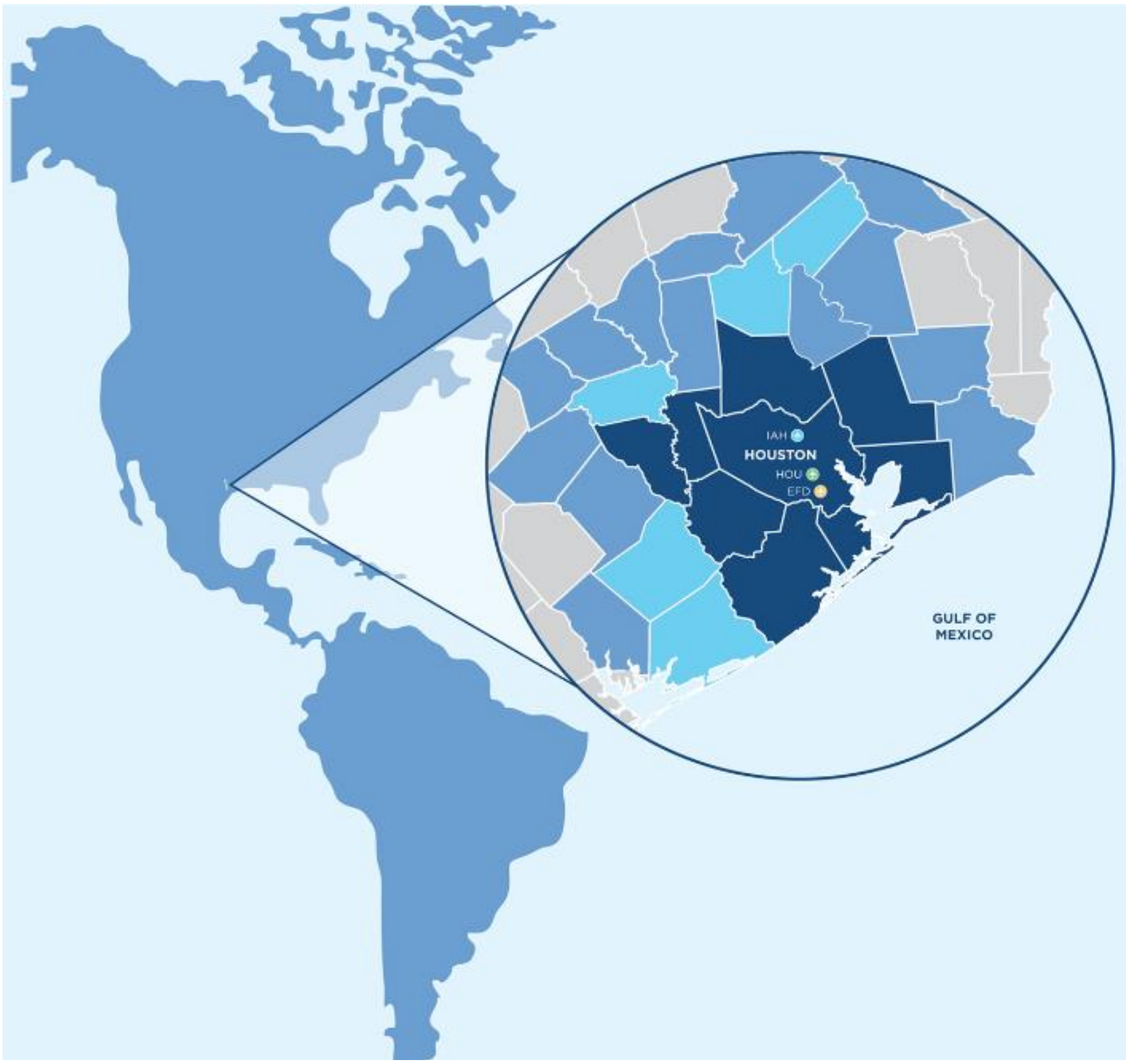
Elevator Core by Rachel Hecker

INTRODUCTORY SECTION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

CITY OF HOUSTON
TEXAS

HOUSTON AIRPORT SYSTEM



	Metropolitan Statistical Area (MSA) of Houston-The Woodlands-Sugar Land, TX includes 9 counties.
	Consolidated Statistical Area (CSA) of Houston-Woodlands, TX adds Matagorda, Trinity, Walker, Washington, and Wharton counties.

HOUSTON AIRPORTS

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Houston, Texas

Airport System Fund

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

Office of the City Controller
City of Houston, Texas

Chris B. Brown

November 20, 2017

To the Citizens, Mayor and Members of the City Council of the City of Houston, Texas:

I am pleased to present you with the Comprehensive Annual Financial Report (CAFR) for the City of Houston, Texas, Airport System Fund (the Fund) for the fiscal years ended June 30, 2017 and June 30, 2016, including the independent auditors' report. The Controller's Office and the Houston Airport System share responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the Fund.

The CAFR includes four sections: Introductory, Financial, Statistical, and Compliance. The Introductory Section includes this transmittal letter, a list of principal officials, and the Fund's organizational chart. The Financial Section includes Management's Discussion and Analysis and financial statements with accompanying notes, as well as the independent auditors' report on the financial statements. The Statistical Section includes selected financial trends, revenue capacity, debt capacity, demographic, economic, and operating information, generally presented on a ten-year basis. The Compliance Section includes the independent auditors' report on Passenger Facility Charge Program.

The Financial Section described above is prepared in accordance with Generally Accepted Accounting Principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB). The Management's Discussion and Analysis offers readers an overview and analysis of the financial activities of the Fund and should be read as an introduction to the financial statements. In addition, the notes to the financial statements offer additional important information and are essential to a full understanding of this report.

The Reporting Entity and Its Services

The Houston Airport System (HAS), under the administrative control of the Mayor, manages and operates the Fund. The City Controller, as the chief financial officer of the City of Houston (the City), maintains the books of account, prepares financial statements, and, with the Mayor, co-signs all warrants, contracts, and orders for payment of any public funds or money relating to the Fund.

The Fund is an enterprise fund of the City and is included in the City's Comprehensive Annual Financial Report, which is a matter of public record. An enterprise fund is used to account for services provided to the general public on a continuing basis with costs recovered primarily through user charges. The City's Airport System includes the following: George Bush Intercontinental Airport (Intercontinental); William P. Hobby Airport (Hobby); and Ellington Airport. United Airlines is the dominant air carrier operating at Intercontinental and Southwest Airlines is the dominant air carrier operating at Hobby.

Economic Conditions and Major Initiatives

Economic Conditions

The City of Houston is the nation's fourth most populous city and lies within the fifth largest metropolitan statistical area in the United States. The service region for the Houston Airport System, the nine county Houston-The Woodlands-Sugar Land Metropolitan Statistical Area, has a diverse economic base and is recognized as a major national and international energy, financial, medical, transportation, educational, and distribution center. Widely recognized as the "Energy Capital of the World," Houston is a global center for virtually every segment of the oil-and-gas industry. The City is also home to the Texas Medical Center, the world's largest concentration of biomedical research and healthcare institutions, and the Lyndon B. Johnson Space Center, NASA's center for human spaceflight training, research, and flight control, and related support firms specializing in aircraft and space vehicle manufacturing, research, and technology. The deepwater Port of Houston is the nation's busiest port as ranked by foreign tonnage and second-busiest port as ranked by total tonnage.

The Houston Airport System (HAS) consists of both a large hub airport (Bush Intercontinental) and a medium hub airport (Hobby), as classified by the Federal Aviation Administration (FAA). Based on total U.S. airport passenger traffic for calendar year 2016, Intercontinental ranked as the nation's 14th busiest airport, while Hobby ranked 34th busiest. Intercontinental is located approximately 22 miles north of the City's central business district and serves as Houston's primary international gateway, handling nearly 11 million international passengers (enplaned plus deplaned) in fiscal year 2017. Hobby is located approximately seven miles southeast of the central business district . A domestic-only airport since Intercontinental opened in 1969, a new international terminal opened in October 2015, allowing for new service to Mexico, the Carribean, and Central America. Ellington Airport (Ellington), located approximately 15 miles to the southeast of the central business district, serves as a general aviation airport and is also used by several governmental agencies such as NASA, the US Coast Guard and the Army and Air Force National Guard. HAS obtained a spaceport license for Ellington in June 2015 from the Federal Aviation Administration, allowing Ellington to accommodate horizontal-launch commercial spaceflight operations.

Key factors that will affect future airline traffic at the Houston Airport System include (1) the growth in the population and economy of the service region; (2) national and international economic and political conditions; (3) airline economics and air fares; (4) the price of aviation fuel; (5) airline service decisions; (6) the capacity of the air traffic control system; and (7) the capacity of the airports themselves. During fiscal year 2017, HAS systemwide passenger growth decreased 1.6% from fiscal year 2016, driven by a 3.4% decrease in passengers at Intercontinental which was partially offset by a 4.4% increase at Hobby. International passenger traffic for fiscal year 2017 was relatively flat, increasing 0.4% over fiscal year 2016, driven by growing international service at HOU. Fiscal year 2017 represented the third consecutive year in which the airport served more than 10 million international passengers (enplaned plus deplaned).

Capital Improvement Program

The Houston Airport System's (HAS) five-year Capital Improvement Plan (CIP) for fiscal years 2018-2022 has appropriation requirements of approximately $2.1 billion, with 39% of the appropriations planned for fiscal year 2018 as of June 30, 2017. This CIP was developed in connection with master planning studies for all three system airports. Future improvements will be funded with airport funds, the remaining proceeds from bond issues, proceeds from new bond issues, FAA and other grants, and passenger facility charges. The CIP excludes amounts funded on a permanent basis by airline tenants under the terms of special facilities leases. HAS continually reviews its CIP to address changing economic and air traffic demand levels, operating conditions, and assessments of facility condition.

At IAH, HAS is proceeding with the planning and procurement of design and construction support for the IAH Terminal Redevelopment Program (ITRP) that includes the newly constructed 11-gate concourse just west of the existing Terminal C North (becoming the "New Terminal C North") and reconstructing and integrating the existing Terminal C North and Terminal D into a new single common-use international facility (the Mickey Leland International Terminal (MLIT). The expansion of the terminal facilities will also necessitate an enlargement of certain components of the existing Federal Inspection Services (FIS) facility as well as related improvements to aircraft parking aprons and roadways. The terminal will be used by United Airlines and all foreign-flag airlines serving IAH and share the existing FIS Facility. The City awarded contracts for executive program manager and program management support services in fiscal year 2015 and in fiscal year 17 began the selection process for architectural/engineering and construction management firms.

At HOU, capital improvements are planned for the airfield as required by the FAA, as well as normal pavement management, and customer service enhancements for the HOU Central Concourse. Additionally, a new parking office is planned for development starting in late FY18.

At EFD, a new air traffic control tower is currently being constructed and procurement is underway for a Design/Build contract for Spaceport Infrastructure to provide roadways and utilities for future tenants.

Financial Information

Accounting Systems and Budgetary Controls

The Fund's financial accounting system utilizes an accrual basis of accounting. Internal accounting controls are an integral part of the Fund's accounting system and are designed to provide reasonable, but not absolute, assurance that assets are safeguarded from unauthorized use or disposition. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management.

The Fund controls current expenses at all division levels. The Houston Airport System's Deputy Directors are responsible for the expenses approved by the Division Managers reporting to them; in turn, Division Managers are responsible for budgetary items that are controllable at their organizational level. Budgetary control is maintained at the expenditure category (i.e., Personnel Services, Supplies, Other Services and Capital Outlay) through the encumbrance of estimated purchase amounts prior to the release of purchase orders or contracts to vendors. This is accomplished primarily through an automated encumbrance and accounts payable system.

The City Council approves the Fund's annual operations budget for current expenses. The Airport Fund as a whole is not budgeted. City Council authorizes capital project expenditures through individual appropriation ordinances based on a five-year Capital Improvement Plan that is proposed by the Mayor and the Houston Airport System Director and approved by City Council. City Council can legally appropriate only those amounts of money that the City Controller has certified.

Other Information

Independent Audit

An independent auditor audits the financial statements of the Airport System Fund each year. McConnell & Jones/Banks, Finley, White & Co. performed the fiscal year 2017 and 2016 audits. The financial section of this report includes the independent auditors' report on the basic financial statements.

The City is required to undergo an annual Single Audit in conformity with the provisions of the Single Audit Act, Title 2 of the US *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the State of Texas Single Audit Circular. These audits are conducted simultaneously with the Fund's annual financial statement audit. Information related to these Single Audits, including the schedules of financial assistance, findings and recommendations, is included in separate Single Audit Reports.

Awards/Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to City of Houston, Texas, Airport System Fund for its comprehensive annual financial report for the fiscal year ended June 30, 2016. This was the 23rd consecutive year that the Airport System Fund has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

The preparation of this comprehensive annual financial report was made possible by the dedicated service of the Finance Division of the Houston Airport System and the City Controller's Office.

Respectfully submitted,

Chris B. Brown
City Controller

INTRODUCTORY SECTION

LIST OF PRINCIPAL OFFICIALS

ELECTED OFFICIALS AS OF JUNE 30, 2017:

Left to Right: Mike Laster, Jack Christie, David Robinson, Karla Cisneros, Larry Green, Mike Knox, Ellen Cohen, Dwight Boykins, Sylvester Turner, Chris Brown, Jerry Davis, Brenda Stardig, Robert Gallegos, Amanda Edwards, Greg Travis, Dave Martin, Michael Kubosh, Steve Le. *Photo credit: Daniel Schein*

Mayor	Sylvester Turner
Controller	Chris Brown
Councilmember, At-Large, Position 1	Mike Knox
Councilmember, At-Large, Position 2	David Robinson
Councilmember, At-Large, Position 3	Michael Kubosh
Councilmember, At-Large, Position 4	Amanda Edwards
Councilmember, At-Large, Position 5	Jack Christie
Councilmember, District A	Brenda Stardig
Councilmember, District B	Jerry Davis
Councilmember, District C	Ellen Cohen
Councilmember, District D	Dwight Boykins
Councilmember, District E	Dave Martin
Councilmember, District F	Steve Le
Councilmember, District G	Greg Travis
Councilmember, District H	Karla Cisneros
Councilmember, District I	Robert Gallegos
Councilmember, District J	Mike Laster
Councilmember, District K	Larry Green

INTRODUCTORY SECTION
LIST OF PRINCIPAL OFFICIALS

HOUSTON AIRPORT SYSTEM (a department of the City of Houston)
AS OF JUNE 30, 2017:

Mario C. Diaz
Director of Aviation

In alphabetical order

Saba Abashawl
Chief External Affairs Officer

Richard McCurley
Interim General Manager
William P. Hobby Airport

Robert "Bob" Barker
Chief Development Officer

Fred McDowell
Interim Chief Technology Officer

Harleen Hines Smith
Chief Human Resources Officer

Robert Merz
Chief Financial Officer

Ted Kitchens
General Manager
George Bush Intercontinental Airport

Jesus H. Saenz Jr.
Chief Operating Officer

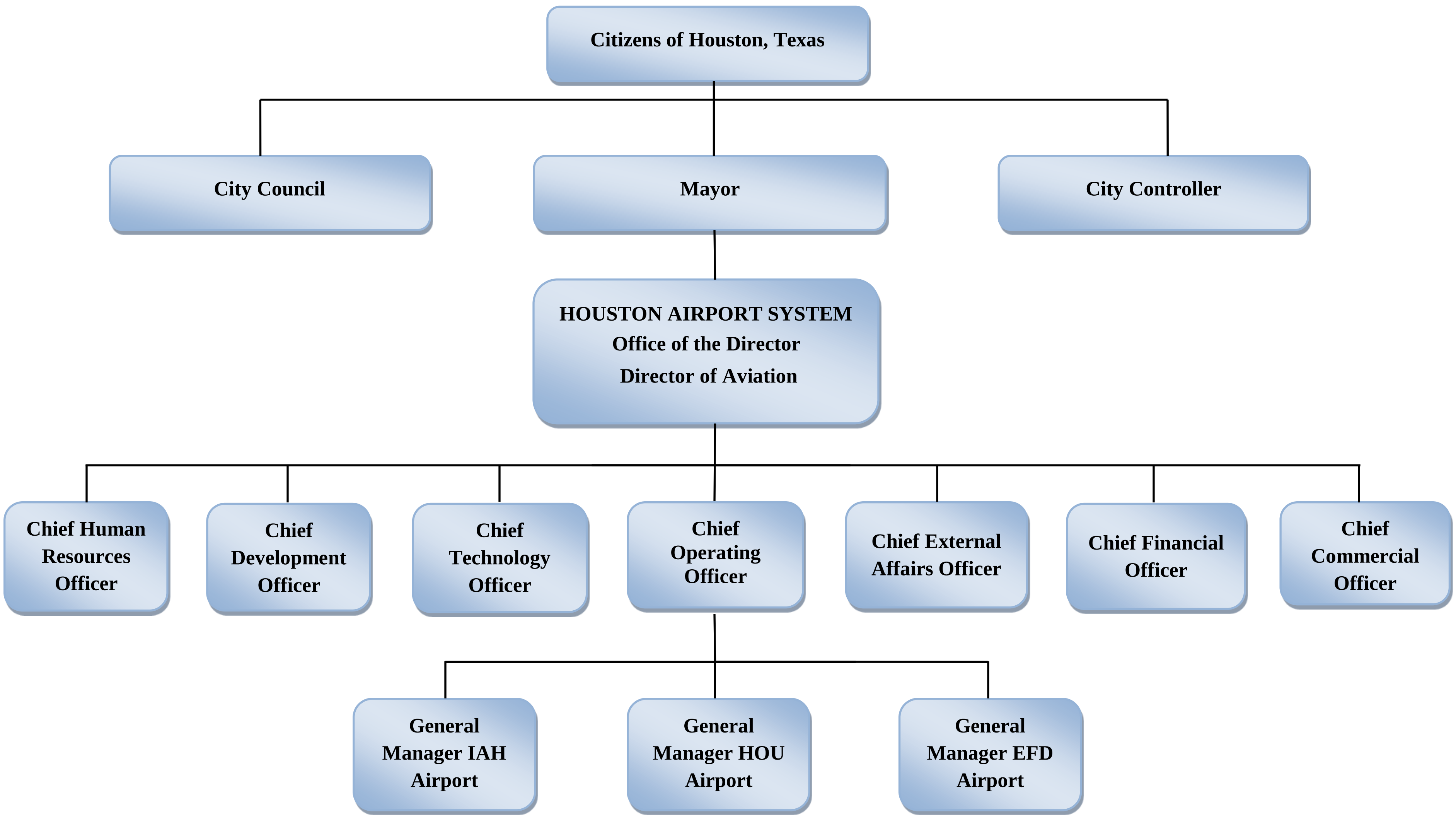
Arturo Machuca
General Manager
Ellington Airport

Ian Wadsworth
Chief Commercial Officer

AS OF JULY 31, 2017:

Chief Technology Officer --Tanya Acevedo

ORGANIZATIONAL CHART AS OF JUNE 30, 2017



Call Ernie by Jim Love

FINANCIAL SECTION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

CITY OF HOUSTON
TEXAS

Independent Auditors' Report

To the Honorable Mayor,
Members of City Council, and City Controller
City of Houston, Texas

We have audited the accompanying financial statements of the Airport System Fund (the "Fund") of the City of Houston, Texas (the "City"), which comprise the statement of net position as of June 30, 2017 and 2016 the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion in the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

4828 Loop Central Drive • Suite 1000 • Houston, TX • 77081

To the Honorable Mayor,
Members of City Council, and City Controller
City of Houston, Texas

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Airport System Fund of the City of Houston, Texas, as of June 30, 2017 and 2016 the changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statement presents only the Airport System Fund and do not purport to and do not, present fairly the net position of the City of Houston, Texas as of June 30, 2017 and 2016, the changes in its net position or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As explained in Notes 6 and 12 in the Fund's financial statements, substantive changes were made to the funding and benefit structure of the City's pension system, effecting the City's three pension plans during fiscal year 2017. Consistent with generally accepted accounting principles, the Fund's pension expense reflects a significant decrease due to the change in benefit terms and discount rates and corresponding reduction in net pension liability and an increase in net position.

Our opinion is not modified with respect to these matters

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 4 through 9) and the Pension System Supplementary Information and Other Post- Employment Benefits Supplementary Information (page 49) be presented to supplement the basic financials statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

4828 Loop Central Drive • Suite 1000 • Houston, TX • 77081

To the Honorable Mayor,
Members of City Council, and City Controller
City of Houston, Texas

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fund's basic financial statements. The Introductory Section, the Statistical Section and Compliance Section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Passenger Facility Charge Revenues and Disbursements Schedule and accompanying notes on pages 68 to 73 are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information to the underlying and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the procedures performed as describe above, the above-mentioned schedule is fairly stated in all material respects in relation to the financial statements as a whole.

The Introductory Section and the Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2017, on our consideration of the City of Houston, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Houston, Texas's internal control over financial reporting and compliance.

McConnell & Jones LLP　Banks, Finley, White & Co.

November 20, 2017

As management of the Airport System Fund (Fund), we offer readers of the Fund's financial statements this narrative overview and analysis of the financial activities of the Fund for the fiscal years ended June 30, 2017 and June 30, 2016. Please read the Management's Discussion and Analysis (unaudited) section in conjunction with the financial statements and the notes to the financial statements, which follow this section. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

The Fund's net position increased by $128.1 million or 9.5% during fiscal year 2017 and increased $64.4 million or 5.0% during fiscal year 2016.

In fiscal year 2017, operating income increased $61.3 million or 1,035.5% due to the reduction in pension expense arising from the pension reform efforts of the City of Houston (City) See Notes 6 and 12. In fiscal year 2016, operating income decreased $18.2 million or 148.4% due to an increase in operating expenses of $30.8 million or 6.6 %.

Maintenance and operating expenses decreased $61.0 million or 19.3% in fiscal year 2017 and increased $28.9 million or 10.1% in fiscal year 2016. Depreciation expense increased $4.8 million or 2.7% in fiscal year 2017 and increased $1.9 million or 1.1% in fiscal year 2016.

Investment income decreased by $9.9 million or 74.3% in fiscal year 2017 and increased by $5.8 million or 76.9% in fiscal year 2016.

The Fund had a net increase before capital contributions of $92.5 million in fiscal year 2017, compared with a net increase before capital contributions of $41.9 million in fiscal year 2016.

The Fund implemented Governmental Accounting Standards Board (GASB) Statement No. 68 at the start of fiscal year 2015, to record a net pension liability based not on the City's legal funding requirement, but on an actuarial calculation of total pension liability less the net position of the Houston Municipal Employee Pension System (HMEPS). This resulted in an unrestricted net position of $(178.0) million as of June 30, 2015 and 2016. The unrestricted net position as of June 30, 2017 was reduced further to $(126.9) due to cost savings included in pension reforms implemented by the City. See Notes 1 and 6 for more information.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Fund's financial statements. The Airport System Fund's financial statements consist of the following components: this management's discussion and analysis, the financial statements, the notes to the financial statements, and required supplementary information. The notes are essential to a full understanding of this report. In addition, a statistical section is included for further analysis. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. An enterprise fund is used to account for a business-like activity within a government. The Airport System Fund is an enterprise fund of the City of Houston. The Houston Airport System (HAS), consisting of George Bush Intercontinental Airport (IAH), William P. Hobby Airport (HOU), and Ellington Airport (EFD), is managed and operated as a department of the City. The Airport System Fund is also included in the City of Houston's Comprehensive Annual Financial Report (CAFR).

The statement of net position presents information on all the Fund's assets, deferred outflows of resources (if any), liabilities, and deferred inflows of resources (if any), with the difference between these sections reported as net position. Changes in net position from year to year may serve as a useful indicator of whether the financial position of the Airport System Fund is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents information showing how the Fund's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The statement of cash flows reports how much cash was provided by or used for the Fund's operations, investing activities, non-capital financing activities, and capital and related financing activities.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension and other post employment benefits to its employees.

Net Position

Total net position at June 30, 2017 was $1,473.8 million, a 9.5% increase from June 30, 2016.
Total net position at June 30, 2016 was $1,345.8 million, a 5.0% increase from June 30, 2015.

NET POSITION
JUNE 30, 2017, JUNE 30, 2016, and JUNE 30, 2015
(in thousands)

	June 30, 2017	June 30, 2016	June 30, 2015
Assets			
Current assets	$ 452,246	$ 445,841	$ 379,126
Noncurrent assets	892,490	854,870	881,893
Net capital assets	2,883,432	2,958,464	2,918,004
Total assets	4,228,168	4,259,175	4,179,023
Deferred Outflows of Resources	81,177	59,367	43,490
Liabilities			
Current liabilities	218,419	318,700	188,524
Long term liabilities	2,612,622	2,651,555	2,750,775
Total liabilities	2,831,041	2,970,255	2,939,299
Deferred Inflows of Resources	4,487	2,526	1,847
Net Position			
Net investment in capital assets	542,363	537,172	466,196
Restricted net assets	1,058,392	986,592	993,174
Unrestricted (deficit)	(126,938)	(178,003)	(178,003)
Total net position	$ 1,473,817	$ 1,345,761	$ 1,281,367

More than a third of the Fund's total net position (36.8% in fiscal year 2017; 39.9% in fiscal year 2016) reflects net investment in capital assets (e.g., land, buildings, runways, equipment and infrastructure), less any related outstanding debt used to acquire those assets. The Fund uses these capital assets to operate the airports; consequently, these assets are not available for future spending. Although the Fund's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from airport revenue or other sources procured by the Fund, since the capital assets themselves cannot be used to liquidate these liabilities.

The other portions of the Fund's net position represent resources that are restricted and the unrestricted deficit. The restricted resources (71.8% in fiscal year 2017; 73.3% in fiscal year 2016) are subjected to external restrictions on how they may be used. Most of these restrictions are due to covenants made to the holders of the Fund's revenue bonds within ordinances passed by City Council. These covenants further require that any positive unrestricted net position carried in cash and cash equivalents at the end of the fiscal year be restricted for future capital improvements. The unrestricted (deficit) net position was $(126.9 million) as of June 30, 2017 and was $(178.0 million) as of June 30, 2016.

Changes in Net Position

From July 1, 2016 to June 30, 2017, net position of the Airport System Fund increased by $128.1 million or 9.5%.
From July 1, 2015 to June 30, 2016, net position of the Airport System Fund increased by $64.4 million or 5.0%.

CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2017, JUNE 30, 2016, and JUNE 30, 2015
(in thousands)

	June 30, 2017	June 30, 2016	June 30, 2015
Operating revenue:			
Landing area fees	$ 88,046	$ 86,870	$ 93,575
Rentals, building and ground areas	221,181	216,018	197,039
Parking and Concessions	178,888	177,685	180,684
Other	5,926	8,324	4,984
Total operating revenues	494,041	488,897	476,282
Nonoperating revenue:			
Investment income (loss)	3,403	13,260	7,496
Passenger facility charges	101,539	104,230	85,392
Customer Facility Charges	14,200	16,417	17,535
Gain on disposal of assets	7,554	54	-
Other nonoperating	4,141	70	7,969
Total nonoperating revenues	130,837	134,031	118,392
Total revenues	624,878	622,928	594,674
Operating expenses:			
Maintenance and operating	254,459	315,419	286,529
Depreciation and amortization	184,203	179,398	177,512
Total operating expenses	438,662	494,817	464,041
Nonoperating expenses:			
Interest expense	87,482	86,212	89,999
Loss on disposal of assets	6,099	-	1,856
Special facility cost	92	47	948
Total nonoperating expenses	93,673	86,259	92,803
Total expenses	532,335	581,076	556,844
Excess (deficit) before contributions	92,543	41,852	37,830
Capital contributions	35,513	22,542	36,432
Change in net position	128,056	64,394	74,262
Beginning net position as previously reported	1,345,761	1,281,367	1,385,108
Cumulative effect of implementation of new accounting principle	-	-	(178,003)
Total net position, July 1	1,345,761	1,281,367	1,207,105
Total net position, June 30	$ 1,473,817	$ 1,345,761	$ 1,281,367

Operating revenues increased by $5.1 million or 1.1% for fiscal year 2017 and increased by $12.6 million or 2.6% for fiscal year 2016. Total (enplaned and deplaned) system (IAH and HOU) passenger volume decreased 1.6% in fiscal year 2017. The effect of this decrease was offset by increases in rentals (2.4%) and concessions (4.1%). Operating revenue increases in fiscal year 2016 over fiscal year 2015 were primarily attributable to increases in nonairline revenues resulting from increases in parking fees and passenger volume. Detailed passenger statistics and comparative rates and charges can be found in the statistical section of this report.

For fiscal year 2017, total operating expenses decreased $56.2 million or 11.3%. Maintenance and operating expenses decreased $61.0 million or 19.3% and depreciation increased by $4.8 million or 2.7%. The 19.3% decrease in maintenance and operating expenses is due to the pension reform efforts of the City of Houston. For fiscal year 2016, total operating expenses increased $30.8 million or 6.6%. Maintenance and operating expenses increased by $28.9 million or 10.1% and depreciation increased by $1.9 million or 1.1%. The 10.1% increase in maintenance and operating expenses is due to higher services and personnel costs.

Capital contributions are grant awards that primarily related to reimbursements for expenses from construction projects. Amounts received from Federal Aviation Administration (FAA) discretionary, FAA entitlement and Transportation Security Administration (TSA) grants fluctuate year-to-year because of timing differences between the date of the award and the date of construction completion. In fiscal year 2017, capital contributions increased $13.0 million or 57.5% and in fiscal year 2016, capital contributions decreased $13.9 million or 38.1%.

For fiscal year 2017, non-operating revenues decreased by $9.3 million or 6.9 %, due to a $9.9 million decrease in investment income, a $4.9 million or 4.1% decrease in combined passenger facility charge and customer facility charge collections, due to a decline in passenger traffic, a $7.1 million refund to the airlines on prior year landing fees and terminal leasing charges, recordation of a prior year unearned grant award of $3.1 million, and a $1.4 million increase in revenues from the disposal of assets. Non-operating revenue increased by $15.6 million or 13.2% in fiscal year 2016, primarily due to an increase of $18.8 million or 22% in passenger facility charge collections. On January 20, 2015, the FAA approved an amendment to the existing PFC at both IAH and HOU increasing the rate from $3.00 per enplaned passenger to $4.50 per enplaned passenger. The new rate was effective March 1, 2015. Investment income decreased by $9.9 million or 74.3% in fiscal year 2017, due to a $12.6 decrease in net unrealized fair value adjustments, partly offset by an increase in realized investment income of $2.8 million related to a 26% increase in apportioned income from the City's General Taxable Pool. In fiscal year 2016, investment income increased $5.8 million or 76.9%, due mostly to a $3.7 million increase in the net unrealized fair value adjustments.

Interest expense and total non-operating expense increased by $1.3 million or 1.5% in fiscal year 2017. In fiscal year 2016, interest expense decreased by $3.8 million or 4.2% because $2.9 million more was capitalized with eligible construction projects in fiscal year 2016 than in fiscal year 2015.

Capital Assets

The Airport System Fund's investment in capital assets amounts to $5.74 billion at June 30, 2017, an increase of $110.2 million or 2.0%, from June 30, 2016. Capital assets at June 30, 2016 were $5.63 billion, an increase of $219.0 million or 4.0%, from June 30, 2015. See Note 3 for further information.

CAPITAL ASSETS
JUNE 30, 2017, JUNE 30, 2016, and JUNE 30, 2015
(in thousands)

	June 30, 2017	June 30, 2016	June 30, 2015
Land	$ 216,079	$ 222,886	$ 220,626
Rights & Intangibles - Non-Amortizable	9,569	9,752	9,387
Buildings and building improvements	2,970,950	2,900,383	2,703,195
Improvements other than buildings	2,145,180	2,072,292	2,009,275
Equipment	261,485	249,029	233,321
Rights & Intangibles - Amortizable	5,035	4,084	2,411
Construction work in progress	135,233	174,942	236,163
	$ 5,743,531	$ 5,633,368	$ 5,414,378

At IAH, HAS is proceeding with the planning and procurement of design and construction support for the IAH Terminal Redevelopment Program (ITRP) that includes the newly constructed 11-gate concourse just west of the existing Terminal C North (becoming the "New Terminal C North") and reconstructing and integrating the existing Terminal C North and Terminal D into a new single common-use international facility (the Mickey Leland International Terminal (MLIT). The expansion of the terminal facilities will also necessitate an enlargement of certain components of the existing Federal Inspection Services (FIS) facility as well as related improvements to aircraft parking aprons and roadways. The terminal will be used by United Airlines and all foreign-flag airlines serving IAH and share the existing FIS Facility. The City awarded contracts for executive program manager and program management support services in FY 2015 and in FY17 began the selection process for architectural/engineering and construction management firms.

At HOU, capital improvements are planned for the airfield as required by the FAA, as well as normal pavement management, and customer service enhancements for the HOU Central Concourse. Additionally, a new parking office is planned for development starting in late FY18.

At EFD, a new air traffic control tower is currently being constructed and procurement is underway for a Design/Build contract for Spaceport Infrastructure to provide roadways and utilities for future tenants.

Debt

At the end of the fiscal year, the Airport System Fund had total debt of $2.4 billion, which represents outstanding senior and subordinate lien revenue bonds net of unamortized discounts and premiums, senior lien commercial paper, and an inferior lien contract, all secured solely by Airport System Fund revenues. In addition, the Fund is responsible for $2.0 million of taxable general obligation pension bonds and $91.6 million of special facility revenue bonds (consolidated rental car facility). At the end of fiscal years 2016 and 2015, the Fund had total debt of $2.5 billion and $2.4 billion, respectively. See Note 5 for further information.

OUTSTANDING DEBT
JUNE 30, 2017, JUNE 30, 2016, AND JUNE 30, 2015
(in thousands)

	June 30, 2017	June 30, 2016	June 30, 2015
Senior lien debt:			
Current maturities-revenue bonds	$ 10,225	$ 9,740	$ 9,275
Long-term revenue bonds payable	420,420	430,645	440,385
Unamortized discounts and premium	(476)	(603)	(737)
Commercial paper	87,000	87,000	49,500
Total senior lien debt	517,169	526,782	498,423
Subordinate lien debt:			
Current maturities-revenue bonds	67,630	64,925	56,455
Long-term revenue bonds payable	1,512,135	1,579,765	1,644,690
Unamortized discounts and premium	59,061	65,705	72,562
Total subordinate lien debt	1,638,826	1,710,395	1,773,707
Inferior lien debt:			
Current maturities-contract	6,240	5,915	5,605
Long-term contract payable	-	6,240	12,155
Total inferior lien debt	6,240	12,155	17,760
Other debt:			
Current maturities-note payable	5,018	5,018	-
Long-term note payable	110,403	115,421	-
Pension obligation bonds	2,006	2,006	2,006
Special Facility Revenue Bonds - Consolidated Rental Car Facility:			
Current maturities	5,490	5,305	5,160
Long-term payable	86,100	91,590	96,895
Total other debt	209,017	219,340	104,061
Total outstanding debt	$ 2,371,252	$ 2,468,672	$ 2,393,951
Deferred Outflows of Resources:			
Unamortized costs of refunding debt	$ (27,329)	$ (30,154)	$ (33,044)

Total outstanding debt decreased $97.4 million or 3.9% during fiscal year 2017, due to retirement of existing debt. Total outstanding debt increased $74.7 million or 3.1% during fiscal year 2016, due to issuance of new commercial paper, retirement of existing debt, and the creation on October 15, 2015 of a note payable to Southwest Airlines for the construction of the Hobby International Terminal Project, with balances on June 30, 2017 and June 30, 2016 of $115.4 million and $120.4 million, respectively.

The underlying ratings of the Airport System Fund's obligations for fiscal year 2017:

	Senior Lien	Subordinate Lien	Consolidated Rental Car SFRB
Fitch's Bond Rating:	Not Rated	A	A-
Moody's Bond Rating:	Aa3	A1	A3
Standard & Poor's Bond Rating:	AA-	A+	A-

Requests for Information

This financial report is designed to provide a general overview of the City of Houston, Texas Airport System Fund finances for all of those with an interest in the fund's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Controller, 901 Bagby, 8th Floor, P.O. Box 1562, Houston, Texas 77251-1562.

STATEMENTS OF NET POSITION (in thousands)
JUNE 30, 2017 AND 2016

	2017	2016
Assets		
Current assets		
Equity in pooled cash and investments	$ 362,714	$ 389,411
Non-pooled cash	5	5
Restricted cash and cash equivalents	5,796	5,541
Accounts Receivable (net of allowance for doubtful accounts of $1,623 in 2017 and $777 in 2016)	44,224	3,347
Due from City of Houston	201	31,833
Inventory	1,875	1,632
Prepaids	2,938	2,817
Due from other governments - grants receivable	34,493	11,255
Total current assets	452,246	445,841
Noncurrent assets		
Equity in pooled cash and investments	853,294	817,877
Restricted cash and cash equivalents	37,813	35,512
Prepaids	1,383	1,481
Capital Assets		
Land	216,079	222,886
Rights and Intangibles	14,604	13,836
Buildings, improvements and equipment	5,377,615	5,221,704
Construction in progress	135,233	174,942
Total capital assets	5,743,531	5,633,368
Less accumulated depreciation and amortization	(2,860,099)	(2,674,904)
Net capital assets	2,883,432	2,958,464
Total noncurrent assets	3,775,922	3,813,334
Total assets	4,228,168	4,259,175
Deferred Outflows of Resources		
Deferred outflows from refunding of debt	27,329	30,154
Deferred outflows on pension liability	53,848	29,213
Total deferred outflows of resources	$ 81,177	$ 59,367

(continued)

The accompanying notes are an integral part of the financial statements

STATEMENTS OF NET POSITION (in thousands)
JUNE 30, 2017 AND 2016

	2017	2016
Liabilities		
Current Liabilities		
Accounts payable	$ 14,893	$ 14,087
Accrued payroll liabilities	3,366	3,133
Due to City of Houston	713	970
Advances and deposits	2,193	2,082
Unearned revenue	5,296	1,922
Claims for workers' compensation	777	868
Compensated absences	6,367	5,945
Revenue bonds payable	77,855	74,665
Special facility revenue bonds payable	5,490	5,305
Inferior lien contract payable	6,240	5,915
Commercial paper payable	-	87,000
Note payable	5,018	5,018
Accrued interest payable	45,689	47,125
Contracts and retainages payable	34,522	64,665
Other current liabilities	10,000	-
Total current liabilities	218,419	318,700
Long-term liabilities		
Revenue bonds payable, net	1,991,140	2,075,512
Special facility revenue bonds payable	86,100	91,590
Inferior lien contract	-	6,240
Commercial paper payable	87,000	-
Pension obligation bonds payable	2,006	2,006
Note payable	110,403	115,421
Claims for workers compensation	642	937
Compensated absences	6,254	6,835
Net pension liability payable	254,420	282,811
Other post employment benefits	74,657	70,203
Total long-term liabilities	2,612,622	2,651,555
Total liabilities	2,831,041	2,970,255
Deferred Inflows of Resources		
Deferred Inflows on pension liability	4,487	2,526
Total deferred inflows of resources	4,487	2,526
Net position		
Net Investment in capital assets	542,363	537,172
Restricted net position		
Restricted for debt service	287,858	333,635
Restricted for maintenance and operations	54,805	54,942
Restricted for special facility	29,369	26,944
Restricted for renewal and replacement	10,000	10,000
Restricted for capital improvements	676,360	561,071
Unrestricted (deficit)	(126,938)	(178,003)
Total net position	$ 1,473,817	$ 1,345,761

The accompanying notes are an integral part of the financial statements

CITY OF HOUSTON, TEXAS

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (in thousands)
FOR YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Operating Revenues		
Landing area fees	$ 88,046	$ 86,870
Rentals, building and ground area	221,181	216,018
Parking	99,752	101,650
Concessions	79,136	76,035
Other	5,926	8,324
Total operating revenues	494,041	488,897
Operating Expenses		
Maintenance and operating	254,459	315,419
Depreciation and amortization	184,203	179,398
Total operating expenses	438,662	494,817
Operating income (loss)	55,379	(5,920)
Nonoperating revenues (expenses)		
Investment income (loss)	3,403	13,260
Interest expense	(87,482)	(86,212)
Gain / (Loss) on disposal of assets	1,455	54
Passenger facility charges	101,539	104,230
Customer facility charges	14,200	16,417
Special facility cost	(92)	(47)
Other revenue	4,141	70
Total nonoperating revenues (expenses)	37,164	47,772
Income/(loss) before capital contributions	92,543	41,852
Capital contributions	35,513	22,542
Change in net position	128,056	64,394
Total net position, July 1	1,345,761	1,281,367
Total net position, June 30	$ 1,473,817	$ 1,345,761

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CASH FLOWS (in thousands)
FOR YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Cash flows from operating activities		
Receipts from customers	$ 454,955	$ 504,457
Payments to employees	(102,834)	(101,054)
Payments to suppliers	(116,498)	(123,101)
Payments to the City of Houston	(34,214)	(94,776)
Claims paid	(777)	(868)
Other receipts	4,141	70
Net cash provided by operating activities	204,773	184,728
Cash flows from investing activities		
Sale of investments	1,548,829	1,687,735
Purchase of investments	(1,473,462)	(1,629,945)
Investment income (loss)	3,403	13,260
Net cash (used for) provided by investing activities	78,770	71,050
Cash flows from noncapital financing activities		
Interest expense for pension obligation bonds	(106)	(107)
Net cash (used for) provided by noncapital financing activities	(106)	(107)
Cash flows from capital and related financing activities		
Retirement of revenue bonds	(74,665)	(65,730)
Interest expense on debt	(99,558)	(98,308)
Proceeds from issuance of commercial paper	-	37,500
Retirement of inferior lien contract	(5,915)	(5,605)
Retirement of special facility bonds	(5,305)	(5,160)
Passenger facility charges	95,710	105,154
Customer facility charges	14,068	16,640
Grant receipts	12,132	17,930
Acquisition of capital assets	(133,260)	(174,264)
Net cash (used for) capital and related financing activities	(196,793)	(171,843)
Net increase (decrease) in cash and cash equivalents	86,644	83,828
Cash and cash equivalents, beginning of year	128,299	44,471
Cash and cash equivalents, end of the year	$ 214,943	$ 128,299
Current restricted cash and cash equivalents	$ 5,796	$ 5,541
Nonpooled cash	5	5
Noncurrent restricted cash and cash equivalents	37,813	35,512
Equity in pooled cash and cash equivalents	171,329	87,241
Cash and cash equivalents, end of the year	$ 214,943	$ 128,299

The accompanying notes are an integral part of the financial statements (continued)

STATEMENTS OF CASH FLOWS (in thousands)
FOR YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Noncash transactions		
Capitalized interest expense	$ 9,789	$ 8,788
Capital additions included in note payable	(5,018)	120,440
Capital additions included in other liabilities	(30,142)	29,251
Grants included in receivables	23,238	4,612
Bond amortization expense	3,595	3,729
Gain (loss) on disposal of assets	(6,073)	(129)
Noncash transactions	$ (4,611)	$ 166,691
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	$ 55,379	$ (5,920)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Terminal space revenue-note payable	(7,656)	(5,153)
Depreciation	184,203	179,398
Capital improvement plan expense	5,243	4,616
Other receipts	4,141	70
Changes in assets and liabilities		
Accounts receivable	(34,916)	20,666
Due from the City of Houston	31,632	(30,960)
Inventory and prepaids	(364)	(16)
Accounts payable	806	(579)
Accrued payroll liabilities	233	634
Other current liabilities	10,000	-
Due to the City of Houston	(257)	609
Advances and deposits	3,485	48
Other post-employment benefits	4,454	5,042
Pension related payables and deferred amounts	(51,065)	16,375
Claims for workers' compensation	(386)	(332)
Compensated absences	(159)	230
Net cash provided by operating activities	$ 204,773	$ 184,728

The accompanying notes are an integral part of the financial statements

[Intentionally left blank]

1. Summary of Significant Accounting Policies

Reporting Entity

The Airport System Fund (Fund), an enterprise fund of the City of Houston (City), is responsible for the operations, maintenance, and development of the City's Airport System. The Airport System consists of the George Bush Intercontinental Airport (Intercontinental), William P. Hobby Airport (Hobby) and Ellington Airport.

The Mayor and City Council members serve as the governing body that oversees operation of the Fund. The Fund is operated by the Houston Airport System (HAS) as a self-sufficient enterprise and is administered by the Houston Airport System Director, who reports to the City's Mayor.

The Fund is not financially accountable for any other operations, and accordingly, is accounted for as a single major enterprise fund with no component units. The Fund is included in the City's Comprehensive Annual Financial Report, which is a matter of public record.

Basis of Accounting

The City accounts for the Fund as a proprietary fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the City is that the cost of operations, including depreciation, be financed or recovered through user charges. The Fund is accounted for on a cost of services or "economic resources" measurement focus using the accrual basis of accounting, under which revenues are recognized in the accounting period in which they are earned and the related expenses are recorded in the accounting period incurred, if measurable. All assets and liabilities, deferred outflow/inflow of resources, current, noncurrent and capital are included on the statement of net position.

The financial statements presented in this report conform to the reporting requirements of the Governmental Accounting Standards Board (GASB) which establishes combined statements as the required level for governmental entities that present financial statements in accordance with generally accepted accounting principles. The Fund defines operating revenues as receipts from customers and other receipts that do not result from transactions defined as capital and related financing, non-capital financing, or investing activities. All other revenue is recognized as non-operating. The Fund defines operating expenses as personnel and supply costs, utilities and other charges for service, the purchase of furniture and equipment with a value of less than $5,000, and other expenses that do not result from transactions defined as capital or related financing, non-capital financing, or investing activities. All other expense is recognized as non-operating.

In June 2015, the GASB issued Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans". This statement will improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2016. The City and the Fund have implemented GASB No. 74 in this annual report.

In June 2015, the GASB issued Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". This statement will improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017. The City and the Fund are evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In August 2015, the GASB issued Statement No. 77, "Tax Abatement Disclosures". This statement will improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2015. The City has implemented GASB No. 77 and the Fund has no tax abatements.

1. Summary of Significant Accounting Policies, continued:

In December 2015, the GASB issued Statement No. 78, “Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans”. This statement will address a practice issue regarding the scope and applicability of Statement No. 68. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2015. The City and the Fund have implemented GASB No. 78 in this annual report.

In December 2015, the GASB issued Statement No. 79, “Certain External Investment Pools and Pool Participants”. This statement will enhance comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2015. The City and the Fund have implemented GASB No. 79 in this annual report.

In January 2016, the GASB issued Statement No. 80, “Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14”. This statement will enhance the comparability of financial statements among governments. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2016. The City has implemented GASB No. 80 and the Fund has no component units.

In March 2016, the GASB issued Statement No. 81, “Irrevocable Split-Interest Agreements”. This statement will enhance the comparability of financial statements by providing accounting and financial reporting guidance for irrevocable split-interest agreements in which a government is a beneficiary. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2016. The City and the Fund are evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In March 2016, the GASB issued Statement No. 82, “Pension Issues”. This statement will improve financial reporting by enhancing consistency in the application of financial reporting requirements to certain pension issues. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2016. The City and the Fund have implemented GASB No. 82 in this annual report.

In November 2016, the GASB issued Statement No. 83, “Certain Asset Retirement Obligations”. This statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain ARO’s, including obligations that may not have been previously reported. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2018. The City and the Fund are evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In January 2017, the GASB issued Statement No. 84, “Fiduciary Activities”. This statement will enhance consistency and comparability for establishing specific criteria for identifying activities that should be reported as fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2018. The City and the Fund are evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In March 2017, the GASB issued Statement No. 85, “Omnibus 2017”. This statement will enhance consistency in the application of accounting and financial reporting requirements. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017. The City and the Fund are evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In May 2017, the GASB issued Statement No. 86, “Certain Debt Extinguishment Issues”. This statement will increase consistency in accounting and financial reporting for debt extinguishments by establishing uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in a irrevocable trust for the purpose of extinguishing that debt were acquired. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017. The City and the Fund are evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

1. **Summary of Significant Accounting Policies, continued:**

In June 2017, the GASB issued Statement No. 87, "Leases". This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2019. The City and the Fund are evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

Inventories of Material and Supplies

Inventories of material and supplies are valued at average cost and charged to expense as used. Fuel is carried at market/replacement cost.

Capital Assets

The Fund defines capital assets as assets with an initial cost of $5,000 or more. Acquired or constructed property is recorded at historical cost or estimated historical cost. Donated property is recorded at the acquisition value on the date received. Construction costs (excluding land and equipment) are added to construction work-in-progress until the assets are placed in service and are depreciated following completion. Depreciation on equipment begins in the year of acquisition. Interest costs on funds borrowed to finance the construction of capital assets are capitalized based on the weighted average interest rate of the outstanding debt applied to the average on-going construction in progress during the fiscal year. In the year ended June 30, 2017, $9.8 million in interest costs was capitalized. In the year ended June 30, 2016, $8.8 million in interest costs was capitalized.

Depreciation on Airport System buildings and improvements is computed using the straight-line method on the component asset base over the estimated useful life, ranging from fifteen (15) to forty-five (45) years. Depreciation on equipment is computed using the straight-line method over the estimated useful life, ranging from four (4) to fifteen (15) years. Depreciation on depreciable intangibles is computed using the straight-line method over a useful life that is dependent on the nature of the individual asset.

Passenger Facility Charges

The Federal Aviation Administration (FAA) approved a $3.00 passenger facility charge (PFC) per enplaned passenger to be used for the construction of FAA approved airport capital assets at George Bush Intercontinental (IAH) effective December 1, 2008 and at William P. Hobby Airport (HOU) effective November 1, 2006. On January 20, 2015, the FAA approved an amendment to the existing PFC at both IAH and HOU increasing the rate from $3.00 to $4.50 per enplaned passenger effective March 1, 2015. On April 20, 2016, a second PFC application was approved at HOU with an effective date of October 1, 2017 and provided FAA approval to use PFC's on additional capital assets at HOU most notably a new international facility and the existing Central Concourse. The airlines collect and remit this revenue, and the Fund records it as non-operating revenue. See Compliance Section for further information.

Compensated Absences

Full-time civilian employees of the City are eligible for 10 days of vacation leave per year. After four years, employees receive 15 days. The amount of vacation time gradually increases after that, reaching a maximum of 25 days per year after 18 years of service. Employees may accumulate up to 105 days of vacation leave (60 days for employees hired after December 31, 1999). However, upon termination or retirement, full-time employees are paid a maximum of 90 days of unused vacation leave (45 days for employees with a computation date after December 31, 1999) which is based on the average rate of pay during the employee's highest paid 60 days of employment. Part-time and temporary employees (those working less than 30 hours per week) are not eligible for vacation or sick leave benefits.

1. **Summary of Significant Accounting Policies, continued:**

Most full-time civilian employees are covered under the compensatory sick leave plan and receive a leave time allowance of 2.5 hours per payroll period (bi-weekly) up to a maximum of 65 hours per year. Employees who use fewer than 65 hours during the benefit year will receive a match of additional hours equal to the number of hours accrued minus the number of hours used. Once an employee's balance has reached 1,040 hours, no additional match for unused hours is given. Upon termination, all unused sick leave time allowances in excess of 1,040 hours are payable to the employee at the employee's rate of pay at the time of termination. An employee who uses less than 16 hours of sick leave in any benefit year receives up to three days of personal leave in the next year. Personal leave may be used in place of vacation leave, but will not accumulate and will not be paid out at termination. The other remaining full time civilian employees are covered by a sick plan that was closed to employees in 1985. That plan accumulates a cash value for every sick day not used, which is payable upon resignation or retirement.

The City also has adopted policies of compensatory time to comply with the Fair Labor Standards Act. These policies provide limits to the accumulation of compensatory time and also provide that time not used will be paid in cash. Only classified employees and civilian employees in certain pay grades routinely earn compensatory time.

Vacation and other compensatory time benefits are accrued as liabilities as the benefits are earned, to the extent that the City's obligation is attributable to employees' services already rendered, and it is probable that the City will compensate the employees for the benefits through paid time off or some other means, such as cash payments.

Bond Premiums, Discounts and Issuance Costs

Bond premiums and discounts and prepaid bond insurance in the Airport Fund are amortized over the term of the bonds using the effective interest method for fixed rate bonds and the straight-line method for variable rate bonds. Gains or losses on bond refunding are reported as net inflows or outflows and amortized over the term of the new bonds or the refunded bonds, whichever is lesser, using the same respective methods. Debt issuance costs are recognized as expense when incurred.

Statements of Net Position and Cash Flow – Cash and Cash Equivalents

All highly liquid securities with a maturity date of three months or less are considered to be cash equivalents.

Statements of Net Position – Contracts and Retainages Payable

The portion of the contracts and retainages payable which is attributable to the acquisition, construction, or improvement of capital assets is allocated and applied to net investment in capital assets.

Statements of Net Position – Net Position Classification

Net position is displayed in three separate categories: net investment in capital assets; restricted net position; and unrestricted net position, based on the accessibility of the underlying assets. Net investment in capital assets includes all capital assets, however acquired, including accumulated depreciation, and the outstanding debt and deferred inflows of resources used to finance the construction, acquisition, or improvement of capital assets.

Restricted net position includes assets, net of related liabilities, which are limited as to the manner in or purpose for which they may be used. Restrictions reported by the Fund are imposed either by other governments, as in grants or passenger facility charges, or through legally enforceable City ordinances, passed by City Council, which prioritize the use of Fund revenue as a protection to Airport System bondholders.

1. Summary of Significant Accounting Policies, continued:

Restricted net position – Restricted for debt service

This category includes net assets in the interest and sinking funds, debt service funds, and debt reserve funds that pay principal and interest for the Revenue Bonds, the Inferior Lien Contract, and the Special Facility Revenue Bonds (Consolidated Rental Car Facility Project). Unexpended Passenger Facility Charges are also included in this category, as they are primarily held, through agreements with the Federal Aviation Administration (FAA), for the repayment of capital financing.

Restricted net position – Restricted for maintenance and operations

This category primarily consists of a reserve fund dedicated to operating and maintenance expense, mandated by the various City ordinances which authorized the issuance of revenue and revenue refunding bonds. At fiscal year end, the reserve fund is required to hold a balance representing at least 60 days of operating expense, based on the annual operating budget authorized by City Council for the next fiscal year. At June 30, 2017, the net position restricted for maintenance and operations also included $3.1 million, Fund 8037, received under an agreement with the FAA, for the demolition of the IAH Traffic Control Tower and Terminal Radar Approach Control.

Restricted net position – Restricted for special facility

This category holds Customer Facility Charges dedicated to administrative costs and facility improvements for the Consolidated Rental Car Facility (CRCF). These funds are held by The Bank of New York Mellon Trust Company, under a trust indenture authorized by City Council in conjunction with the issuance of the Special Facility Revenue Bonds and Revenue Refunding Bonds (CRCF Project).

Restricted net position – Restricted for renewal and replacement

The Renewal and Replacement (R&R) Fund was created by the various City ordinances which authorized the issuance of airport revenue and revenue refunding bonds. The R&R Fund is intended to replace depreciable assets, and to make major repairs and renovations. Airport revenue is transferred to this fund if it is not needed for maintenance and operations, or for the debt service and reserve funds, or for the operating and maintenance reserve. The R&R fund can also be used for operations or debt service, if other funds are exhausted. If the R&R fund does not have a net position of at least $10 million at the end of a fiscal year, then additional revenue must be transferred in the next fiscal year. If the R&R fund has a net position that is greater than $10 million, then the excess is restricted for capital improvements.

Restricted net position – Restricted for capital improvements

This category consists primarily of the Airport Improvement Fund (AIF), created by the various City ordinances which authorized the issuance of revenue bonds. After maintenance and operating expenses are paid, and after all other transfers mandated by City ordinances are made, any net revenue remaining is required to be transferred to the AIF. The AIF is intended for capital expenditures, but it can also be used to cure deficiencies in the R&R fund. If the unappropriated AIF balance is (1) sufficient to cover the capital improvement program for 24 months, or (2) $50 million, whichever is greater, then the AIF may be used by the City for any lawful purpose not inconsistent with the terms of any Federal grants or aid or any contracts to which the City is a party. Net position restricted for capital improvements also includes grant or contract funds received from the FAA or Transportation Security Administration (TSA) for the construction or acquisition of capital assets. Unspent proceeds from debt issuance are included in this category, along with an allocated portion of the associated unpaid debt, if the debt was issued for capital construction, improvement, or acquisition.

1. **Summary of Significant Accounting Policies, continued:**

Net position – Unrestricted (deficit)

This category is defined as any portion of net position that is not classified as either net investment in capital assets or restricted net position. The Fund's Master Ordinance for the Issuance of Revenue Obligations requires that system revenue not used for specific defined purposes be restricted for capital improvement. Before the Fund's implementation of GASB No. 68, "Accounting and Financial Reporting for Pensions," the Fund defined compliance with the ordinance as the annual restriction of net revenue so that unrestricted net position would always be zero. The unrestricted deficit in net position on June 30, 2016 is the amount of the Fund's net pension liability that was not covered by Fund assets when the Fund implemented GASB No. 68 on July 1, 2014. The reduction in the unrestricted deficit in net position on June 30, 2017 is due to the passage of Texas Senate Bill 2190, which reduced the Fund's net pension liability. See Note 6 for further information.

2. **Deposits and Investments**

Deposits

The City's investment policy requires all deposits to be fully collateralized with depository insurance; obligations of the United States of America or its agencies and instrumentalities (excluding those mortgage backed securities prohibited by the Public Funds Investment Act); or in any other manner and amount provided by law for the deposits of the City. At all times, such securities should have a fair value of not less than 102% of the amount of the deposits collateralized thereby, adjusted by the amount of applicable depository insurance. There were no deposits with custodial risk at year end.

Pooled Cash and Investments

The City maintains a cash and investment pool that is available for use by all funds. The Fund's portion of this pool is displayed on the Statement of Net Position as "Pooled Cash and Investments." Participation in the Pool is limited to normal operating activities of the fund and other funds that are restricted because of statutory or contractual considerations, but does not include cash on hand (petty cash and change funds). Earnings from the Pool are allocated to the funds based upon each fund's average daily balance in the Pool. The Fund's balance in pooled and non-pooled accounts follows.

Fiscal Year	Pooled Cash and Cash Equivalents	Investments	Equity in Pooled Cash and Investments	Non-Pooled	Total Cash and Investments
2017	$ 171,328,365	$ 1,044,679,159	$ 1,216,007,524	$ 43,614,720	$ 1,259,622,244
2016	$ 87,241,303	$ 1,120,045,742	$ 1,207,287,045	$ 41,058,569	$ 1,248,345,614

The Airport Fund had petty cash and change funds totaling $5,450 included in the non-pooled cash at June 30, 2017 and June 30, 2016.

2. Deposits and Investments, continued:

Investments and Risk Disclosures

The following describes the investment positions of the City's operating funds as of June 30, 2017 and June 30, 2016. On these dates, the City had $3.6 billion and $3.5 billion, respectively, in high grade, fixed income investments. All investments are governed by state law and the City's Investment Policy, which dictates the following objectives, in order of priority:

1. Safety
2. Liquidity
3. Return on Investment
4. Legal Requirements

These funds are managed internally by City personnel within a City-wide investment pool. The investments listed below do not include the City's three pension funds, which are described separately in this report. This pool consists of all working capital, construction, and debt service funds which are not subject to yield restriction under IRS arbitrage regulations. The funds of the City's enterprise systems which include the Airport Fund, as well as the general fund, are commingled in this pool in order to gain operational efficiency. Approximately 98.3% of the City's total investable funds are contained in this portfolio on June 30, 2017 and June 30, 2016.

City of Houston Investment	(1)(2) FY2017 & FY2016 Credit Quality Ratings	June 30, 2017 Fair Value ($ in millions)	June 30, 2017 WAM* (years)	June 30, 2016 Fair Value ($ in millions)	June 30, 2016 WAM* (years)
U.S. Treasury Securities	N/A	$ 1,757.01	1.595	$ 1,733.99	1.303
Government Agency Securities (3)	AAA	999.72	1.522	963.71	1.402
Government Agency Securities (State of Israel Bond)	A+	4.98	1.173	-	-
Government Agency Securities (3) (4)	Not Rated	26.02	0.392	130.40	0.763
Government Mortgaged Backed Seurities (3) (4)	Not Rated	15.71	1.894	24.60	2.018
MMF - TexSTAR Cash Reserves	AAA Short Term	210.00	0.088	-	-
Commercial Paper	A-1+/P-1 Short Term	314.09	0.215	49.85	0.378
Municipal Securities	AAA Long Term	100.06	1.279	95.93	1.410
Municipal Securities	AA Long Term	195.64	1.230	210.45	1.202
Municipal Securities	A Long Term	8.78	1.681	-	-
Total Investments		**$ 3,632.01**	**1.332**	**$ 3,208.93**	**1.255**

* Weighted Average Maturity (WAM) is computed using average life of mortgage backed securities and effective maturity of callable securities.

(1) Fitch Ratings Inc. has assigned an AAA credit quality rating and V1 volatility rating to the City's General Investment Pool. The AAA signifies the highest level of credit protection, and the V1 rating signifies volatility consistent with a portfolio of government securities maturing from one to three years.

(2) All credit ratings shown are either actual Fitch ratings, or if a Fitch credit rating is not available, the equivalent Fitch credit rating is shown to represent the actual Moody's or Standard & Poor's credit rating.

(3) These are securities issued by government sponsored enterprises, including the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Corporation (Fannie Mae) and Federal Farm Credit Bank.

(4) These securities were issued by the Federal Home Loan Bank, Freddie Mac, Fannie Mae, and Farmer Mac. While these individual issues were not rated, senior lien debt of these entities is rated AAA.

2. Deposits and Investments, continued:

Risk Disclosures:

Interest Rate Risk. In order to ensure the ability of the City to meet obligations and to minimize potential fair value losses arising from rising interest rate environments, the City's investment policy limits this investment portfolio's dollar-weighted average maturity to 2.5 years maximum. As of June 30, 2017, this investment portfolio's dollar-weighted average maturity was 1.332 years. Modified duration was 1.306 years. Modified duration can be used as a multiplier to determine the percent change in price of a bond portfolio for every 100 basis point (1%) change in yield. For example, a portfolio with a modified duration of 1.306 years would experience approximately a 1.306% change in market price for every 100 basis point change in yield.

Credit Risk – Investments. The U.S. Treasury Securities and Housing and Urban Development Securities are direct obligations of the United States government. Government Agency Securities and Mortgage Backed Securities were issued by government sponsored enterprises but are not direct obligations of the U.S. Government. The Money Market Mutual Funds were rated AAA. Municipal Securities were rated at least AA-. The City's investment policy limits investments in the General Investment Pool to high quality securities with maximum maturity of five years for all U.S. Treasuries, Government Agency, and Municipal Securities with the exception of Government Mortgaged Backed Securities which can have maximum maturity of 15 years. Certificates of Deposit maximum maturity is two years, and Commercial Paper maximum maturity is 270 days. The General Investment Pool maximum sector exposure are as follow: U.S. Treasuries up to 100%; Government Agency Securities up to 85% with maximum exposure to any one Agency issuer is 35%; Mortgage Backed Securities up to 20%; Municipal Securities up to 20% with a rating not less than A by a nationally recognized rating agency; Certificates of Deposit up to 15%; and Commercial Paper up to 15%.

Credit Risk – Securities Lending. Under its securities lending program, the City receives 102% of fair value for its U.S. Treasury securities at the time the repurchase agreements are signed, and agreements are limited to 90 days by policy and have been less than 35 days by practice. At June 30, 2017 there were no securities lending agreements outstanding.

Custodial Credit Risk. The custodial credit risk for investments is the risk that in the event of failure of a counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are not registered in the name of the City, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. As of June 30, 2017, none of the City's investments in the General Investment Pool 9900 were subject to custodial credit risk.

Foreign Currency Risk. Foreign currency risk is the risk that investments will change value due to changes in exchange rates between time of purchase and reporting or sale. The City's general pool investments are limited by policy to US dollar denominated investments and not subject to this risk.

2. Deposits and Investments, continued:

A summary of the Pool's investment under the requirements of the fair value hierarchy follows:

	Fair Value Measurements Using ($ in millions)						
Investments by fair value level	Total June 30, 2017	Quoted prices (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total June 30, 2016	Quoted prices (Level 1)	Other significant observable inputs (Level 2)
U.S. Treasury Securities	$ 1,757.01	$ 1,757.01	$ -	$ -	$ 1,733.99	$ 1,733.99	$ -
Government Agency Securities	1,025.74	-	1,025.74	-	1,094.11	-	1094.11
Government Agency Securities (State of Israel Bd)	4.98	-	-	4.98	-	-	-
Government Mortgaged Backed Seurities	15.71	-	15.71	-	24.60	-	24.60
Municipal Securities	304.48	-	304.48	-	306.38	-	306.38
Commercial Paper	314.09	-	314.09	-	49.85	-	49.85
Total Investments by Fair Value Level	$ 3,422.01	$ 1,757.01	$ 1,660.02	$ 4.98	$ 3,208.93	$ 1,733.99	$ 1,474.94
Investments measured at the net asset value (NAV)							
MMF - TexSTAR Cash Reserves	$ 210.00	-	$ 210.00	-	$ -	-	-
Total investments measured at the net asset value (NAV)	$ 210.00	-	$ 210.00	-	$ -		-
Total investments measured at fair value and NAV	$ 3,632.01	$ 1,757.01	$ 1,870.02	$ 4.98	$ 3,208.93	$ 1,733.99	$ 1,474.94

Security Valuation Disclosure

Debt securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique provided by third party custodians. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

TexSTAR uses the fair value method to report its investments. Under the fair value method, fixed income securities are valued each day by independent or affiliated commercial pricing services or third party broker-dealers. When sufficient market activity exists, the pricing services or broker-dealers may utilize a market-based approach through which quotes from market makers are used to determine fair value. In instances where sufficient market activity may not exist or is limited, the broker-dealers or pricing services also utilize proprietary valuation models which may consider market transactions in comparable securities and the various relationships between securities in determining value and/or market characteristics such as benchmark yield curves, option adjusted spreads, credit spreads, estimated default rates, coupon-rates, anticipated timing of principal repayments, underlying collateral, and other unique security features in order to estimate the relevant cash flows, which are then discounted to calculate the fair values.

2. Deposits and Investments, continued:

Restricted Cash and Cash Equivalents - Miscellaneous Money Market Accounts

In addition to its investment pools, the City maintains several money market accounts for various purposes. These accounts are considered cash and cash equivalents on the Statements of Cash Flows because they maintain a weighted average maturity of less than three months. The Airport's portion of these is as follows:

	FY2017 Credit Quality Ratings	Fair Value June 30, 2017 ($ in millions)	FY2016 Credit Quality Ratings	Fair Value June 30, 2016 ($ in millions)	FY2017 & FY2016 Weighted Average Maturity
Blackrock Federal Institutional Fund Balances held for Consolidated Rental Car Facility operations, improvements, debt service	AAA	$ 36.632	AAA	$ -	< 60 days
Blackrock Institutional Temporary Liquidity Fund: Balances held for Consolidated Rental Car Facility (CRCF) operations, improvements, debt service	AAA	$ -	AAA	$ 34.269	< 60 days
JP Morgan US Government Money Market Fund: Balances held for Airport System Special Facilities Revenue Bd Series 1997A debt service	AAA	6.594	AAA	6.590	< 60 days
JP Morgan US Treasury Securities Money Market Fund: Balances held for auction bonds debt service	AAA	0.376	AAA	0.189	< 60 days
First American US Treasury Money Market Fund: Balance held for commercial paper debt service	AAA	0.007	AAA	0.005	< 60 days
Total Fair Value - Money Market Accounts		**$ 43.609**		**$ 41.053**	

Risk Disclosures:

Interest Rate Risk. These money market funds maintain an average maturity of less than 60 days and seek to maintain a stable net asset value of $1.00. These funds are redeemable on a same day notice.

Credit Risk. These funds hold only US dollar denominated securities that present minimal credit risk. They have the highest credit ratings.

Custodial Credit Risk. As of June 30, 2017, none of the City's investments in this pool were subject to custodial credit risk.

Foreign Currency Risk. The City's investments in these accounts are all US dollar denominated and not subject to foreign currency risk.

A summary of investments under the requirements of the fair value hierarchy follows:

	Fair Value Measurements Using ($ in millions)					
Investments measured at the net asset value (NAV)	Total June 30, 2017	Quoted prices (Level 1)	Other significant observable inputs (Level 2)	Total June 30, 2016	Quoted prices (Level 1)	Other significant observable inputs (Level 2)
JP Morgan US Government MMF (Airport System Special Facilities Revenue Bd Series 1997A)	$ 6.594	$ -	$ 6.594	$ 6.590	$ -	$ 6.590
BlackRock FedFund-Institutional	36.632	-	36.632	34.269	-	34.269
JP Morgan US Treasury Securities MMF	0.376	-	0.376	0.189	-	0.189
First American US Treasury MMF	0.007	-	0.007	0.005	-	0.005
Total investments measured at the net asset value (NAV)	$ 43.609	$ -	$ 43.609	$ 41.053	$ -	$ 41.053

3. Capital Assets

Summaries of changes in fixed assets for the years ended June 30, 2017 and June 30, 2016 follow (in thousands):

	June 30, 2016	Additions	Retirements	Transfers	June 30, 2017
Capital assets not being depreciated :					
Land	$222,886	5,390	($12,649)	$452	$216,079
Rights & Intangibles - Non-Amortizable	9,752	-	-	(183)	9,569
Construction work in progress	174,942	105,020	-	(144,729)	135,233
Total capital assets not being depreciated	407,580	110,410	(12,649)	(144,460)	360,881
Other capital assets:					
Buildings and building improvements	2,900,383	296	-	70,271	2,970,950
Improvements other than buildings	2,072,293	3,451	-	69,436	2,145,180
Equipment	249,028	8,280	(576)	4,753	261,485
Rights & Intangibles - Amortizable	4,084	951	-	-	5,035
Total other capital asset	5,225,788	12,978	(576)	144,460	5,382,650
Less accumulated depreciation for:					
Buildings and building improvements	(1,227,227)	(101,538)	-	49	(1,328,716)
Improvements other than buildings	(1,259,750)	(68,217)	-	(20)	(1,327,987)
Equipment	(186,464)	(14,403)	576	(29)	(200,320)
Rights & Intangibles	(1,463)	(1,613)	-	-	(3,076)
Total accumulated depreciation	(2,674,904)	(185,771) *	576	-	(2,860,099)
Other capital assets, net	2,550,884	(172,793)	-	144,460	2,522,551
Total Capital assets, net	$2,958,464	($62,383)	($12,649)	-	$2,883,432

	June 30, 2015	Additions	Retirements	Transfers	June 30, 2016
Capital assets not being depreciated :					
Land	$220,626	-	($776)	$3,036	$222,886
Rights & Intangibles - Non-Amortizable	9,387	-	-	365	9,752
Construction work in progress	236,163	213,242	-	(274,463)	174,942
Total capital assets not being depreciated	466,176	213,242	(776)	(271,062)	407,580
Other capital assets:					
Buildings and building improvements	2,703,195	117	-	197,071	2,900,383
Improvements other than buildings	2,009,275	514	-	62,504	2,072,293
Equipment	233,321	5,865	(1,056)	10,898	249,028
Rights & Intangibles - Amortizable	2,411	907	-	766	4,084
Total other capital asset	4,948,202	7,403	(1,056)	271,239	5,225,788
Less accumulated depreciation for:					
Buildings and building improvements	(1,128,938)	(98,289)	-	-	(1,227,227)
Improvements other than buildings	(1,194,454)	(65,296)	-	-	(1,259,750)
Equipment	(171,671)	(15,661)	1,045	(177)	(186,464)
Rights & Intangibles	(1,311)	(152)	-	-	(1,463)
Total accumulated depreciation	(2,496,374)	(179,398)	1,045	(177)	(2,674,904)
Other capital assets, net	2,451,828	(171,995)	(11)	271,062	2,550,884
Total Capital assets, net	$2,918,004	$41,247	($787)	-	$2,958,464

Interest Cost: (in thousands)	FY2017	FY2016	Percentage Change
Total Interest Cost	$ 97,271	$ 94,999	2.4%
Capitalized Interest	(9,789)	(8,787)	11.4%
Interest Expense	$ 87,482	$ 86,212	1.5%

* The $185.771 million addition to accumulated depreciation differs from the $184.203 million depreciation expense reflected on the Statements of Revenues, Expenses, and Changes in Net Position because of an adjustment for found buildings and improvements that was recorded at book value which increased accumulated depreciation but did not affect current year depreciation.

HAS retired $12,649,049.34 of land due to the sale of 147 acres and the write-down of a Bahr Woods preserve mitigation easement originally recorded as land. The Bahr Woods easement is entrusted to Legacy Land Trust, and Houston Airport System has no obligation or duty to the asset.

Construction in progress decreased 22% from FY16 to FY17 due to completion of the Hobby Parking Garage, Satellite Utility Plant and Advance Surveillance Program, and delays on other major projects, including construction of the Program Management Office Building and a restoration project on Taxiway WB.

4. **Leases**

A. The Fund as Lessee

The Airport System has obtained equipment through long-term operating leases. The total cost for such leases was $263,826 for the year ended June 30, 2017.

B. The Fund as Lessor

The Airport System is the lessor of approximately ten percent of its land and substantially all of its buildings and improvements. These lease agreements are non-cancelable operating leases with fixed minimum rentals and non-cancelable operating use and lease agreements with annually adjusted rates. Rental income is earned from leasing various parcels of land with asset costs of $21,607,879 to airlines, fixed base operators and various corporations for hangars, aircraft maintenance facilities, flight kitchens and cargo buildings; to auto rental companies for their service facilities and storage lots; and to a variety of other entities for buildings and other permanent improvements. Airlines and airport concessionaires lease various sections of City owned airport buildings and improvements for ticket counters, passenger hold rooms, baggage carousels, restaurants, retail stores and other facilities. Leased buildings, improvements and equipment have asset costs of $5,377,614,428 and carrying costs of $2,517,515,592. Accumulated depreciation on all these assets is $2,860,098,836.

Minimum guaranteed income on such non-cancelable operating leases is as follows (in thousands):

Year Ending June 30		Minimum Rental Income
2018	$	72,261
2019		72,036
2020		70,936
2021		60,131
2022		56,360
2023-2027		233,380
2028-2032		66,245
2033-2037		52,837
2038-2042		52,211
2043-2047		40,878
2048-2052		39,403
2053-2055		11,377
Total	$	828,055

Contingent income associated with these non-cancelable operating leases was approximately $10,697,316 and $10,047,554 for the years ended June 30, 2017 and 2016, respectively. Contingent income is earned when a concessionaire's payment, based on a percentage of sales, is higher than the minimum amount guaranteed to the Airport System under the terms of the lease. In addition, income is earned from certain non-cancelable operating use and lease agreements for landing fees and terminal building rentals. Such income is adjusted annually based on a compensatory formula to recover certain operating and capital costs of the related facilities. Compensatory income for the years ended June 30, 2017 and 2016 is as follows (in thousands):

	Compensatory Income			
	2017		2016	
Landing Fees	$	86,966	$	89,505
Terminal Space – Airline		194,191		189,568
	$	281,157	$	279,073

5. Long-Term Liabilities

Changes in long-term liabilities for the years ended June 30, 2017 and 2016 are summarized as follows (in thousands):

	Balance June 30, 2016	Additions	Retirements/ Transfers	Balance June 30, 2017	Amounts Due within One Year
Revenue bonds payable	$ 2,085,075	$ -	$ (74,665)	$ 2,010,410	$ 77,855
Plus unamortized premium	68,118	-	(6,816)	61,302	-
Less unamortized discount	(3,016)	-	299	(2,717)	-
Revenue bonds payable, net	2,150,177	-	(81,182)	2,068,995	77,855
Inferior lien contract	12,155	-	(5,915)	6,240	6,240
Special facility bonds payable	96,895	-	(5,305)	91,590	5,490
Commercial paper payable	87,000	-	-	87,000	-
Pension obligation bonds	2,006	-	-	2,006	-
Note payable	120,439	-	(5,018)	115,421	5,018
Claims for workers compensation	1,805	390	(776)	1,419	777
Compensated absences	12,780	9,849	(10,008)	12,621	6,367
Net pension liability payable	282,811	-	(28,391)	254,420	-
Other post employment benefits	70,203	4,454	-	74,657	-
Total long-term liabilities	$ 2,836,271	$ 14,693	$ (136,595)	$ 2,714,369	$ 101,747

	Balance June 30, 2015	Additions	Retirements/ Transfers	Balance June 30, 2016	Amounts Due within One Year
Revenue bonds payable	$ 2,150,805	$ -	$ (65,730)	$ 2,085,075	$ 74,665
Plus unamortized premium	75,141	-	(7,023)	68,118	-
Less unamortized discount	(3,316)	-	300	(3,016)	-
Revenue bonds payable, net	2,222,630	-	(72,453)	2,150,177	74,665
Inferior lien contract	17,760	-	(5,605)	12,155	5,915
Special facility bonds payable	102,055	-	(5,160)	96,895	5,305
Commercial paper payable	49,500	37,500	-	87,000	87,000
Pension obligation bonds	2,006	-	-	2,006	-
Note payable	-	123,785	(3,346)	120,439	5,018
Contract payable - Southwest Airlines	111,620	-	(111,620)	-	-
Claims for workers compensation	2,137	535	(867)	1,805	868
Compensated absences	12,550	9,912	(9,682)	12,780	5,945
Net pension liability payable	248,348	34,463		282,811	-
Other post employment benefits	65,161	5,042	-	70,203	-
Total long-term liabilities	$ 2,833,767	$ 211,237	$ (208,733)	$ 2,836,271	$ 184,716

Purpose of Debt

The Fund issues revenue bonds and commercial paper for the purpose of enlarging, maintaining and improving the Houston Airport System. The Fund has issued refunding bonds from time to time when there has been an economic gain. These refundings have been structured as legal defeasances of the old debt as ruled by the Texas Attorney General, and such debt has been removed from the Fund's books.

5. Long-Term Liabilities, continued:

Debt Service Requirements to Maturity

Aggregate future Airport system debt service payments to maturity as of June 30, 2017 were as follows (in thousands):

Year Ending June 30	Airport System Total Future Requirements Principal	Interest	Total
2018	$ 94,603	$ 100,467	$ 195,070
2019	89,253	96,418	185,671
2020	99,303	92,365	191,668
2021	92,443	88,042	180,485
2022	200,528	82,907	283,435
2023-2027	615,472	327,659	943,131
2028-2032	734,379	176,816	911,195
2033-2037	282,341	48,318	330,659
2038-2042	104,345	8,200	112,545
Total	$ 2,312,667	$ 1,021,192	$ 3,333,859

Year Ending June 30	Airport System Note - Southwest Airlines Principal	Interest
2018	$ 5,018	$ 2,528
2019	5,018	2,418
2020	5,018	2,308
2021	5,018	2,198
2022	5,018	2,088
2023-2027	25,092	8,792
2028-2032	25,092	6,045
2033-2037	25,092	3,297
2038-2042	15,055	659
Total	$ 115,421	$ 30,333

Year Ending June 30	Airport System Senior Lien Revenue Bonds Principal	Interest	Airport System Subordinate Lien Revenue Bonds Principal	Interest	Airport System Commercial Paper Principal	Interest
2018	$ 10,225	$ 22,613	$ 67,630	$ 68,271	$ -	$ 1,502
2019	10,735	22,089	67,785	65,133	-	1,502
2020	11,275	21,538	77,050	61,870	-	1,504
2021	11,835	20,961	69,350	58,396	-	1,502
2022	12,430	20,354	88,575	54,818	87,000	850
2023-2027	72,120	91,553	469,835	212,030	-	-
2028-2032	92,385	70,628	603,380	98,864	-	-
2033-2037	120,350	41,811	136,160	3,131	-	-
2038-2042	89,290	7,541	-	-	-	-
Total	$ 430,645	$ 319,088	$ 1,579,765	$ 622,513	$ 87,000	$ 6,860

Year Ending June 30	Airport System Inferior Lien Contract Principal	Interest	Airport System Special Facility Bonds - Rental Car Facility Principal	Interest	Airport System Pension Obligations Principal	Interest
2018	$ 6,240	$ 171	$ 5,490	$ 5,275	$ -	$ 107
2019	-	-	5,715	5,170	-	106
2020	-	-	5,960	5,038	-	107
2021	-	-	6,240	4,878	-	107
2022	-	-	7,505	4,691	-	106
2023-2027	-	-	48,425	14,752	-	532
2028-2032	-	-	12,255	843	1,267	436
2033-2037	-	-	-	-	739	79
Total	$ 6,240	$ 171	$ 91,590	$ 40,647	$ 2,006	$ 1,580

5. Long-Term Liabilities, continued:

Revenue bonds payable at June 30, 2017 and 2016 (in thousands):

	Maturity Year	Original Interest Rate Range	Face Value Outstanding June 30, 2017	Face Value Outstanding June 30, 2016
Airport System Subordinate Lien Revenue Bonds:				
Series 2000B, $269,240,000 original principal	2030	5.45%-5.7%	$ 44,515	$ 44,515
Series 2002A, $200,050,000 original principal	2032	5%-5.625%	20,005	20,005
Series 2002B, $274,455,000 original principal	2032	5%-5.5%	27,450	27,450
Periodic Auction Reset Securities				
Series 2000P-1, $50,000,000 original principal	2030	N/A	34,100	37,275
Series 2000P-2, $50,000,000 original principal	2030	N/A	33,875	35,425
Auction Rate Securities				
Series 2002C, $100,000,000 original principal	2032	N/A	76,875	79,425
Series 2002D-1, $75,000,000 original principal	2032	N/A	55,800	58,400
Series 2002D-2, $75,000,000 original principal	2032	N/A	53,825	56,400
Airport System Subordinate Lien Revenue Refunding Bonds:				
Series 2007B, $298,670,000 original principal	2032	4%-5%	274,315	278,390
Series 2011A, $449,975,000 original principal	2026	3%-5%	283,580	319,795
Series 2011B, $116,930,000 original principal	2026	3%-5%	82,040	90,985
Series 2012A, $286,585,000 original principal	2032	5%	283,545	286,585
Series 2012B, $217,135,000 original principal	2032	5%	217,135	217,135
Variable Rate Debt Obligations				
Series 2010, $93,730,000 original principal	2030	N/A	92,705	92,905
Airport System Senior Lien Revenue and Refunding Bonds:				
Series 2009A, $449,660,000 original principal	2039	5%-5.5%	430,645	440,385
Total principal			$ 2,010,410	$ 2,085,075
Less: Total current maturities			(77,855)	(74,665)
Unamortized discount			(2,717)	(3,016)
Unamortized premium			61,302	68,118
Total revenue bonds payable - long term			$ 1,991,140	$ 2,075,512

5. Long-Term Liabilities, continued:

Security for Airport Debt

To the extent it legally may do so, the Fund covenants in its bond ordinances to charge rates for use of the Airport System in order that in each fiscal year the net revenues will be not less than 125% of the debt service requirements for Senior Lien Bonds for such fiscal year and 110% of the debt service requirements for Subordinate Lien Bonds for such fiscal year. Generally, the bonds may be redeemed prior to their maturities in accordance with the bond ordinances and at prices which include premiums ranging downward from 1%.

The Fund presently has three outstanding Senior Lien Debt Service Reserve Fund Surety Policies issued by Financial Guaranty Insurance Corporation (FGIC) and reinsured by National Public Finance Guarantee Corporation for any outstanding Senior Lien Notes. These policies have an aggregate maximum amount of $12,374,996 and terminate on October 25, 2023 and July 1, 2030. Using proceeds of the Series 2009A Bonds, the Fund has also deposited $33,095,994 into the Senior Lien Bond Reserve Fund.

The Fund has purchased Subordinate Lien Debt Service Reserve Fund Surety Policies that unconditionally guarantee the payment of the current principal and interest on all outstanding Airport System subordinate lien issues. The surety policies terminate on dates ranging from July 1, 2017 to July 1, 2032. Each of the draws made against the surety policies shall bear interest at the prime rate plus two percent, not to exceed a maximum interest rate of 12%. The repayment provisions require one-twelfth of the policy costs for each draw to be repaid monthly, beginning the first month following the date of each draw. The policies were issued by (1) FGIC in the aggregate maximum amount of $108,444,369, reinsured by National Public Finance Guarantee Corporation; (2) Assured Guarantee Municipal Corporation in the aggregate maximum amount of $31,921,384; and (3) Syncora Guarantee in the aggregate maximum amount of $15,756,228. While the Syncora policies are still active, the Fund has made a supplemental cash deposit of $15,756,228 in the Subordinate Lien Bond Reserve Fund.

Airport System Inferior Lien Contract

On July 1, 2004 the City and United Airlines, formerly Continental Airlines, Inc., entered into a Sublease Agreement associated with the Special Facilities Lease for the Automated People Mover System and the City’s Airport System Special Facilities Revenue Bonds (Automated People Mover Project) Series 1997A (1997A Special Facilities Bonds). The City assumed United Airlines’ interest in the project upon completion of the expansion of the Automated People Mover System on January 25, 2005. As part of the Sublease, the City agreed to make sublease payments that include amounts equal to the debt service on the 1997A Special Facilities Bonds. The payments are payable from Airport System net revenues on the same priority as inferior lien bonds. Accordingly, the principal amount remaining on the 1997A Special Facilities Bonds, totaling $6,240,000 at June 30, 2017, is recorded as an Inferior Lien Contract. The 1997A Bonds will reach final maturity on July 15, 2017.

Variable Rate Debt

The Fund has issued variable rate debt in Airport System Subordinate Lien Revenue Bonds Series 2000P-1 and Series 2000P-2. They were issued as auction reset securities with Series 2000P-1 to be auctioned every 7 days, and Series 2000P-2 to be auctioned every 28 days. On July 20, 2005, Series P-2 changed to being auctioned every 7 days. The rate in effect at June 30, 2017, including dealer and auction fees, was 2.5785% for Series 2000P-1 and 2.5175% Series 2000P-2. Additional variable rate debt was issued as Series 2002C, Series 2002D-1, and Series 2002D-2 as auction rate securities to be auctioned every 35 days. These changed to being auctioned every 7 days as of August 10, 2005, August 3, 2005, and July 13, 2005, respectively. Rates in effect at June 30, 2017, including dealer and auction fees, were 2.507% for Series 2002C and Series 2002D-1, and 2.495% also for Series 2002D-2. Starting in February 2008, various auction rate securities began, and continue, to not be remarketed. Auction rate bonds that cannot be sold remain with the bondholder.

However, if the auction is not successful, the rate is reset based on predetermined formulae which include the rating of the insurer, or the underlying rating of the Fund if it is higher than the insurer's rating. The formula for the Series 2000P-1 and Series 2000P-2 was 125% of the commercial paper rate until July 30, 2009, 150% until April 16, 2010 and 200% thereafter. The formula for the Series 2002C, Series 2002D-1, and Series 2002D-2 is 200% of LIBOR.

5. Long-Term Liabilities, continued:

Additional variable rate debt was issued as Series 2005A as variable rate demand obligations with a weekly reset. Series 2005A was refunded by Series 2010 on December 21, 2010. Series 2010 is also a variable rate demand obligations issue with a weekly reset. The rate in effect at June 30, 2017, including remarketing fees, was 1.00%. Should Series 2010 be tendered and not remarketed, principal and interest will be paid by a letter of credit issued by Barclay's Bank, PLC, expiring on December 22, 2017 unless extended or terminated. The letter of credit covers the outstanding par value of the bonds plus 35 days accrued interest at a 12% annual rate. The facility fee rate for the letter of credit is .425%. The Fund has made no draws on the letter of credit through June 30, 2017. Because the Series 2010 Bonds were issued as multi-modal bonds, the Houston Airport System can elect to convert the Bonds into long-term fixed rate bonds that would not require a letter of credit.

Arbitrage Rebate

Arbitrage rebate rules, under Chapter 148 of the Federal Tax Code, require generally that a tax-exempt bond issuer pay to the federal government any profit made from investing bond proceeds at a yield above the bond yield, when investing in a taxable market. Payments based on cumulative profit earned by bonds are due, in general, every five years. During Fiscal Year 2017, the Airport Fund paid $1,682 of arbitrage rebate on interest income earned by commercial paper notes. At June 30, 2017 and June 30, 2016, yield restriction and arbitrate rebate payable by the Airport Fund was $0 and $0, respectively.

Commercial Paper

Airport System Commercial Paper Notes (Notes) were originally authorized for $150 million for Series A and B and $150 million for Series C to establish, improve, enlarge, and extend the Houston Airport System, acquire land, and pay interest on the Notes. Between July 1, 2013 and December 20, 2013, Series A and B were collateralized by a direct pay letter of credit issued by Bank of America, N.A. On November 20, 2013, the City re-authorized and amended the Series A and B Notes. A new direct pay letter of credit was issued by the Royal Bank of Canada on December 18, 2013, covering $150 million in face value plus $11.1 million in respect of 270 days accrued interest computed at 10%. This letter of credit expired on December 16, 2016 and was replaced by a letter of credit for the same amount issued by Sumitomo Mitsui Banking Corporation, which will expire on December 15, 2021. On June 30, 2017 and June 30, 2016 there were $87.0 million in Series A Notes outstanding.

Forward Delivery Bond Purchase Agreement

On October 21, 2015, the City terminated its authorization for the $150 million Series C Commercial Paper Notes, and instead authorized the issuance of $450 million in Airport System Inferior Lien Revenue Bonds in one or more series. The City also authorized the execution of a forward delivery bond purchase agreement. This authorization is valid until October 21, 2017 unless extended by a separate City Council action. Please refer to Note 12, titled "Subsequent Events". On November 5, 2015, The City executed a forward delivery bond purchase agreement for the issuance of up to $450 million of Airport System Inferior Lien Revenue Bonds with the Royal Bank of Canada. The agreement expires on November 5, 2022. No bonds have been issued as of June 30, 2017.

Pledged Revenues

The Fund has pledged airport system revenues, net of operation and maintenance expenses, to pay principal and interest on outstanding Senior Lien Commercial Paper Notes, Senior Lien Revenue Bonds, Subordinate Lien Revenue Bonds, and an Inferior Lien Contract, with outstanding principal amounts of $87.0 million, $430.2 million, $1,638.8 million and $6.2 million respectively at June 30, 2017. The Commercial Paper Notes and Revenue Bonds are issued to establish, improve, enlarge, extend and repair the Airport System. The Inferior Lien Sublease Agreement with United Airlines pays debt service on the Airport System Special Facilities Bonds, (Automated People Mover Project) Series 1997A.

Pledged airport system revenues exclude: proceeds of any bonds, replacement proceeds, or any investment income earned by bond proceeds; fair value adjustments to investment income; passenger facility charges; grants or gifts for construction or acquisition; insurance proceeds; revenue from special facilities pledged to Special Facility Bonds; taxes collected for others; and proceeds from the sale of property. Pledged airport system revenues, net of operation and maintenance expense, totaled $256.0 million in Fiscal Year 2017, covering principal of $82.7 million and interest of $92.3 million. In addition to pledged airport system revenue, passenger facility charges totaling $54.7 million were available to pay debt service in Fiscal Year 2017, making the ratio of net pledged revenue to cover debt service costs 2.13%.

5. **Long-Term Liabilities, continued:**

Special Facility Bonds

The Airport System Special Facilities Taxable Revenue Bonds, (Consolidated Rental Car Facility Project), Series 2001, original par value $130,250,000, financed the design and construction at Intercontinental of a common car customer service building, a parking structure, maintenance, storage and administrative facilities for each car rental company lessee, a common bus fleet and maintenance facility, and related infrastructure. The City holds legal title to the completed Consolidated Rental Car Facility ("CRCF"), as it was constructed on airport property, but the facility is operated and maintained by IAH RACS, LLC, a limited liability company formed by various car rental companies. The bonds are payable from customer facility charges collected by the car rental companies from their customers and remitted to a trustee for payment of debt service and other uses allowable by a trust indenture. As of June 30, 2017, the daily usage charge per customer is set at $4.00. The trust indenture determines when and how the City is responsible for changing the rate. The bonds are limited special obligations of the City, payable solely from and secured by pledged customer facility charges. There is no pledge of the car rental companies' revenues, or against any general revenue of the City or Fund.

On September 4, 2014, the City issued $38,225,000 in Airport System Special Facilities Taxable Revenue Refunding Bonds (Consolidated Rental Car Facility Project), Series 2014, at coupons ranging from 6.49% to 7.13%. The stated interest rate was 3.117%. The bonds mature in varying amounts from 2015 to 2021. Proceeds of the bonds were used to refund $37,245,000 of the City's outstanding Airport System Special Facilities Taxable Revenue Bonds (CRCF), Series 2001, and to pay costs of issuance. Net present value saving related to the refunded bonds totaled $5,078,199 or 13.63% of the refunded bonds and reduced total debt service by $6,110,108. The bonds are limited special obligations of the City, payable solely from and secured by pledged customer facility charges. These bonds do not constitute a debt or pledge of the faith or credit of the City or the Fund.

In reporting periods prior to FY2015, the Airport Fund elected not to report the CRCF facility or the Special Facility Revenue Bonds (CRCF) on its financial statements, under the Governmental Accounting Standards Board guidance for conduit debt obligations. Beginning in the fiscal year ended June 30, 2015, the Airport Fund elected to change its method of accounting, and to report the CRCF assets, revenues, and associated debt and expenses, with retroactive adjustments on comparative data. At June 30, 2017 and June 30, 2016, special facilities revenue and refunding bonds (CRCF) outstanding totaled $91.6 million and $96.9 million, respectively.

Note Payable

In February, 2013, the City entered into a contract with Southwest Airlines Co. ("Southwest") under which Southwest would construct five international gates, a Federal Inspection Service Facility, and associated enabling projects (the "Project") at William P. Hobby Airport. Southwest was responsible for the initial funding of all costs of the Project including any related financing costs, but title to the Project was passed to the City at each point in construction. During construction, the Airport Fund has recorded Southwest's cost of construction in process as a long term contract payable, with a balance of $111,620,000 on June 30, 2015. The Airport Fund has no responsibility for any financing costs of the Project that may have been incurred by Southwest. The new gates and facility opened on October 15, 2015.

At any time after final completion of the Project, the City has the right to pay off Southwest's note payable for the unamortized costs of the Project, calculated at an annual amortization rate equal to 2.19% over a 25-year period, with final maturity at June 30, 2040. Should the City pay off Southwest's note payable, Southwest will then be responsible for the payment of its share of the Airport Fund's capital cost through rates and charges on the new facilities. As long as the City does not pay off Southwest's note payable for the facilities, then the Airport Fund will record a note payable to Southwest for the unamortized costs of the Project. Southwest will be invoiced monthly using rates that will recover operation and maintenance expenses. Southwest will also be invoiced monthly for the capital cost amortization of the facilities, but a corresponding credit memo will be issued to offset the capital invoice. Capital costs charged to other user airlines will be remitted to Southwest. The Airport Fund has recorded the initial note payable on October 15, 2015 as $123,785,000, with $115,421,000 still outstanding on June 30, 2017.

6. Defined Benefit Pension Plan

As a department of the City, the Houston Airport System Fund participates in the pension plan of the City of Houston's municipal employees, for which separately published financial statements are available. Since the plan does not separately account for the Fund, the following disclosures, as well as those in Note 7, generally relate to the City as a whole. A complete copy of the summary plan description and the stand-alone financial reports can be obtained from the Houston Municipal Employees Pension System at 1201 Louisiana St., Suite 900, Houston, Texas 77002-2555 or via http://hmeps.org.

Plan Description

The Houston Municipal Employees' Pension System (HMEPS) of the City is a single employer defined benefit pension plan that covers all eligible municipal employees, including all employees of the Fund. This pension plan was established under the authority of Texas statutes (Vernon's Texas Civil Statutes, Article 6243g), which establish the various benefit provisions. An independent Board of Trustees administers each plan. The fiscal year of each pension fund ends June 30. In this CAFR, the Fund reports separately from the City and is required to report as a cost-sharing plan since it is allocated a proportionate share of the Houston Municipal Employees Pension System liability. The schedules of Net Pension Liability, Pension Expense, and Deferred Outflows and Inflows of Resources show the Fund's cost share of the City's plan.

Benefits Provided

The Houston Municipal Employees' Pension System includes a contributory group and two noncontributory groups and provides for service-connected disability and death benefits to eligible members and surviving spouse and/or dependents, with no age or service eligibility requirements. Pension benefits are based on a participant's average monthly salary and years of debited service, as defined in the Pension Statute. Pension benefits are adjusted annually for a fixed cost of living adjustment of 3% for eligible recipients. The maximum pension benefit is 90% of the participant's average monthly salary. A Deferred Retirement Option Plan (DROP) is available to eligible members.

Contributions

For the Houston Municipal Employees' Pension System, employer and employee obligations to contribute, as well as employee contribution rates, are included in the enabling pension statutes, and some requirements are delineated in an amended and restated meet and confer agreement, effective July 1, 2011. Additionally, these laws provide that employer funding be based on periodic actuarial valuations, statutorily approved amounts or, in the cases of the Municipal Employees' Pension System, amounts agreed to in meet and confer agreements. The employer contribution rate is a percentage of base salary which was 29.36% for fiscal year 2017 and 27.6% for fiscal year 2016. All pension plans provide service, disability, death, and survivor benefits. In addition, each pension plan recognizes participant and employer contributions as revenues in the period in which they are due pursuant to formal commitments and recognizes benefits and refunds when they are due and payable in accordance with the terms of the pension statutes.

As of most recent measurement date of the net pension liability, membership data for the pension plan are as follows:

Retirees and beneficiaries	
currently receiving benefits	10,289
Former members entitled to	
benefits but not yet receiving them	3,432
Former members - not entitled to benefits	2,174
Active members:	
Vested	7,966
Non-vested	4,137
Total participants	27,998

6. Defined Benefit Pension Plan, continued:

Net Pension Liability

The Airport System Fund's liability for the net pension liability in the City's pension plan was allocated and reported on the statement of net position.

The "Net Pension Liability" (NPL) is the difference between the "Total Pension Liability" (TPL) and the plan's "Fiduciary Net Position" (FNP). The TPL is the present value of pension benefits that are allocated to current members due to past service by entry age normal actuarial cost method. The TPL includes benefits related to projected salary and service, and automatic cost of living adjustments (COLA's). In addition, ad hoc COLA's are also included in the TPL to the extent they are substantively automatic. The FNP is determined on the same basis used by the pension plans. The City's net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. A schedule of Net Pension Liability, in addition to the information above, includes multi-year trend information (beginning with FY 2015) and is presented in the Required Supplementary Information section.

Net Pension Liability (in thousands)

Measurement Date	June 30, 2017		June 30, 2016	
	Municipal Employees' Pension	The Fund's proportionate share of NPL	Municipal Employees' Pension	The Fund's proportionate share of NPL
Total Pension Liability	$ 4,959,510	$ 535,376	$ 5,034,390	$ 540,464
Fiduciary Net Position	(2,602,665)	(280,956)	(2,400,023)	(257,653)
Net Pension Liability	$ 2,356,845	$ 254,420	$ 2,634,367	$ 282,811

The Fund's proportionate percentage of NPL is 10.79% and 10.74% for fiscal years 2017 and 2016.

Schedule of Changes in Net Pension Liability (in thousands)

	June 30, 2017			June 30, 2016		
	Total Pension Liability	Plan Fiduciaty Net Position	Net Pension Liability	Total Pension Liability	Plan Fiduciaty Net Position	Net Pension Liability
Service Cost	$ 75,961	$ -	$ 75,961	$ 68,968	$ -	$ 68,968
Interest on the Total Pension Liability	331,166	-	331,166	379,781	-	379,781
Benefit Changes	(724,683)	-	(724,683)	-	-	-
Difference between Expected and Actual Experience	(38,387)	-	(38,387)	(16,194)	-	(16,194)
Employer Contributions	-	182,558	(182,558)	-	159,958	(159,958)
Employees Contributions	-	15,902	(15,902)	-	15,874	(15,874)
Pension Plan Net Investment Income	-	290,911	(290,911)	-	27,639	(27,639)
Assumptions Changes	562,237		562,237	91,248	-	91,248
Benefit Payments	(280,456)	(280,456)	-	(253,178)	(253,178)	-
Refunds	(718)	(718)	-	(1,105)	(1,105)	-
Administrative Expense	-	(6,827)	6,827	-	(7,360)	7,360
Other	-	1,272	(1,272)	-	1,651	(1,651)
Net Change	(74,880)	202,642	(277,522)	269,520	(56,521)	326,041
Net Pension Liability Beginning	5,034,390	2,400,023	2,634,367	4,764,870	2,456,544	2,308,326
Net Pension Liability Ending	$ 4,959,510	$ 2,602,665	$ 2,356,845	$ 5,034,390	$ 2,400,023	$ 2,634,367

6. **Defined Benefit Pension Plan, continued:**

Pension Expense

For the years ended June 30, 2017 and June 30, 2016, the City recognized pension expense as follows (in thousands):

	June 30, 2017	June 30, 2016
Changes for the year:		
Service Cost	$ 75,961	$ 68,969
Interest	331,166	379,781
Difference between Expected and Actual Experience	141,691	12,616
Differences between Projected and Actual Earnings on plan investments	32,011	57,210
Member Contributions	(15,902)	(15,874)
Net Investment Income	(164,912)	(193,157)
Administrative Expense	6,827	7,360
Assumption Changes	(724,683)	-
Other	(1,272)	(1,651)
Total Pension Expense	$ (319,113)	$ 315,254

The Fund's proportionate shares of pension expenses are ($32.6) million and $33.3 million for June 30, 2017 and June 30, 2016, respectively.

Schedule of Deferred Outflows and Inflow of Resources

Deferred outflows of resources and deferred inflows of resources by source reported by the Fund at June 30, 2017 and June 30, 2016 (in thousands).

	June 30, 2017		June 30, 2016	
	Deferred Outflows of Resources	Deferred Inflow of Resources	Deferred Outflows of Resources	Deferred Inflow of Resources
Differences between expected actual experience	$ -	$ 4,487	$ -	$ 2,526
Changes of assumptions	-	-	7,286	-
Employers contribution subsequent to measurment date	-	-	265	-
Net difference between projected and actual earnings on pension plan investments	53,848	-	21,662	-
Total	$ 53,848	$ 4,487	$ 29,213	$ 2,526

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at June 30, 2017 for the Fund will be recognized in pension expense as follows (in thousands):

Year ended June 30:	
2018	$ 18,099
2019	18,681
2020	14,420
2021	(1,839)
2022	-
Thereafter	-
Total	$ 49,361

6. Defined Benefit Pension Plan, continued:

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability for Municipal Employees' Pension plan, calculated using the current discount rate, as well as what the Fund's net pension liability would have been if they were calculated using a discount rate that is 1-percent-point lower and 1-percent-point higher than the current rate (in thousands):

	1% Decrease	Current Discount Rate	1% Increase
	6.00%	7.00%	8.00%
Municipal Employees' Pension	$ 2,910,598	$ 2,356,845	$ 1,921,993
The Fund's proportionate share of NPL	$ 314,197	$ 254,420	$ 207,478

Schedule of Assumptions

Inflation	3%
Salary changes	3.25% to 5.5%
Investment rate of return	7.00%
Valuation Date	7/1/2015
Actuarial Cost Method	Entry Age Normal Cost
Amortization Method	Level Percent of Payroll
Amortization Period	30 years
Asset Valuation Method	5 Year Smoothed, direct offset of deferred gains and losses
Ad hoc OPEB and Ad Hoc COLA	3% to 6%
Mortality assumption	RP-2000 Table scaled by 125% for males and 112% for females

7. Other Employee Benefits

Post-Retirement Health Insurance Benefits

Pursuant to a City Ordinance, the City provides certain health care benefits for retired employees. Substantially all of the City's employees become eligible for these benefits if they reach normal retirement age while working for the City. Contributions are recognized in the year paid. The cost of retiree health care premiums incurred by the City (employer and subscriber) amounted to approximately $90,273,155 and $82,127,507 for the years ended June 30, 2017 and June 30, 2016, respectively. Retiree health care is accounted for in the Health Benefits Fund, an Internal Service Fund. At June 30, 2017, there were 10,830 retirees including active survivors eligible to receive benefits. Effective August 1, 2011, all Medicare Eligible Retirees must enroll in an insured Medicare Advantage Program Plan.

No stand-alone financial report is issued on the plan.

The City of Houston OPEB plan is a single-employer plan, and calculations are based on the OPEB benefits provided under the terms of the plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point.

Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made into the future.

The schedule of funding progress for the postemployment defined benefit plan immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

Airport System Fund Liability

The Fund’s liability for the net OPEB obligation in the City’s pension plan was allocated and reported on the statement of net position.

Annual Other Post Employment Benefits (OPEB) Cost and Net OPEB Obligation

The annual OPEB cost associated with the City’s retiree health care costs for the current year is as follows (in thousands):

	OPEB		
	June 30, 2017	June 30, 2016	June 30, 2015
Annual required contribution	$ 188,579	$ 200,034	$ 192,519
Interest on net OPEB obligation	67,350	61,209	54,620
Adjustment to annual required contribution	(66,914)	(60,466)	(54,266)
Annual OPEB cost	189,015	200,777	192,873
Contribution made	(39,820)	(38,543)	(36,855)
Change in net OPEB Obligation	149,195	162,234	156,018
Net OPEB obligation beginning of year	1,683,743	1,521,509	1,365,491
Net OPEB obligation end of year	$ 1,832,938	$ 1,683,743	$ 1,521,509

The Fund’s proportionate share of the net OPEB obligation is $74,657 and $70,203 as of June 30, 2017 and 2016, respectively.

7. Other Employee Benefits, continued:

Fiscal Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	$192,873	19.1%	$1,521,509
2016	$200,777	19.2%	$1,683,743
2017	$189,015	21.1%	$1,832,938

Schedule of Funding Progress (in millions)

Year Ended June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio	Covered Payroll (c)	UAAL As a % of Covered Payroll ((b-a)/c)
2015	$0	$2,068	$2,068	0%	$1,266.0	163.3%
2016	$0	$2,055	$2,055	0%	$1,299.0	158.2%
2017	$0	$2,153	$2,153	0%	$1,327.4	162.2%

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as to the actuarial valuation used for purposes of the financial statements is as follows:

Valuation Date	July 1, 2016
Actuarial cost method	Entry age Normal Cost
Amortization method	Level percent of payroll over an open period of 30 years
Discount Rate	4.0%
Inflation Rate	3.0%
Annual increase attributable to seniority/ merit	2.0% to 14.0%
Medical trend rates	4.5% to 6.5%

Health Benefits Internal Service Fund

Effective May 1, 2011, the City elected to be substantially self-insured and on May 1, 2014 once again awarded CIGNA a three year contract with two (2) one-year renewal options for 4 new health plans. All have a heavy emphasis on a wellness component, and include: 1) a limited network HMO-type plan, 2) an open access PPO type plan with out-of-network coverage, 3) a consumer driven high deductible health plan, partnered with a health reimbursement account, and, 4) a specific plan for retirees, mostly those under age 65, who live outside the limited network service area but who live in Texas. Effective May 1, 2013, the City no longer purchases individual and aggregate stop-loss coverage. The City has assumed the financial risk of catastrophic and overall claim liability. The plan is administered by CIGNA.

Premiums paid (employer and subscriber) for current employees to third party administrators including claim liability totaled $243,918,034 and $234,737,096 for the year ended June 30, 2017 and June 30, 2016, respectively.

7. Other Employee Benefits, continued:

The changes in the actuarial estimate of claims liability for the City related to the CIGNA plans are as follows (in thousands):

	Schedule of Changes in Liability	
	June 30, 2017	June 30, 2016
Beginning actuarial estimate of Claims liability, July 1	$ 18,065	$ 18,577
Catastrophic claim reserve	13,000	13,000
Incurred claims for fiscal year	294,001	276,825
Payments on claims	(293,995)	(277,337)
Actuarial adjustment	1,065	-
Ending estimate of claims liability, June 30	$ 32,136	$ 31,065

The City also provides one times the salary of basic life insurance, with a minimum of $15,000, at no cost to the employee. The employee, at no cost to the City, may then obtain additional life insurance up to four times their annual salary. The current cost for active employees for both basic and voluntary life insurance totaled $6,064,196 and $5,989,860 for the year ended June 30, 2017 and June 30, 2016, respectively.

Long-Term Disability Plan (LTD)

The long-term disability plan, accounted for as an internal service fund of the City, is a part of the Income Protection Plan implemented effective September 1, 1985 (renamed the Compensable Sick Leave Plan (CSL) in October, 1996) and is provided at no cost to City employees who are members of CSL. Coverage is effective the later of September 1, 1985 or upon completion of one year of continuous service. When an employee cannot work because of injury or illness, the plan provides income equal to 50% of base pay plus longevity or 70% of base plus longevity when combined with income benefits available from other sources. Plan benefits may be payable after all CSL scheduled sick leave benefits, including frozen sick leave days, have been used, however, not before six months absence from work. The plan is administered by Hewitt Associates LLC, which is reimbursed from the fund for claims as they are paid along with a fee for administrative services.

	Schedule of Changes in Liability (in thousands)	
	June 30, 2017	June 30, 2016
Beginning actuarial estimate of claims liability, July 1	$ 8,371	$ 8,720
Incurred claims for fiscal year	1,331	1,267
Payments on claims	(1,074)	(1,125)
Actuarial adjustment	(444)	(491)
Ending actuarial estimate of claims liability, June 30	$ 8,184	$ 8,371

Deferred Compensation Plan

The City offers its employees a deferred compensation plan (Plan), created in accordance with Internal Revenue Code Section 457 as a separately administered trust. The Plan, available to all City employees permits employees to defer a portion of their salary until future years. The deferred compensation funds are not available until termination, retirement, death or unforeseeable emergency. However, the Plan now offers loans to participant employees. The maximum amount is the lesser of $50,000 or 50% of the total account balance, less any outstanding loans. The minimum loan amount is $1,000. Pursuant to tax law changes, the Plan's assets are no longer subject to the City's general creditors and are not included in these financial statements.

7. Other Employee Benefits, continued:

Workers' Compensation Self-Insurance Plan

The City has established a Workers' Compensation Self-Insurance Plan, accounted for within the various operating funds. The plan is administered by Tristar Insurance Group, Inc. Funds are wire transferred to Tristar as needed to pay claims.

At June 30, 2017, the City has an accumulated liability in the amount of $61 million covering estimates for approved but unpaid claims and incurred but not reported claims (calculated on an actuarial basis) recorded in the government-wide Statement of Net Position and Enterprise Funds. The amount of liability is based on an actuarial study.

Schedule of Changes in Liability
(in thousands)

	June 30, 2017	June 30, 2016
Beginning actuarial estimate of claims liability, July 1	$ 58,761	$ 56,932
Incurred claims for fiscal year	10,002	9,648
Payments on claims	(16,135)	(14,893)
Actuarial adjustment	8,616	7,074
Ending actuarial estimate of claims liability, June 30	$ 61,244	$ 58,761

8. Transactions with City of Houston

Interfund Services

The City charges the Fund for certain services performed by other City funds on behalf of the Airport System Fund. Such charges were as follows for the years ended June 30, 2017 and 2016 (in thousands):

	June 30, 2017	June 30, 2016
Police services	$ 28,662	$ 28,188
Fire services	20,048	19,943
Indirect support services	3,168	3,259
Water and sewer services	3,507	2,808
Other	10,205	10,227
Total	$ 65,590	$ 64,425

Indirect costs are incurred in connection with the general administration of City affairs, which cannot be directly associated with specific funds. Such costs include finance, materials management, legal, human resources, and administration. These costs are allocated to the Fund each year based on an annual indirect cost study.

The Fund also pays for services provided by other City departments and funds, including the Combined Utility Fund for water and wastewater services and the internal service funds for risk financing activities.

In FY2017 HAS started performing administrative work for vendors seeking airport related permits. Per an Memorandum of Understanding entered into between HAS and PWE, HAS began to receive proceeds from permitting revenues from PWE. HAS was reimbursed $312,908 in permitting fees as a result of this agreement.

Due to and Due from the City of Houston

Amounts due to and due from other funds of the City at June 30, 2017 and 2016 are as follows (in thousands):

	June 30, 2017		June 30, 2016	
	Due to	Due From	Due to	Due From
General Fund	$ 713	$ 201	$ 735	$ 7,162
Grants Revenue Fund	-	-	235	1,652
Internal Service Fund	-	-	-	5,446
Nonmajor Governmental Funds	-	-	-	7,225
Debt Service	-	-	-	2,860
Capital Projects	-	-	-	7,488
Total	$ 713	$ 201	$ 970	$ 31,833

9. Major Customers

In fiscal 2017, the Fund earned 42.7% of its operating revenues from two major customers, United Continental Holdings, Inc. and Southwest Airlines Company. No other company represents more than 2.4% of revenue. The two major companies and their respective percentage of revenue are as follows:

	Percentage of Operating Revenue	
	2017	2016
United Continental Holdings, Inc.	33.4%	33.0%
Southwest Airlines Co.	9.3%	9.2%

10. Conduit Debt

The City has authorized various issues of Special Facilities Bonds to enable United Airlines, Inc. (successor to Continental Airlines, Inc.) a private company, to construct facilities at Intercontinental that were deemed to be in the public interest (Special Facilities). These bonds are limited special obligations of the City, payable solely from and secured by a pledge of revenues generated from lease agreements with United Airlines. Collected pledged revenues are remitted directly to a trustee by United Airlines. Under the terms of the related lease agreements, United Airlines operates, maintains, and insures the terminal, and manages and retains revenues from all concessions operated in the Terminal B and E Special Facilities. The City operates, maintains, insures, and manages and retains revenues from all concessions operated in all other terminal facilities.

The City holds legal title to the completed facilities, as they are constructed on airport property, but the constructed facilities are operated and controlled by private companies through long-term leases, and the Fund will enjoy no direct financial benefit from these facilities for the term of the lease agreements. Accordingly, the Fund accounts for the United Airlines' Special Facilities Bonds shown in the following table as conduit debt, and neither the debt nor the related assets have been recorded in the accompanying financial statements.

Conduit debt outstanding at June 30, 2017 and 2016 (in thousands):

	June 30, 2017	June 30, 2016
Airport System Special Facilities Revenue Bonds (Continental Airlines, Inc. Terminal Improvement Projects), Series 2011 (AMT), $113,305,000 original principal, matures in 2038	$ 113,305	$ 113,305
Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Terminal E Project), Series 2014 (AMT), $308,660,000 original principal, matures in 2029	308,660	308,660
Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Terminal Improvement Projects), Series 2015B-1 (AMT), $176,650,000 original principal, matures in 2035	176,650	176,650
Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Terminal Improvement Projects), Series 2015B-2 (AMT), $47,390,000 original principal, matures in 2020	47,390	47,390
Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2015C (AMT), $65,785,000 original principal, matures in 2020	65,785	65,785
Total conduit debt outstanding	$ 711,790	$ 711,790

On March 16, 2015, the City issued $176,650,000 in Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Terminal Improvement Projects), Series 2015B-1 (AMT) on behalf of United Airlines, to finance the construction of a new North Concourse building at Terminal B with jet bridge loading, and to make improvements to related facilities. The bonds were issued with a coupon rate of 5.00%, and a yield of 4.75%, to mature in varying amounts from 2026 to 2035.

10. Conduit Debt Obligations, continued:

The Airport System Special Facilities Revenue Bonds, (Continental Airlines, Inc., Terminal Improvement Projects) Series 1997B and 1998B financed various leasehold improvements for United Airlines in Terminals B, C and D. On March 16, 2015, the City issued $47,390,000 in Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Terminal Improvement Projects), Series 2015B-2 (AMT) on behalf of United Airlines, with a 5.00% coupon rate, to mature on July 15, 2020. Proceeds of the bonds were used to refund the outstanding Airport System Special Facilities Revenue Bonds, Series 1997B and 1998B and to pay costs of issuance. Net present value savings for United Airlines related to the refunded bonds totaled $12,049,244 or 18.36% of the refunded bonds and reduced total debt service by $45,281,400.

The Airport System Special Facilities Revenue Bonds, (Continental Airlines, Inc., Airport Improvement Projects) Series 1997C and 1998C, financed the construction of an aircraft hangar, maintenance and parts storage facility, mail sort facility, flight simulator, and inflight training facility. On March 26, 2015, the City issued $65,785,000 in Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2015C, on behalf of United Airlines, with a coupon rate of 5.00%, to mature on July 15, 2020. Proceeds of the bonds were used to refund the outstanding Airport System Special Facilities Revenue Bonds, Series 1997C and 1998C, and to pay costs of issuance. Net present value savings for United Airlines related to the refunded bonds totaled $14,553,627 or 20.95% of the refunded bonds and reduced total debt service by $40,135,502.

The Airport System Special Facilities Revenue Bonds, (Continental Airlines, Inc. Terminal E Project), Series 2001, financed the construction of international Terminal E and related airport facilities for the exclusive use of United Airlines (Terminal E Special Facilities). On May 8, 2014, the City issued $308,660,000 in Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Terminal E Project) Series 2014 on behalf of United Airlines, at coupon rates ranging from 4.50% to 5.00%. The bonds mature in varying amounts from 2020 to 2029. Proceeds of the bonds were used to refund a portion of the City's outstanding Airport System Special Facilities Revenue Bonds (Continental Airlines, Inc. Terminal E project) Series 2001 and to pay costs of issuance. Net present value savings for United Airlines related to the refunded bonds totaled $40,519,909 or 13.31% of the refunded bonds and reduced total debt service by $58,675,823.

The Airport System Special Facilities Revenue Bonds (Continental Airlines, Inc. Terminal Improvement Projects), Series 2011 (AMT) financed the replacement of two flight stations at Terminal B with a new South Concourse building to serve United Airlines' regional jet operations (Terminal B Special Facilities). The Terminal B Special Facilities went into service in March, 2014.

11. Commitments and Contingencies

Litigation and Claims

The City is the defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its municipal and enterprise activities, certain of which seek substantial damages. These matters affecting the Airport System Fund are primarily contract and real property disputes. The status of such litigation ranges from early discovery to various levels of appeal, against which the City will continue to vigorously defend itself. Additionally, there are also various personal injury claims filed against the Airport System Fund which will also be vigorously defended. The amount of damages is limited in certain cases under the Texas Torts Claim Act and is subject to appeal. Management has determined the amounts of loss, if any, would not be material in these financial statements.

11. Commitments and Contingencies, continued:

Environmental Liabilities

Houston Airport System is aware of pollution remediation which must occur prior to the commencement of a new hangar addition project at George Bush Intercontinental Airport. Currently, third party assessments have been completed of the site with estimated costs of $10 million. Scope of work will encompass vapor intrusion mitigation and soil & groundwater remediation. A pollution remediation liability related to the hangar expansion project has been recorded in these financial statements in accordance with GASB 49.

The Houston Airport System management is aware of additional sites polluted by asbestos, mold, and soil contamination. The assessment and remediation of asbestos, mold and groundwater contamination are ongoing and included in the costs of the capital project at the time it becomes an obligating event under GASB 49. Management has determined the costs of this additional remediation for which Houston Airport System is ultimately liable would not be material in these financial statements.

Commitments for Capital Facilities

At June 30, 2017 and 2016, the Fund had contracted for, but not spent, $400,036,024 and $326,962,314 respectively, for capital projects.

Risk Management

The City purchases fidelity coverage to comply with City ordinance, boiler and machinery insurance with a per occurrence loss limit of $100 million and commercial property insurance with a per occurrence loss limit of $175 million. The commercial property insurance sublimit for flood is $100 million. Property insurance provides deductibles as follows: $2.5 million per occurrence for all perils except; 3% of the damaged insured value for windstorm or hail from a named storm, subject to a $2.5 million minimum and a $15 million maximum deductible; and 3% of the damaged insured value for flood, subject to a $2.5 million minimum and a $15 million maximum deductible. Should a named storm event occur that involves both perils of windstorm and flood, the maximum deductible is $15 million.

The City has a separate terrorism policy which covers insured property value. The policy insures up to $250 million aggregate loss limit (including nuclear, chemical, biological and radiation coverage) with a $500,000 deductible on all claims except a 48-hour waiting period deductible on business interruption.

Self-insured claims are reported as liabilities in the accompanying financial statements when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. This determination is based on reported pending claims, estimates of claims incurred but not yet reported, actuarial reports and historical analysis. All claims are accounted for in the Government-wide Statement of Net Position.

Claims that are expected to be paid with expendable, available financial resources are accounted for in the General Fund and the appropriate Enterprise Funds.

For unemployment claims, the City pays claims as they are settled. Unemployment claim activity is as follows:

Unemployment Claim Activity

	June 30, 2017	June 30, 2016
Unpaid claims, beginning of fiscal year	$ 198,257	$ 137,742
Incurred claims (including IBNRs)	687,143	760,324
Claim payments	(732,382)	(699,809)
Unpaid claims, end of fiscal year	$ 153,018	$ 198,257

11. Commitments and Contingencies, continued:

Electricity Futures Contracts

At June 30, 2017, the City had entered into agreements to lock rates for part of the natural gas component of its expected electricity use from July 1, 2017 through June 30, 2018. The total committed price is approximately $97 million for expected usage. The City may pay a different amount if actual electricity usage varies. This amount will be appropriated in future annual budgets.

12. Subsequent Events

Hurricane Harvey Disaster

The City of Houston experienced a substantial natural disaster on August 23 – 27, 2017 resulting from Hurricane Harvey, when up to 50 inches of rain in the Houston area caused flooding in portions of the City. Houston Airport System (The Fund) sustained water damage to various buildings and components of the airfield at all three airports. The estimate of the total damage to owned facilities is approximately $4 million. The Fund also incurred disaster-related expenses for debris removal, protective measures, and the costs of emergency personnel overtime. The Fund anticipates most of these will be covered by insurance and grants from the Federal Emergency Management Agency (“FEMA”) and the State of Texas.

Shortly after the storm, the Fund established a “Disaster Recovery O&M Fund” in the Fund’s accounts to serve as an appropriation source for disaster related expenses, pending insurance and reimbursement by FEMA. The Fund has transferred $5 million from the Airport Improvement Fund to the Disaster Recovery O&M Fund following the approval of City Council.

The Fund continues to evaluate the cost of damages from the storm and will submit additional requests for reimbursement to FEMA and its insurance carriers, if necessary.

Pension Reform

The Texas Legislature adopted Senate Bill 2190, which was signed by the governor on May 31, 2017 (the “Pension Reform Legislation”) to enact reforms and substantive changes to the funding and benefit structure of the Pension Systems. The Pension Reform Legislation was effective July 1, 2017 (the “Reform Effective Date”), the first day of Fiscal Year 2018. The Pension Reform Legislation is the culmination of an effort to reform the Pension Systems to control costs, reduce the unfunded liability and better manage future pension costs and liabilities. The risk-sharing corridor implemented in the Pension Reform Legislation provides the City with more budget certainty by establishing minimum and maximum City contribution rates, and mandates management of unfunded liabilities by the City and the Pension Systems.

Under the Pension Reform Legislation, the City will pay off the unfunded liability (the “Legacy Liability”) over a fixed maximum 30-year amortization period ending in 2047. The Legacy Liability is calculated using a standard actuarial cost methodology, based on the market value of each pension system’s assets as of July 1, 2016, after giving effect to the Pension Reform legislation and delivery of $1 billion of Pension Obligation Bond proceeds by December 31, 2017 (to be contributed to HMEPS and HPOPS only), with earnings at the 7% per annum discount rates and allocable City contributions from July 1, 2016 through the Reform Effective Date. Any future actuarial loss liabilities will have an amortization period of 30 years from the date the loss is recognized, with a corresponding final payoff year and credits for any future gains.

On November 7, 2017, the voters approved a referendum authorizing the City to issue the Pension Obligation Bonds.

On November 15, 2017, City Council approved an ordinance authorizing preparation for the sale of Taxable Pension Obligation Bonds, secured by ad valorem taxes, in an amount not to exceed $1,010,000,000 at a stated interest rate not to exceed 7%, out of which approximately $250,000,000 could be used to fund a portion of the unfunded liability of the Houston Municipal Employees Pension System. It is not certain what amount, if any, of the debt service of these bonds, might be assigned to the Airport System Fund for future payments. The Bonds have not been issued as of the date of this report.

12. Subsequent Events, continued:

Debt

On October 4, 2017, the City extended its authorization of $450 million in Inferior Lien Airport System Revenue Bonds through October 3, 2018, while confirming the forward delivery bond purchase agreement with the Royal Bank of Canada.

On November 15, 2017 City Council authorized the issuance of the Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Technical Operations Center Project (UTOC)), Series 2017 (AMT), in an amount not to exceed $120,000,000, and the Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2017C (AMT), in an amount not to exceed $60,000,000. Proceeds of the Series 2017 UTOC Bonds will be used to construct or acquire a technical operations center at George Bush Intercontinental Airport consisting of a new wide body aircraft hangar and service facility, and a storage facility for ground service equipment, with additional non-terminal improvements to be built in support. Series 2017C Bonds will be used to improve, renovate, repair or expand existing facilities. Pursuant to lease agreements between United Airlines, Inc. and the City of Houston, United shall be unconditionally obligated to pay net rent equal to all amounts to become due and owing with respect to the Series 2017 UTOC and Series 2017C Special Facilities Revenue Bonds. These Bonds will be payable solely from and secured by a pledge of revenues generated by the lease agreements. The Bonds have not been issued as of the date of this report.

On November 15, 2017, City Council approved an ordinance authorizing the issuance of one or more series of City of Houston, Texas Airport System Subordinate Lien Revenue and/or Refunding Bonds, and authorizing the Mayor, City Controller, and other designated City officials to approve the amount, interest rates, prices, and terms. The Bonds will redeem or defease outstanding bonds and other obligations, provide financing for any authorized system purposes, including reimbursement of amounts previously spent, fund capitalized interest and costs of issuance, and increase the Subordinate Lien Bond Reserve Fund. The Bonds have not been issued as of the date of this report.

Houston Municipal Pension System Supplementary Information (unaudited)

Schedule of Changes in the Municipal Net Pension Liability and Related Ratios for the Fiscal Years ended June 30, (in thousands)

	2017	2016	2015
Total Pension Liability			
Service Cost	$75,961	$68,968	$65,810 (1)
Interest	331,166	379,781	361,007
Changes of benefit terms	(724,683)	-	-
Differences between expected and actual experience	(38,387)	(16,194)	(23,380)
Changes of assumptions	562,237	91,248	-
Benefit payments including refunds of employee contributions	(280,456)	(253,178)	(234,955)
Refunds	(718)	(1,105)	(1,549)
Net change in total pension liability	(74,880)	269,520	166,933
Total pension liability - beginning	5,034,390	4,764,870	4,597,937
Total pension liability - ending (a)	4,959,510	5,034,390	4,764,870
Plan fiduciary net position			
Contributions-employer	182,558	159,958	145,007
Contributions-employee	15,902	15,874	16,198
Net investment income	290,911	27,639	73,370
Benefit payments, including refunds of employee contributions	(280,456)	(253,178)	(234,955)
Administrative expense	(718)	(1,105)	(1,549)
Refunds	(6,827)	(7,360)	(7,007)
Other	1,272	1,651	1,041
Net change in plan fiduciary net position	202,642	(56,521)	(7,895)
Plan fiduciary net position-beginning	2,400,023	2,456,544	2,464,439
Plan fiduciary net position-ending (b)	2,602,665	2,400,023	2,456,544
City's net pension liability-ending (a)-(b)	$2,356,845	$2,634,367	$2,308,326
Plan fiduciary net position as percentage of the total pension Liability	52.48%	47.67%	51.56%
Covered-employee payroll	$607,975	$593,285	$580,395
Net position liability as a percentage of covered employee payroll	387.65%	444.03%	397.72%

1. The 2015 amounts are based on 8.0% per City actuary.

The Fund’s proportionate share of NPL is as follows (in thousands):

	2017	2016	2015
Total Pension Liability	$ 535,376	$ 540,464	$ 512,642
Fiduciary Net Position	(280,956)	(257,653)	(264,294)
Net Pension Liability	$ 254,420	$ 282,811	$ 248,348
Proportionate Percentage	10.79%	10.74%	10.76%

Schedule is intended to show information for 10 years. 2015 is the first year for this presentation. Additional years will be included as they become available.

REQUIRED PENSION SYSTEM AND OTHER POST-EMPLOYMENT COST SUPPLEMENTARY INFORMATION

Schedule of City Contributions for Municipal Pension Plans for the Fiscal Years ended June 30, (in thousands)

	2017	2016	2015	2014
Actuarially determined contribution	$ 184,733	$ 162,230	$ 155,299	$ 144,953
Contributions in relation to the actuarially determined contribution	182,558	159,959	145,007	128,274
Contribution deficiency (excess)	$ 2,175	$ 2,271	$ 10,292	$ 16,679
Covered-employee payroll	607,975	593,285	580,395	557,226
Contributions as a percentage of covered-employee payroll	30.0%	27.0%	25.0%	23.0%

Schedule of the Fund's Contributions for Municipal Pension Plans for the Fiscal Years ended June 30, (in thousands)

	2017	2016	2015	2014
Actuarially determined contribution	$ 18,898	$ 17,148	$ 16,306	$ 15,626
Contributions in relation to the actuarially determined contribution	18,676	17,171	15,547	14,029
Contribution deficiency (excess)	$ 223	$ (23)	$ 759	$ 1,597
Covered-employee payroll	62,196	62,710	60,941	60,069
Contributions as a percentage of covered-employee payroll	30.0%	27.4%	25.5%	23.4%

Schedule is intended to show information for 10 years. 2014 is the first year for this presentation. Additional years will be included as they become available.

Houston Other Post Employment Benefits Supplementary Information (unaudited)
Schedule of Funding Progress (in millions)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (Surplus UAAL) (b-a)	Funded Ratio (a/b)	Projected Annual Covered Payroll (c)	UAAL as Percentage Of Covered Payroll ((b-a)/c)
June 30, 2009	$0.00	$3,031	$3,031	0%	$1,193.5	254.1%
June 30, 2010	$0.00	$1,984	$1,984	0%	$1,208.9	164.1%
June 30, 2010	$0.00	$1,984	$1,984	0%	$1,164.5	170.4%
June 30, 2012	$0.00	$2,090	$2,090	0%	$1,178.1	177.4%
June 30, 2012	$0.00	$2,090	$2,090	0%	$1,227.2	170.3%
June 30, 2014	$0.00	$2,068	$2,068	0%	$1,266.0	163.3%
June 30, 2014	$0.00	$2,068	$2,068	0%	$1,298.0	158.2%
June 30, 2016	$0.00	$2,153	$2,153	0%	$1,327.4	162.2%

[Intentionally left blank]

Somewhere Between Here And There by Chris Sauter

(Unaudited) STATISTICAL SECTION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Statistical Section

This section contains statistical information and differs from the financial statements because it usually covers more than one fiscal year and may present non-accounting data.

This information is presented in five categories:

Financial Trend – intended to assist users in understanding and assessing how the Houston Airport System's financial position has changed over time.

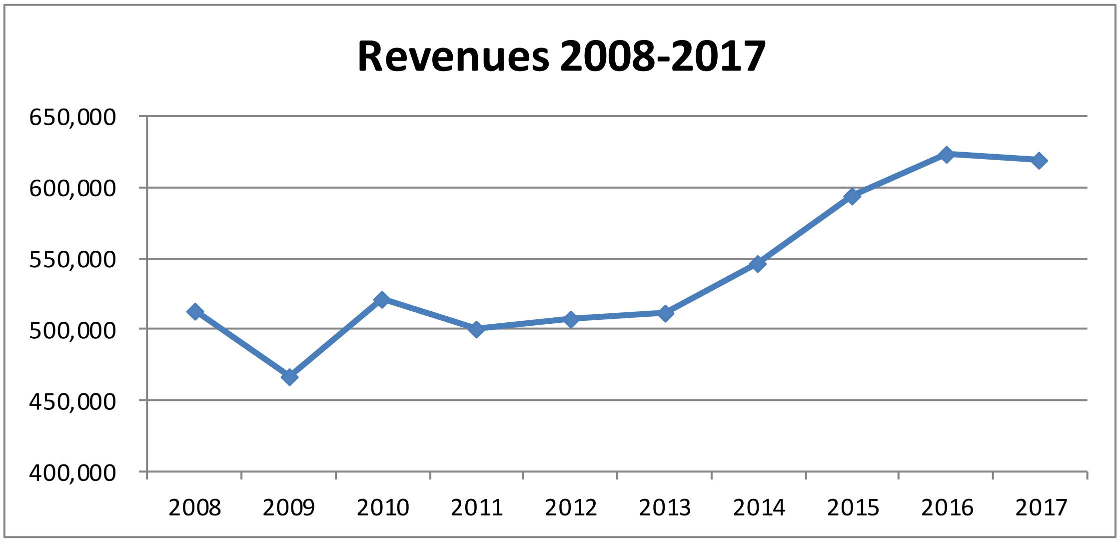
Revenue Capacity – intended to assist users in understanding and assessing the factors affecting the Houston Airport System's ability to generate its own sources of revenues.

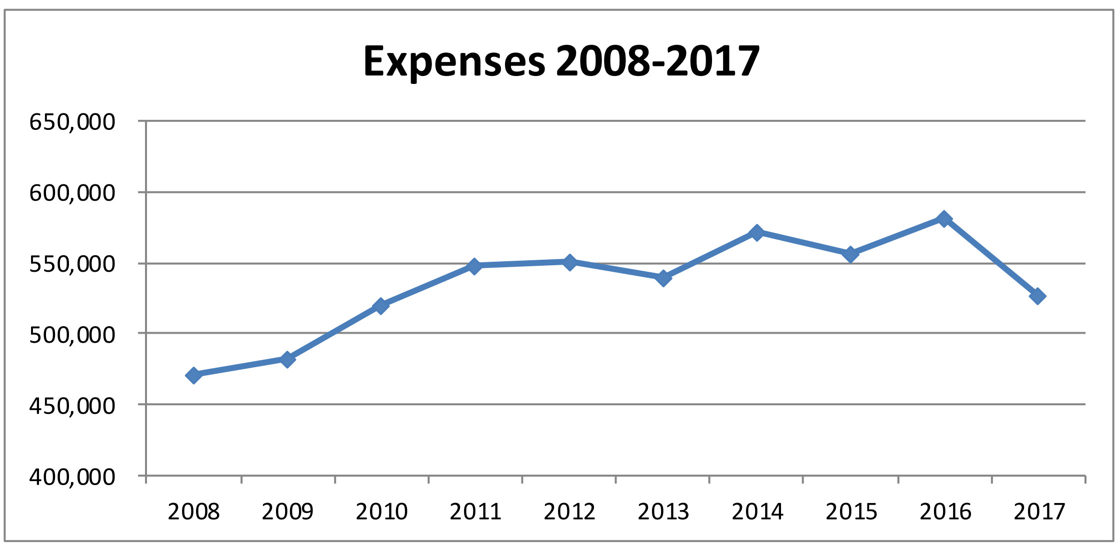
Debt Capacity – intended to assist users in understanding and assessing the Houston Airport System's debt burden and its ability to cover and issue additional debt.

Operational Information – intended to provide contextual information about the Houston Airport System's operations and resources to assist readers in using financial statement information to understand and assess the Houston Airport System economic condition.

Demographic and Economic – intended to assist users in understanding the socioeconomic environment within which the Houston Airport System operates and to provide information that facilitates comparisons of financial statement information over time and among similar entities.

TOTAL ANNUAL REVENUES AND TOTAL ANNUAL EXPENSES (in thousands)
STATISTICAL SECTION





TOTAL ANNUAL REVENUES AND EXPENSES (in thousands)
STATISTICAL SECTION

CHANGE IN NET POSITION	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
OPERATING REVENUES										
Landing area fees	$ 99,017	$ 82,823	$ 94,165	$ 90,384	$ 86,935	$ 91,059	$ 88,342	$ 93,575	$ 86,870	$ 88,046
Building and ground area fees	211,786	174,433	182,105	181,182	182,320	181,701	186,505	197,039	216,018	221,181
Concession, parking, and other revenues	136,373	128,501	130,309	138,836	148,295	160,234	177,260	185,668	186,009	184,814
TOTAL OPERATING REVENUES	447,176	385,757	406,579	410,402	417,550	432,994	452,107	476,282	488,897	494,041
NONOPERATING REVENUES										
Investment income (loss)	42,360	37,507	30,488	9,735	5,636	(1,934)	11,170	7,496	13,260	3,403
Passenger facility charges	11,608	32,398	66,383	63,138	63,550	61,195	62,602	85,392	104,230	101,539
Customer facility charges	11,197	10,171	10,981	13,478	15,904	17,104	17,152	17,535	16,417	14,200
Other nonoperating revenues	514	1,093	7,525	3,409	4,644	1,978	3,225	7,969	124	5,596
TOTAL NONOPERATING REVENUES	65,679	81,169	115,377	89,760	89,734	78,343	94,149	118,392	134,031	124,738
TOTAL REVENUES	512,855	466,926	521,956	500,162	507,284	511,337	546,256	594,674	622,928	618,779
OPERATING EXPENSES										
Maintenance and operating										
Personnel costs	102,511	105,974	109,681	111,861	107,532	104,162	108,520	114,947	123,872	56,721
Supplies	6,449	6,061	5,817	6,534	7,290	7,344	8,823	7,933	8,140	7,794
Services	119,656	126,939	128,761	143,327	139,612	140,019	149,957	159,577	177,677	184,032
Non-capital outlay	935	2,329	792	22,585	9,626	14,052	10,202	4,072	5,730	5,912
Impairment to capital assets	-	-	-	-	-	6,514	7,710	-	-	
Total M & O Expenses	229,551	241,303	245,051	284,307	264,060	272,091	285,212	286,529	315,419	254,459
Depreciation expense	128,553	139,157	166,788	165,657	193,266	173,448	174,825	177,512	179,398	184,203
TOTAL OPERATING EXPENSES	358,104	380,460	411,839	449,964	457,326	445,539	460,037	464,041	494,817	438,662
NONOPERATING EXPENSES										
Interest expense and others	112,272	102,036	107,444	97,515	94,012	93,749	112,350	92,803	86,259	87,574
TOTAL NONOPERATING EXPENSES	112,272	102,036	107,444	97,515	94,012	93,749	112,350	92,803	86,259	87,574
TOTAL EXPENSES	470,376	482,496	519,283	547,479	551,338	539,288	572,387	556,844	581,076	526,236
CONTRIBUTIONS	91,175	70,936	51,457	44,135	15,029	12,761	44,614	36,432	22,542	35,513
TOTAL CHANGE IN NET POSITION	$ 133,654	$ 55,366	$ 54,130	$ (3,182)	$ (29,025)	$ (15,190)	$ 18,483	$ 74,262	$ 64,394	$ 128,056

(continued)

CHANGES IN NET POSITION AND PASSENGER FACILITY CHARGE COLLECTIONS (in thousands)
STATISTICAL SECTION

NET POSITION AT YEAR END	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net investment in capital assets	649,798	754,848	661,854	624,507	580,636	518,464	469,971	466,196	537,172	542,363
Restricted net assets										
Restricted for debt service	72,333	82,436	160,873	168,841	189,966	213,064	242,558	303,371	333,635	287,858
Restricted for maintenance and operations	41,048	41,899	42,405	43,320	44,023	46,309	49,736	53,912	54,942	54,805
Restricted for special facility	12,811	12,353	12,444	15,081	20,025	26,026	30,986	25,732	26,944	29,369
Restricted for renewal and replacement	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Restricted for capital improvement	518,536	458,356	526,446	549,091	537,165	552,762	581,857	600,159	561,071	676,360
Unrestricted (deficit)	-	-	-	-	-	-	-	(178,003)	(178,003)	(126,938)
TOTAL NET POSITION	$ 1,304,526	$ 1,359,892	$ 1,414,022	$ 1,410,840	$ 1,381,815	$ 1,366,625	$ 1,385,108	$ 1,281,367	$ 1,345,761	$ 1,473,817

Passenger Facility Charge Collections (in thousands)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Intercontinental	$ -	$ 23,046	$ 54,284	$ 50,982	$ 50,358	$ 47,464	$ 48,181	$ 66,491	$ 80,574	$ 77,351
Hobby	11,608	9,352	12,099	12,156	13,192	13,731	14,421	18,901	23,656	24,188
Total	$ 11,608	$ 32,398	$ 66,383	$ 63,138	$ 63,550	$ 61,195	$ 62,602	$ 85,392	$ 104,230	$ 101,539
Year-over-Year Change	77.76%	179.10%	104.90%	-4.89%	0.65%	-3.71%	2.30%	36.40%	22.06%	-2.58%

PLEDGED REVENUES (in thousands)
STATISTICAL SECTION

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Operating revenues:										
Landing area fees:										
Landing fees	$ 95,730	$ 80,420	$ 91,032	$ 87,163	$ 83,059	$ 86,911	$ 84,098	$ 89,426	$ 82,703	$ 84,036
Aviation fuel	1,522	1,313	1,329	1,378	1,382	1,444	1,529	1,521	1,527	1,350
Aircraft parking	1,765	1,090	1,804	1,843	2,494	2,704	2,715	2,628	2,640	2,660
Subtotal	99,017	82,823	94,165	90,384	86,935	91,059	88,342	93,575	86,870	88,046
Building and ground area revenues:										
Terminal space rentals	193,375	155,396	161,960	160,563	160,247	158,237	$ 163,297	$ 173,392	$ 191,321	$ 196,162
Cargo building rentals	2,469	2,374	2,490	2,511	2,473	2,397	2,432	2,506	2,484	2,448
Other rentals	5,054	5,017	5,158	5,067	5,394	5,848	6,174	6,252	6,808	6,453
Hangar rental	3,473	4,051	4,920	5,446	6,165	6,675	6,605	6,355	6,577	6,813
Ground rental	7,415	7,595	7,577	7,595	8,041	8,544	7,997	8,534	8,828	9,305
Subtotal	211,786	174,433	182,105	181,182	182,320	181,701	186,505	197,039	216,018	221,181
Parking, concession, and other revenues:										
Retail concessions	29,454	27,023	27,996	34,426	38,429	41,604	41,444	41,855	35,215	39,999
Auto parking	72,958	66,565	70,127	70,681	72,833	77,596	90,173	97,515	101,650	99,752
Auto rental concession	24,529	24,389	22,889	23,932	26,771	29,522	32,783	31,991	30,737	28,735
Ground transportation	4,806	4,724	4,987	5,946	6,186	6,639	8,301	9,323	10,083	10,402
Other operating revenues	4,626	5,800	4,310	3,851	4,076	4,873	4,559	4,984	8,324	5,926
Subtotal	136,373	128,501	130,309	138,836	148,295	160,234	177,260	185,668	186,009	184,814
Total operating revenues	$ 447,176	$ 385,757	$ 406,579	$ 410,402	$ 417,550	$ 432,994	$ 452,107	$ 476,282	$ 488,897	$ 494,041

Gross revenues include all operating revenue of the Airport Fund, and all non-operating revenue except for revenue with legal spending restrictions. Maintenance and operating expensesinclude all operating expenses of the system except for depreciation and capital expenses. Net revenues in each fiscal year are required to be at least equal to the larger of either: (1) the debt service and reserve transfer requirements of each fiscal year or; (2) 125%, 110% and 100% of the debt service requirements for such fiscal year of the Senior Lien Bonds (or Commercial Paper assumed to be refinanced as Senior Lien Revenue Bonds), Subordinate Lien Revenue Bonds and Inferior Lien debt, respectively.

(continued)

PLEDGED REVENUES (in thousands), continued:
STATISTICAL SECTION

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net revenues										
Operating revenue	$ 447,176	$ 385,757	$ 406,579	$ 410,402	$ 417,550	$ 432,994	$ 452,107	$ 476,282	$ 488,897	$ 494,041
Interest on investments - revenue fund	30,064	23,664	15,988	12,889	9,826	7,029	5,499	6,014	6,986	9,306
Other nonoperating revenues	90	300	2,504	341	2,289	1,222	3,162	7,526	(52)	7,177
Gross revenues	477,330	409,721	425,071	423,632	429,665	441,245	460,768	489,822	495,831	510,524
Less: Maintenance and operating expenses	(221,309)	(242,449)	(245,147)	(262,668)	(255,507)	(252,745)	(268,745)	(283,557)	(314,715)	(254,506) *
Net pledged revenue	$ 256,021	$ 167,272	$ 179,924	$ 160,964	$ 174,158	$ 188,500	$ 192,023	$ 206,265	$ 181,116	$ 256,018
Debt Service										
Principal	$ 45,996	$ 49,692	$ 51,832	$ 61,136	$ 59,575	$ 56,800	$ 60,419	$ 71,999	$ 79,093	$ 82,707
Interest	111,250	100,746	93,298	97,546	91,736	97,138	96,005	91,320	84,811	92,316
	157,246	150,438	145,130	158,682	151,311	153,938	156,424	163,319	163,904	175,023
Less PFC revenue available for debt service	(2,690)	(15,847)	(27,087)	(38,828)	(36,619)	(34,390)	(35,614)	(38,054)	(42,320)	(54,673)
Less grant revenue available for debt service	(25,332)	(38,835)	(29,084)	(17,999)	(7,360)	-	(22,942)	(16,399)	(13,888)	-
Total debt service	$ 129,224	$ 95,756	$ 88,959	$ 101,855	$ 107,332	$ 119,548	$ 97,868	$ 108,866	$ 107,696	$ 120,350
Coverage of debt service	1.98	1.75	2.02	1.58	1.62	1.58	1.96	1.89	1.68	2.13
Net Required revenue per bond rate covenant	$ 141,856	$ 105,208	$ 98,571	$ 112,873	$ 119,343	$ 133,552	$ 108,369	$ 122,822	$ 120,125	$ 134,348
Ratio of required revenue	1.80	1.59	1.83	1.43	1.46	1.41	1.77	1.68	1.51	1.91

Debt service requirements is equal to interest expense (excluding amortization of bond discount and amounts provided for payment of interest by bond proceeds and other sources and deposited into a restricted fund for that purpose) for each respective fiscal year ended June 30, plus principal payment payable on the next July 1. Certain grant revenue and passenger facility charge revenue is available to cover net required revenue and required debt service. In FY2016, $6,250,000 in remaining series 2009A proceeds were used to pay senior lien bond debt service.

Net revenues in each fiscal year are required to be at least equal to the larger of either: (1) the debt service and reserve transfer requirements of each fiscal year or; (2) 125%, 110% and 100% of the debt service requirements for such fiscal year of the Senior Lien Bonds (or Commercial Paper assumed to be refinanced as Senior Lien Revenue Bonds), Subordinate Lien Revenue Bonds and Inferior Lien debt, respectively.

Revenues and expenses cannot be included in net pledged revenue if they are accounted for outside of the Airport Revenue Fund, and do not affect amounts available for transfer to debt service funds.

*** Operating and maintenance expense for debt coverage calculations decreased by $60.2 million between FY17 and FY16, primarily due to a $67.4 million decrease in pension expense associated with pension reform enacted in 2017. Without the effects of pension reform, it is estimated that debt service coverage would have been 1.63.**

PLEDGED REVENUES FOR CONSOLIDATED RENTAL CAR FACILITY
STATISTICAL SECTION

	For Years Ended December 31:									
(not rounded to the nearest thousand)	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Customer facility charge collections	$ 11,303,826	$ 11,323,569	$ 9,523,308	$ 12,300,253	$ 14,596,573	$ 16,444,942	$ 17,317,058	$ 17,451,368	$ 17,359,920	$ 17,451,368
Interest income	303,656	146,789	8,417	7,961	475	318	731	785	3,840	29,003
Transfers from Rate Stabilization Account	-	-	1,142,458	-	-	-	-	-	-	-
Transfers from Coverage Account	3,169,143	3,169,143	3,169,143	3,169,143	3,169,143	3,169,143	3,169,143	3,169,143	3,169,143	3,169,143
Total resources available for debt service	$ 14,776,625	$ 14,639,501	$ 13,843,326	$ 15,477,357	$ 17,766,191	$ 19,614,403	$ 20,486,932	$ 20,621,296	$ 20,532,903	$ 20,649,514
Total annual debt service:										
Special Facility Revenue Bonds, Series 2001:										
Principal	$ 1,945,000	$ 2,170,000	$ 2,415,000	$ 2,675,000	$ 2,960,000	$ 3,260,000	$ 3,590,000	$ -	$ -	$ -
Interest	8,501,952	8,386,419	8,255,351	8,108,278	7,944,033	7,759,329	7,552,645	6,006,288	4,691,128	4,691,128
Subtotal Series 2001	10,446,952	10,556,419	10,670,351	10,783,278	10,904,033	11,019,329	11,142,645	6,006,288	4,691,128	4,691,128
Special Facility Refunding Bonds, Series 2014:										
Principal	-	-	-	-	-	-	-	4,355,000	5,160,000	5,305,000
Interest	-	-	-	-	-	-	-	230,243	691,019	652,835
Subtotal Series 2014	-	-	-	-	-	-	-	4,585,243	5,851,019	5,957,835
Total annual debt service	$ 10,446,952	$ 10,556,419	$ 10,670,351	$ 10,783,278	$ 10,904,033	$ 11,019,329	$ 11,142,645	$ 10,591,531	$ 10,542,147	$ 10,648,963
Debt service coverage ratio	1.41	1.39	1.30	1.44	1.63	1.78	1.84	1.95	1.95	1.94

● Customer Facility Charges are used first to pay debt service on the Airport System Special Facilities Taxable Revenue Bonds (Consolidated Rental Car Facility Project), Series 2001 and on the Airport System Special Facilities Taxable Revenue Refunding Bonds (Consolidated Rental Car Facility Project), Series 2014. Additional collections are used to pay administrative costs for the special facility agreement, and then for capital improvements and major repairs on the special facility. Customer facility charges are kept and invested separately by BNYMellon Bank as trustee, and cannot be used for any other City or Airport Fund purpose as long as any Special Facility Revenue Bonds (CRCF) remain outstanding.

● No other City or Airport Fund revenues are pledged toward the payment of Special Facility Revenue Bonds (CRCF).

● The Special Facilities Revenue Bond (CRCF) covenants require the Airport Fund to maintain a debt service coverage ratio of at least 125%

● The City imposed a $3.00 Customer Facility Charge as of April 1, 2001, which was increased to $3.50 effective July 1, 2003, reduced to $3.25 effective April 1, 2005, reduced to $3.00 effective July 1, 2006, increased to $3.75 effective November 1, 2009, increased to $4.25 effective April 1, 2011, reduced to $4.00 effective April 1, 2013, and reduced again to $3.00 effective April 1, 2016, and increased to $4.00 effective April 1, 2017.

● For purposes of coverage calculation, collections are considered available for debt service when they are received by the trustee.

● For purposes of coverage calculation, interest and principal is calculated on the accrual basis, for instance, in 2008, funding is accumulated for payments due on 7/1/2008 and 1/1/2009.

● For more information on the Consolidated Rental Car Facility assets and debt, see Notes 1 and 5.

OUTSTANDING DEBT (in thousands)
STATISTICAL SECTION

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Outstanding debt by type (1):										
Senior lien revenue bonds, fixed rate	$ -	$ -	$ 449,660	$ 449,660	$ 449,660	$ 449,660	$ 449,660	$ 449,660	$ 440,385	$ 430,645
Subordinate lien revenue bonds, fixed rate	1,695,455	1,660,055	1,622,090	1,582,080	1,464,905	1,419,125	1,376,505	1,331,765	1,284,860	1,232,585
Subordinate lien revenue bonds, periodic auction rate	337,950	330,300	322,775	315,550	305,425	298,525	286,300	276,275	266,925	254,475
Subordinate lien revenue bonds, variable rate	92,900	92,900	92,900	93,730	93,630	93,505	93,305	93,105	92,905	92,705
Subtotal, revenue bonds payable	2,126,305	2,083,255	2,487,425	2,441,020	2,313,620	2,260,815	2,205,770	2,150,805	2,085,075	2,010,410
Unamortized discount	(15,686)	(15,153)	(18,071)	(16,216)	(4,176)	(3,905)	(3,619)	(3,317)	(3,016)	(2,717)
Unamortized premium	11,458	10,853	12,319	11,583	96,928	89,587	82,318	75,141	68,118	61,302
Revenue bonds payable, net	$ 2,122,077	$ 2,078,955	$ 2,481,673	$ 2,436,387	$ 2,406,372	$ 2,346,497	$ 2,284,469	$ 2,222,629	$ 2,150,177	$ 2,068,995
Senior lien commercial paper payable	83,000	93,000	6,000	-	-	-	1,200	49,500	87,000	87,000
Inferior lien contract payable	49,700	45,820	41,735	37,430	32,895	28,115	23,075	17,760	12,155	6,240
Pension obligation bonds payable (2)	2,006	2,006	2,006	2,006	2,006	2,006	2,006	2,006	2,006	2,006
Note payable (3)									120,439	115,421
Special facilities revenue bonds, rental car (4)	122,500	120,330	117,915	115,240	112,280	109,020	105,430	102,055	96,895	91,590
Total outstanding debt payable	$ 2,379,283	$ 2,340,111	$ 2,649,329	$ 2,591,063	$ 2,553,553	$ 2,485,638	$ 2,416,180	$ 2,393,950	$ 2,468,672	$ 2,371,252
Total enplaned passengers	26,202,152	24,030,602	24,531,054	24,944,816	25,303,825	25,132,792	25,944,623	26,903,969	27,813,447	27,364,057
Outstanding debt per enplaned passenger	$ 90.80	$ 97.38	$ 108.00	$ 103.87	$ 100.92	$ 98.90	$ 93.13	$ 88.98	$ 88.76	$ 86.66
Outstanding conduit debt:										
Special facilities revenue bonds (5)	$ 466,265	$ 462,940	$ 459,395	$ 455,895	$ 565,500	$ 561,500	$ 561,470	$ 711,790	$ 711,790	$ 711,790

(1) Includes both current and long-term liabilities
(2) A portion of the City of Houston Taxable General Obligation Pension Bonds, Series 2005, has been allocated to the Airport Fund for payment.
(3) The Note is payable to Southwest Airlines with rent credits over a 25 year term with interest, to reimburse Southwest for the construction of the Hobby International Terminal project.
(4) The Special Facilities Revenue and Refunding Bonds (Consolidated Rental Car Facility), Series 2001 and Series 2014, are included in the Airport Fund financial statements (See Note 1 and 5).
(5) These Special Facilities Revenue Bonds are conduit bonds secured solely by lease payments from United Airlines. No revenues of the Airport System Fund are pledged to pay these bonds.

SUMMARY OF CERTAIN FEES AND CHARGES
STATISTICAL SECTION

IAH	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Landing Rates (1) (5)	3.010	3.014	2.931	2.737	2.743	2.850	2.844	2.803	2.812	2.642
Terminal Space Rentals (2) (5)	25.00-87.21	25.26-83.48	24.36-82.96	23.88-80.97	21.38-79.14	21.67-78.25	20.77-72.51	21.75-75.45	22.41-75.77	22.70-74.97
Apron Rentals (2) (5)	2.480-3.050	2.166-3.223	1.926-2.626	1.841-2.613	1.712-2.612	1.927-2.702	2.051-2.576	2.114-2.597	2.326-2.854	2.289-2.832
Aircraft Parking (per day) (4)	70.00-300.00	70.00-300.00	70.00-300.00	70.00-300.00	100.00-400.00	100.00-400.00	100.00-400.00	100.00-400.00	100.00-400.00	100.00-400.00
Cargo (per day) (3)	125.00-450.00	125.00-450.00	125.00-450.00	125.00-450.00	200.00-600.00	200.00-600.00	200.00-600.00	200.00-600.00	200.00-600.00	200.00-600.00
Parking Rates (6)										
Economy (Ecopark) Uncovered (7)	6.00	6.00	5.00	5.00	5.00	5.00	6.00	6.00	6.00	6.00
Economy (Ecopark) Covered (7)			7.00	7.00	7.00	7.00	8.00	8.00	8.00	8.00
Economy (Ecopark2) Covered (8)	-	-	-	-	-	-	-	-	5.00	6.00
Structured (9)	15.00	15.00	17.00	17.00	17.00	17.00	19.00	19.00	20.00	22.00
Sure Park (10)	17.00	17.00	20.00	20.00	20.00	20.00	23.00	23.00	24.00	24.00
Valet (10)	-	-	-	-	-	23.00	25.00	25.00	26.00	26.00

HOU	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Landing Rates (1) (5)	2.013	2.202	2.568	2.227	1.941	1.925	1.768	2.113	1.835	1.982
Terminal Space Rentals (2) (5)	88.69-90.10	84.82-103.79	88.95-110.29	96.91-99.41	90.77-93.27	85.95-88.45	87.73-90.23	92.77-95.27	87.62-90.12	64.79-67.29
Apron Rentals (2) (5)	1.884	2.004	2.355	1.973	1.787	1.815	1.891	2.209	1.765	1.652-1.853
Aircraft Parking (per day) (4)	70.00-300.00	70.00-300.00	70.00-300.00	70.00-300.00	100.00-400.00	100.00-400.00	100.00-400.00	100.00-400.00	100.00-400.00	100.00-400.00
Cargo (per day) (3)	125.00-450.00	125.00-450.00	125.00-450.00	125.00-450.00	200.00-600.00	200.00-600.00	200.00-600.00	200.00-600.00	200.00-600.00	200.00-600.00
Parking Rates (6)										
Economy (Ecopark) (11)	6.00	6.00	8.00	8.00	10.00	10.00	12.00	-	-	-
Economy (Ecopark2) (12)	-	-	6.00	6.00	6.00	6.00	10.00	10.00	10.00	10.00
Structured (9)	15.00	15.00	17.00	17.00	17.00	17.00	19.00	19.00	20.00	22.00
Valet (10)	-	-	-	-	-	23.00	25.00	25.00	26.00	26.00

(1) Per 1,000 pounds of landing weight
(2) Range per square foot
(3) Daily cargo rates increased on August 1, 2011 at Intercontinental and Hobby to a range of $200-$600
(4) Daily aircraft parking rates increased on August 1, 2011 at Intercontinental and Hobby to a range of $100-$400
(5) 2008-2016 actual rates provided versus budgeted, as reported in CAFR 2016 & prior; 2017 budgeted rates provided.
(6) Maximum per day
(7) New rates effective September 1, 2013
(8) New rates effective October 1, 2016
(9) New rates effective May 1, 2017
(10) New rates effective July 1, 2015
(11) Ecopark 1 at Hobby closed March 18, 2014
(12) New rates effective May 5, 2014

PASSENGER STATISTICS
LAST TEN YEARS

Fiscal Year	Domestic Passengers – Intercontinental – Enplanements & Deplanements (in thousands)	Intercontinental – Percentage Change	Hobby – Enplanements & Deplanements (in thousands)	Hobby – Percentage Change	Ellington Airport – Enplanements & Deplanements (in thousands)	Ellington Airport – Percentage Change	Total – Enplanements & Deplanements (in thousands)	Total – Percentage Change
2008	35,200	-0.2%	9,097	5.3%	-	-	44,297	0.9%
2009	31,995	-9.1%	8,286	-8.9%	-	-	40,281	-9.1%
2010	32,093	0.3%	8,755	5.7%	-	-	40,848	1.4%
2011	31,666	-1.3%	9,434	7.8%	-	-	41,100	0.6%
2012	31,778	0.4%	10,192	8.0%	-	-	41,970	2.1%
2013	30,830	-3.0%	10,690	4.9%	-	-	41,520	-1.1%
2014	30,832	0.0%	11,609	8.6%	-	-	42,441	2.2%
2015	31,968	3.7%	11,837	2.0%	-	-	43,805	3.2%
2016	31,959	0.0%	12,208	3.1%	-	-	44,167	0.8%
2017	30,809	-3.6%	12,423	1.8%	-	-	43,232	-2.1%

Fiscal Year	International Passengers – Intercontinental – Enplanements & Deplanements (in thousands)	Intercontinental – Percentage Change	Hobby – Enplanements & Deplanements (in thousands)	Hobby – Percentage Change	Total – Enplanements & Deplanements (in thousands)	Total – Percentage Change	HAS Passengers Total – Enplanements & Deplanements (in thousands)	HAS Passengers Total – Percentage Change
2008	7,976	5.6%	-	-	7,976	5.6%	52,273	1.6%
2009	7,642	-4.2%	-	-	7,642	-4.2%	47,923	-8.3%
2010	8,138	6.5%	-	-	8,138	6.5%	48,986	2.2%
2011	8,732	7.3%	-	-	8,732	7.3%	49,832	1.7%
2012	8,686	-0.5%	-	-	8,686	-0.5%	50,656	1.7%
2013	8,795	1.3%	-	-	8,795	1.3%	50,315	-0.7%
2014	9,470	7.7%	-	-	9,470	7.7%	51,911	3.2%
2015	10,018	5.8%	4	-	10,022	5.8%	53,827	3.7%
2016	10,901	8.8%	519	12875.0%	11,420	13.9%	55,587	3.3%
2017	10,606	-2.7%	860	65.7%	11,466	0.4%	54,698	-1.6%

PASSENGER STATISTICS BY CARRIER
FOR YEARS ENDED JUNE 30, 2017 AND 2016

Domestic

Airlines	Intercontinental Fiscal Year 2016 Total Passengers (in thousands)	Market Share	Intercontinental Fiscal Year 2017 Total Passengers (in thousands)	Market Share	Hobby Fiscal Year 2016 Total Passengers (in thousands)	Market Share	Hobby Fiscal Year 2017 Total Passengers (in thousands)	Market Share
Alaska Airlines	137,433	0.3%	185,191	0.5%	-	0.0%	-	0.0%
American Airlines, Inc.	1,475,647	3.5%	1,749,382	4.2%	-	0.0%	17,213	0.1%
Compass Airlines - AE	139,995	0.3%	147,057	0.4%	-	0.0%	-	0.0%
EpressJet Airlines Inc. - AE	254	0.0%	70	0.0%	44,520	0.4%	25,307	0.2%
Mesa Airlines, Inc. - AE	173,746	0.4%	70,301	0.2%	-	0.0%	146,187	1.1%
Republic Airlines - AE	147,419	0.3%	122,752	0.3%	-	0.0%	-	0.0%
SkyWest Airlines -AE	-	0.0%	91,704	0.2%		0.0%	-	0.0%
Envoy (American Eagle) - AA	45,614	0.1%	63,960	0.1%	116,741	0.8%	107,094	0.8%
American Airlines, Inc. Subtotal	**1,982,675**	**4.6%**	**2,245,226**	**5.4%**	**161,261**	**1.2%**	**295,801**	**2.2%**
Delta	713,550	1.7%	733,804	1.8%	365,340	2.9%	408,046	3.1%
Atlantic Southeast - DL	15,085	0.0%	-	0.0%	63,893	0.5%	39,345	0.3%
Compass Airlines - DL	11,335	0.0%	24,988	0.1%	-	0.0%	-	0.0%
ExpressJet Airlines Inc. - DL	165,258	0.4%	88,483	0.2%		0.0%	-	0.0%
GO JET - DL	11,857	0.0%	48,881	0.1%	-	0.0%	-	0.0%
Endeavor (Pinnacle Airlines, Inc.) - DL	235,024	0.5%	155,063	0.4%	-	0.0%	-	0.0%
Republic Airlines Inc. - DL	-	0.0%	67,960	0.2%	-	0.0%	-	0.0%
Shuttle America Corporation - DL	77,399	0.2%	88,748	0.2%	-	0.0%	-	0.0%
SkyWest Airlines - DL	230,974	0.6%	267,422	0.6%	-	0.0%	38	0.0%
Delta Subtotal	**1,460,482**	**3.4%**	**1,475,349**	**3.6%**	**429,233**	**3.4%**	**447,429**	**3.4%**
Frontier	494,804	1.2%	421,582	1.0%	-	0.0%	-	0.0%
JetBlue	-	0.0%	-	0.0%	165,993	1.3%	190,099	1.4%
Kalitta Charters, LLC		0.0%	1	0.0%	20	0.0%	22	0.0%
Seaport	3,195	0.0%	-	0.0%		0.0%	-	0.0%
Southwest Airlines Company	-	0.0%	-	0.0%	11,271,835	88.5%	11,484,628	86.5%
Southwest Airlines Company Subtotal	**-**	**0.0%**	**-**	**0.0%**	**11,271,835**	**88.5%**	**11,484,628**	**86.5%**
Spirit Airlines	1,678,712	3.9%	1,769,051	4.3%	-	0.0%	-	0.0%
United Airlines Inc.	16,487,410	38.5%	16,252,312	39.2%	-	0.0%	-	0.0%
Mesa Airlines, Inc. - UA	2,290,086	5.2%	2,820,852	6.8%	-	0.0%	-	0.0%
Republic Airlines Inc. - UA	179,327	0.4%	1,015,256	2.4%	-	0.0%	-	0.0%
Trans States - UA	371,322	0.9%	44,096	0.1%	-	0.0%	-	0.0%
ExpressJet Airlines, Inc. - UA	3,894,897	9.1%	3,544,987	8.6%	-	0.0%	-	0.0%
Shuttle America Corporation - UA	508,631	1.2%	4,083	0.0%	-	0.0%	-	0.0%
SkyWest Airlines - UA	1,829,778	4.3%	1,016,617	2.5%	-	0.0%	-	0.0%
United Airlines Inc. Subtotal	**25,561,451**	**59.6%**	**24,698,203**	**59.6%**	**-**	**0.0%**	**-**	**0.0%**
US Airways	587,593	1.4%	-	0.0%	-	0.0%	-	0.0%
Mesa Airlines, Inc. - US	16,820	0.0%	-	0.0%	171,325	1.4%	-	0.0%
Republic Airlines - US	31,025	0.1%	-	0.0%	-	0.0%	-	0.0%
US Airways Subtotal	**635,438**	**1.5%**	**-**	**0.0%**	**171,325**	**1.4%**	**-**	**0.0%**
Charter Airlines	5,173	0.0%	14,185	0.0%	8,475	0.1%	5,379	0.0%
Total Domestic	31,959,363	74.5%	30,808,788	74.4%	12,208,142	95.9%	12,423,358	93.5%

Domestic

Airlines	Houston Airport System Fiscal Year 2016 Total Passengers (in thousands)	Market Share	Houston Airport System Fiscal Year 2017 Total Passengers (in thousands)	Market Share
Alaska Airlines	137,433	0.2%	185,191	0.3%
American Airlines, Inc.	1,475,647	2.7%	1,766,595	3.2%
Compass Airlines - AE	139,995	0.3%	147,057	0.3%
EpressJet Airlines Inc. - AE	44,774	0.1%	25,377	0.0%
Mesa Airlines, Inc. - AE	173,746	0.3%	216,488	0.4%
Republic Airlines - AE	147,419	0.2%	122,752	0.2%
SkyWest Airlines -AE	-	0.0%	91,704	0.2%
Envoy (American Eagle) - AA	162,355	0.3%	171,054	0.3%
American Airlines, Inc. Subtotal	**2,143,936**	**3.9%**	**2,541,027**	**4.6%**
Delta	1,078,890	1.9%	1,141,850	2.0%
Atlantic Southeast - DL	78,978	0.1%	39,345	0.1%
Compass Airlines - DL	11,335	0.0%	24,988	0.0%
ExpressJet Airlines Inc. - DL	165,258	0.3%	88,483	0.2%
GO JET - DL	11,857	0.0%	48,881	0.1%
Endeavor (Pinnacle Airlines, Inc.) - DL	235,024	0.5%	155,063	0.3%
Republic Airlines Inc. - DL	-	0.0%	67,960	0.1%
Shuttle America Corporation - DL	77,399	0.1%	88,748	0.2%
SkyWest Airlines - DL	230,974	0.5%	267,460	0.5%
Delta Subtotal	**1,889,715**	**3.4%**	**1,922,778**	**3.5%**
Frontier	494,804	0.9%	421,582	0.8%
JetBlue	165,993	0.2%	190,099	0.4%
Kalitta Charters, LLC	20	0.0%	23	0.0%
Seaport	3,195	0.0%	-	0.0%
Southwest Airlines Company	11,271,835	20.3%	11,484,628	21.0%
Southwest Airlines Company Subtotal	**11,271,835**	**20.3%**	**11,484,628**	**21.0%**
Spirit Airlines	1,678,712	3.1%	1,769,051	3.2%
United Airlines Inc.	16,487,410	29.7%	16,252,312	29.7%
Mesa Airlines, Inc. - UA	2,290,086	4.1%	2,820,852	5.2%
Republic Airlines Inc. - UA	179,327	0.3%	1,015,256	1.8%
Trans States - UA	371,322	0.7%	44,096	0.1%
ExpressJet Airlines, Inc. - UA	3,894,897	7.0%	3,544,987	6.5%
Shuttle America Corporation - UA	508,631	0.9%	4,083	0.0%
SkyWest Airlines - CO	1,829,778	3.3%	1,016,617	1.9%
United Airlines Inc. Subtotal	**25,561,451**	**46.0%**	**24,698,203**	**45.2%**
US Airways	587,593	1.1%	-	0.0%
Mesa Airlines, Inc. - US	188,145	0.3%	-	0.0%
Republic Airlines - US	31,025	0.1%	-	0.0%
US Airways Subtotal	**806,763**	**1.5%**	**-**	**0.0%**
Charter Airlines	13,648	0.0%	19,564	0.0%
Total Domestic	44,167,505	79.5%	43,232,146	79.0%

PASSENGER STATISTICS BY CARRIER TOTAL
FOR YEARS ENDED JUNE 30, 2017 AND 2016

International	Intercontinental Fiscal Year 2016 Total Passengers (in thousands)	Intercontinental Fiscal Year 2016 Market Share	Intercontinental Fiscal Year 2017 Total Passengers (in thousands)	Intercontinental Fiscal Year 2017 Market Share	Hobby Fiscal Year 2016 Total Passengers (in thousands)	Hobby Fiscal Year 2016 Market Share	Hobby Fiscal Year 2017 Total Passengers (in thousands)	Hobby Fiscal Year 2017 Market Share
AeroMexico	255,215	0.5%	255,782	0.6%	-	0.0%	-	0.0%
All Nippon Airways Company, Ltd. - ANA	140,370	0.3%	147,727	0.4%	-	0.0%	-	0.0%
American	545	0.0%	1,304	0.0%	-	0.0%	-	0.0%
Mesa Airlines - AE	-	0.0%	154	0.0%	-	0.0%	-	0.0%
American Airlines, Inc. Subtotal	**545**	**0.0%**	**1,458**	**0.0%**	**-**	**0.0%**	**-**	**0.0%**
Air China	132,565	0.3%	117,743	0.3%	-	0.0%	-	0.0%
Air France	144,162	0.3%	152,537	0.4%	-	0.0%	-	0.0%
Air New Zealand	72,132	0.2%	141,272	0.3%	-	0.0%	-	0.0%
Atlas Air	22,599	0.1%	16,131	0.0%	-	0.0%	-	0.0%
British Airways	243,464	0.6%	240,874	0.6%	-	0.0%	-	0.0%
Emirates	253,140	0.6%	202,812	0.5%	-	0.0%	-	0.0%
EVA Airways Corporation	120,942	0.3%	175,392	0.4%	-	0.0%	-	0.0%
Interjet	132,349	0.3%	136,881	0.3%	-	0.0%	-	0.0%
Jazz Air - AC	290,184	0.7%	302,752	0.7%	-	0.0%	-	0.0%
KLM	156,409	0.4%	165,431	0.4%	-	0.0%	-	0.0%
Kalitta Charters, LLC	-	0.0%	-	0.0%	3	0.0%	1	0.0%
Korean Air Lines Co., Ltd.	99,933	0.2%	79,779	0.2%	-	0.0%	-	0.0%
Lufthansa	278,409	0.6%	291,713	0.7%	-	0.0%	-	0.0%
Qatar Airways	159,583	0.4%	154,652	0.4%	-	0.0%	-	0.0%
Scandinavian Airlines	5,090	0.0%	-	0.0%	-	0.0%	-	0.0%
Singapore Airlines	79,342	0.2%	83,037	0.2%	-	0.0%	-	0.0%
Spirit Airlines	217,865	0.5%	120,767	0.3%	-	0.0%	-	0.0%
Southwest Airlines Company	-	0.0%	-	0.0%	519,473	4.1%	860,206	6.5%
TACA	57,093	0.1%	63,924	0.2%	-	0.0%	-	0.0%
Turkish Airlines	193,892	0.6%	167,402	0.4%	-	0.0%	-	0.0%
United Airlines Inc.	6,467,458	15.1%	6,229,253	15.0%	-	0.0%	-	0.0%
ExpressJet Airlines, Inc. - UA	451,177	1.1%	281,987	0.7%	-	0.0%	-	0.0%
Mesa Airlines - UA	124,619	0.3%	844,395	2.0%	-	0.0%	-	0.0%
Republic Airlines Inc. - UA	565	0.0%	1,177	0.0%	-	0.0%		0.0%
Shuttle America Corporation - UA	1,108	0.0%	-	0.0%	-	0.0%	-	0.0%
SkyWest Airlines - UA	645,101	1.5%	75,915	0.2%	-	0.0%	-	0.0%
United Airlines Inc. Subtotal	**7,690,028**	**18.0%**	**7,432,727**	**17.9%**	**-**	**0.0%**	**-**	**0.0%**
WestJet Airlines	45,055	0.1%	61,524	0.2%	-	**0.0%**	-	**0.0%**
Viva Aerobus	63,103	0.1%	40,879	0.1%	-	0.0%	-	0.0%
Volaris Airline	40,550	0.1%	48,660	0.1%	-	0.0%	-	0.0%
Charter Airlines	6,634	0.0%	4,599	0.0%	-	0.0%	-	0.0%
Total International	10,900,653	25.5%	10,606,455	25.6%	519,476	4.1%	860,207	6.5%
Total Airlines	42,860,016	100.0%	41,415,243	100.0%	12,727,618	100.0%	13,283,565	100.0%

International / Airlines	Houston Airport System Fiscal Year 2016 Total Passengers (in thousands)	Houston Airport System Fiscal Year 2016 Market Share	Houston Airport System Fiscal Year 2017 Total Passengers (in thousands)	Houston Airport System Fiscal Year 2017 Market Share
AeroMexico	255,215	0.5%	255,782	0.5%
All Nippon Airways Company, Ltd. - ANA	140,370	0.3%	147,727	0.3%
American	545	0.0%	1,304	0.0%
Mesa Airlines - AE	-	0.0%	154	0.0%
American Airlines, Inc. Subtotal	**545**	**0.0%**	**1,458**	**0.0%**
Air China	132,565	0.2%	117,743	0.2%
Air France	144,162	0.3%	152,537	0.3%
Air New Zealand	72,132	0.1%	141,272	0.3%
Atlas Air	22,599	0.0%	16,131	0.0%
British Airways	243,464	0.4%	240,874	0.4%
Emirates	253,140	0.5%	202,812	0.4%
EVA Airways Corporation	120,942	0.2%	175,392	0.3%
Interjet	132,349	0.2%	136,881	0.2%
Jazz Air - AC	290,184	0.5%	302,752	0.6%
KLM	156,409	0.3%	165,431	0.3%
Kalitta Charters, LLC	3	0.0%	1	0.0%
Korean Air Lines Co., Ltd.	99,933	0.2%	79,779	0.1%
Lufthansa	278,409	0.5%	291,713	0.5%
Qatar Airways	159,583	0.3%	154,652	0.3%
Scandinavian Airlines	5,090	0.0%	-	0.0%
Singapore Airlines	79,342	0.1%	83,037	0.2%
Spirit Airlines	217,865	0.5%	120,767	0.2%
Southwest Airlines Company	519,473	0.9%	860,206	1.6%
TACA	57,093	0.1%	63,924	0.1%
Turkish Airlines	193,892	0.3%	167,402	0.3%
United Airlines Inc.	6,467,458	11.6%	6,229,253	11.4%
ExpressJet Airlines, Inc.	451,177	0.8%	281,987	0.5%
Mesa Airlines - UA	124,619	0.2%	844,395	1.6%
Republic Airlines Inc. - UA	565	0.0%	1,177	0.0%
Shuttle America Corporation - UA	1,108	0.0%	-	0.0%
SkyWest Airlines - UA	645,101	1.2%	75,915	0.1%
United Airlines Inc. Subtotal	**7,690,028**	**13.8%**	**7,432,727**	**13.6%**
WestJet Airlines	**45,055**	**0.1%**	**61,524**	**0.1%**
Viva Aerobus	63,103	0.1%	40,879	0.1%
Volaris Airline	40,550	0.1%	48,660	0.1%
Charter Airlines	6,634	0.0%	4,599	0.0%
Total International	11,420,129	20.5%	11,466,662	21.0%
Total Airlines	55,587,634	100.0%	54,698,808	100.0%

ORIGINATING PASSENGER ENPLANEMENTS
STATISTICAL SECTION

George Bush Intercontinental Airport

Fiscal Year	Originating Enplanements	Connecting Enplanements	Total Enplaned Passengers	Originating Enplanement Percentage
2008	10,449,631	11,190,625	21,640,256	48.3%
2009	9,190,724	10,680,955	19,871,679	46.3%
2010	9,278,705	10,854,946	20,133,651	46.1%
2011	9,696,972	10,508,661	20,205,633	48.0%
2012	9,926,431	10,249,285	20,175,716	49.2%
2013	9,235,098	10,521,105	19,756,203	46.7%
2014	9,653,120	10,452,170	20,105,290	48.0%
2015	10,453,670	10,504,885	20,958,555	49.9%
2016	11,128,767	10,301,326	21,430,093	51.9%
2017	11,105,026	9,598,774	20,703,800	53.6%

William P. Hobby Airport

Fiscal Year	Originating Enplanements	Connecting Enplanements	Total Enplaned Passengers	Originating Enplanement Percentage
2008	3,605,540	956,631	4,562,171	79.0%
2009	3,322,678	836,245	4,158,923	79.9%
2010	3,343,393	1,054,010	4,397,403	76.0%
2011	3,617,541	1,121,642	4,739,183	76.3%
2012	3,906,900	1,221,209	5,128,109	76.2%
2013	3,959,666	1,416,922	5,376,588	73.6%
2014	4,134,726	1,701,165	5,835,891	70.8%
2015	4,271,166	1,674,247	5,945,413	71.8%
2016	4,695,633	1,687,702	6,383,335	73.6%
2017	4,852,811	1,807,446	6,660,257	72.9%

Houston Airport System

Fiscal Year	Originating Enplanements	Connecting Enplanements	Total Enplaned Passengers	Originating Enplanement Percentage
2008	14,055,171	12,147,256	26,202,427	53.6%
2009	12,513,402	11,517,200	24,030,602	52.1%
2010	12,622,098	11,908,956	24,531,054	51.5%
2011	13,314,513	11,630,303	24,944,816	53.4%
2012	13,833,331	11,470,494	25,303,825	54.7%
2013	13,194,764	11,938,027	25,132,791	52.5%
2014	13,787,846	12,153,335	25,941,181	53.2%
2015	14,724,836	12,179,132	26,903,968	54.7%
2016	15,824,400	11,989,028	27,813,428	56.9%
2017	15,957,837	11,406,220	27,364,057	58.3%

AIRCRAFT OPERATIONS, LANDING WEIGHT AND CARGO ACTIVITY
STATISTICAL SECTION

	Aircraft Operations (in thousands)			Aircraft Landed Weight (in million pounds)		
Fiscal Year	Total	Increase (Decrease)	Percentage Change	Total	Increase (Decrease)	Percentage Change
2008	974	(9)	-0.88%	34,096	166	0.49%
2009	892	(82)	-8.42%	31,907	(2,189)	-6.42%
2010	858	(34)	-3.86%	31,707	(200)	-0.63%
2011	861	3	0.34%	32,564	857	2.70%
2012	838	(23)	-2.65%	32,844	280	0.86%
2013	799	(39)	-4.62%	33,041	197	0.60%
2014	811	12	1.44%	33,878	837	2.53%
2015	816	5	0.64%	31,894	(1,984)	-5.86%
2016	787	(29)	-3.55%	35,517	3,623	11.36%
2017	760	(27)	-3.43%	34,644	(873)	-2.46%

Cargo Activity (in metric tons)					
Fiscal Year	Domestic Freight	International Freight	Mail	Total Cargo	Year-over-Year Change
2008	210,532	181,091	34,957	426,580	1.0%
2009	186,085	164,840	36,082	387,007	-9.3%
2010	195,617	181,453	37,011	414,081	7.0%
2011	205,174	208,748	33,897	447,819	8.1%
2012	200,619	219,318	33,253	453,190	1.2%
2013	201,464	218,311	27,142	446,917	-1.4%
2014	193,054	226,123	27,333	446,510	-0.1%
2015	192,169	253,039	30,026	475,234	6.4%
2016	195,644	205,381	25,693	426,718	-10.2%
2017	210,730	220,172	24,903	455,805	6.8%

PERFORMANCE MEASURES
STATISTICAL SECTION

Performance Measures	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue per Enplaned Passenger	$ 19.57	$ 19.43	$ 21.28	$ 20.05	$ 20.05	$ 20.35	$ 21.05	$ 22.10	$ 22.40	$ 22.61
Maintenance and Operations Expenses per Enplaned Passenger	$ 8.76	$ 10.04	$ 9.99	$ 11.40	$ 10.44	$ 10.83	$ 10.99	$ 10.65	$ 11.34	$ 9.30
Debt Service per Enplaned Passenger	$ 6.41	$ 6.71	$ 6.37	$ 6.81	$ 6.43	$ 6.58	$ 6.47	$ 6.54	$ 6.69	$ 7.04
Outstanding Debt per Enplaned Passenger (1)	$ 90.97	$ 97.56	$ 108.23	$ 104.06	$ 97.25	$ 95.49	$ 90.10	$ 86.31	$ 86.42	$ 84.51
Intercontinental Budgeted Airline Cost per Est. Enplaned Passenger (2)	$ 11.26	$ 11.04	$ 11.06	$ 10.42	$ 10.79	$ 10.72	$ 11.21	$ 11.28	$ 10.94	$ 11.31
Intercontinental Actual Airline Cost per Enplaned Passenger (2)	$ 11.03	$ 11.53	$ 10.52	$ 10.52	$ 10.39	$ 10.52	$ 10.61	$ 10.56	$ 10.62	$ 11.10
Hobby Budgeted Airline Cost per Est. Enplaned Passenger (2)	$ 8.40	$ 8.20	$ 9.44	$ 7.99	$ 7.24	$ 7.34	$ 7.37	$ 6.99	$ 6.76	$ 6.48
Hobby Actual Airline Cost per Enplaned Passenger (2)	$ 7.79	$ 8.64	$ 8.75	$ 7.68	$ 6.63	$ 6.64	$ 6.19	$ 6.43	$ 7.15	$ 6.15

(1) The calculation of outstanding debt per enplaned passenger does not include unamortized discount and premium.

(2) Airline Costs include terminal building charges, aircraft parking apron charges and landing fees only for passenger carriers. The costs are calculated during the rates and charges process based on budget and estimated passengers. They are then recalculated, after the annual audit, during the rates and charges reconciliation process. The estimated costs utilized are based on projected results and are subjected to change.

CASH AVAILABLE BY DAYS FUNDED (in thousands)
STATISTICAL SECTION

	2010	2011	2012	2013	2014	2015	2016	2017
Airport System Revenue Fund (1) (2)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Operating & Maintenance Reserve (3)	41,417	42,643	43,630	46,397	49,633	50,754	51,615	51,807
Renewal & Replacement Fund (4)	19,194	19,777	20,876	11,822	11,822	10,011	10,001	10,514
Airports Improvement Fund (4)	403,564	438,368	455,030	460,634	487,974	396,631	449,768	417,930
Total cash available for operations	$ 464,175	$ 500,788	$ 519,536	$ 518,853	$ 549,429	$ 457,396	$ 511,384	$ 480,251
Maintenance and operating expense (5)(6)	$ 245,147	$ 262,668	$ 255,507	$ 252,745	$ 268,745	$ 283,557	$ 314,715	$ 254,506
Days in fiscal year	365	365	366	365	365	365	366	365
Daily cash requirement	$ 672	$ 720	$ 698	$ 692	$ 736	$ 777	$ 860	$ 697
Days funded	691	696	744	749	746	589	595	689
Total Airport System Cash and Investments	$ 1,045,347	$ 1,057,458	$ 1,034,122	$ 1,087,394	$ 1,139,956	$ 1,222,307	$ 1,248,346	$ 1,259,622

(1) The funds are listed in order of availability; each fund must be fully depleted before the next can be used.

(2) Available funding in the Airport System Revenue Fund on June 30th is transferred to the Airports Improvement Fund to comply with airport bond ordinances.

(3) Excludes operating grant included in amount restricted for maintenance and operations on Statement of Net Position.

(4) Excludes cash required for accrued liabilities and capital appropriations.

(5) Excludes asset impairments and write-offs and expense incurred on cancelled capital projects.Includes interest expense for pension obligation bonds and the note payable to Southwest Airlines.

(6) Maintenance and operating expense funded by cash available for operations decreased by $60.2 million between FY2017 and FY2016, primarily due to a $67.4 million decrease in pension expense associated with pension reform enacted in 2017. Without the reform, it is estimated that days funded at 6/30/2017 would be 557.

All of the necessary appropriation data for years before FY2010 is not readily available; this table will be expanded to cover ten years as soon as data is available.

AIRPORT INFORMATION
STATISTICAL SECTION

	IAH	HOU	EFD (1)
Location	22 miles N of downtown Houston	7 miles SE of downtown Houston	15 miles SE of downtown Houston
Area	10,080.10 acres	1,501.9 acres	1,944.60 acres
Elevation	97 MSL	46 MSL	32 MSL
Airport Code	IAH	HOU	EFD
Runways	8R-26L 9,402x150 ft 9-27 10,000x150 ft 15L-33R 12,001x150 ft 15R-33L 10,000x150 ft 8L-26R 9,000x150 ft	13L-31R 5,148x100 ft 13R-31L 7,602x150 ft 17-35 6,000x150 ft 4-22 7,602x150 ft	17L-35R 4,609x 80 ft 17R-35L 9,001x150 ft 4-22 8,001x150 ft
Terminal Space	Airlines 2,942,710 sf Tenants 188,306 sf Public/Common 769,716 sf Mechanical 278,048 sf Other 198,289 sf Total 4,377,069 sf	Airlines 537,790 sf Tenants 63,672 sf Public/Common 147,287 sf Mechanical 115,815 sf Other 47,615 sf Total 912,179 sf	n/a
Number of Gates/Hardstand Positions	128/7	30/n/a	n/a
Commercial Airlines Apron	4,023,940 sf	681,239 sf	n/a
Rental Car Facility	10 Rental Car Agencies	12 Rental Car Agencies	n/a
Parking Spaces	S-T Hourly 15,320 L-T ECO 8,612 Employee 2,030 Total 25,962	S-T Hourly 5,601 L-T ECO 934 Employee 871 Total 7,406	n/a

Note 1: No scheduled commercial flights.

EMPLOYEE STAFFING BY FUNCTION
STATISTICAL SECTION

Full time Equivalent (FTE)
Number of Employees (1)

Department	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Administration	331.5	343.8	347.8	361.0	329.6	292.3	303.5	314.3	343.0	321.1
George Bush Intercontinental (IAH) Operations (2)	916.9	898.7	851.7	833.9	789.9	755.8	775.6	704.4	630.5	620.4
William P. Hobby (HOU) Operations (2)	309.9	331.6	314.7	300.8	266.6	264.1	260.1	245.6	246.3	244.2
Ellington Airport Operations (2)	28.9	30.7	30.5	30.8	28.9	27.3	29.5	27.7	25.4	25.8
Total FTE Employees	1,587.2	1,604.8	1,544.7	1,526.5	1,415.0	1,339.5	1,368.7	1,292.0	1,245.2	1,211.5

Note 1: A full-time employee is scheduled to work 2,080 hours per year (including vacation and sick leave). Full time equivalent employment is calculated by dividing total labor hours including overtime by 2,080. Human Resources, Police and Fire Operations are not included in employee counts for the Houston Airport System. They are provided by the City of Houston and paid for through interfund service charges. See Note #8 in the Notes to the Financial Statements.

Note 2: Includes Airside, Landside, Communication Center and Ground Transportation.

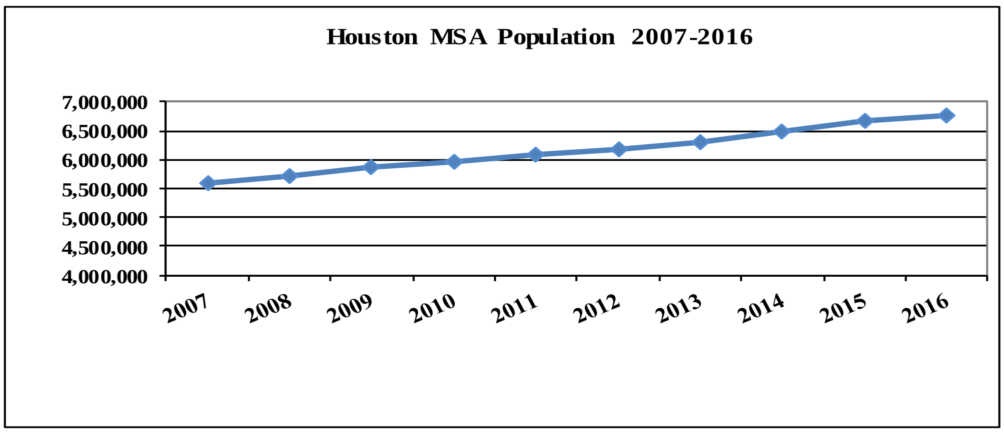
SERVICE AREA/SERVICE AREA POPULATION/PRINCIPAL EMPLOYERS
STATISTICAL SECTION

The primary service region for the Houston Airport System, the 9-county Houston-The Woodlands-Sugar Land Metropolitan Statistical Area ("MSA"), has a diverse economic base and is recognized as a major national and international energy, financial, medical, transportation, retail, and distribution center. The MSA extends out five additional counties of Matagorda, Trinity, Walker, Washington, and Wharton for the broader The Houston-The Woodlands Combined Statistical Area (“CSA”). According to U.S. Bureau of the Census, the population estimate was 6.77 million for the MSA and 6.97 million for the CSA as of July 1, 2016.

Houston, the nation's fourth most populous city, is the largest in the South and Southwest. The Houston MSA ranks fifth in population among the nation's metropolitan areas.

Service Area Population

Year	Houston MSA Population
2007	5,597,674
2008	5,726,705
2009	5,867,489
2010	5,946,800
2011	6,086,538
2012	6,177,035
2013	6,313,158
2014	6,490,180
2015	6,656,947
2016	6,772,470



PRINCIPAL EMPLOYERS
Current Year and Nine Years Ago

Employer	June 30, 2017			June 30, 2008		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Walmart	37,000	1	3.18%			
Memorial Hermann Health System	24,108	2	2.07%	19,000	1	1.90%
HEB	23,732	3	2.04%			
University of Texas MD Anderson Cancer Center	21,086	4	1.81%	15,000	3	1.50%
McDonald's Corp	20,918	5	1.80%			
Houston Methodist	20,000	6	1.72%	9,991	7	1.00%
Kroger Company	16,000	7	1.38%	12,000	6	1.20%
United Airlines	14,941	8	1.28%			
Schlumberger Limited	12,069	9	1.04%			
Shell Oil Company	11,507	10	0.99%	13,000	4	1.30%
Continental Airlines, Inc.				16,000	2	1.60%
ARAMARK Corp.				8,500	10	0.85%
Baylor College of Medicine				9,143	8	0.91%
Hewlett-Packard Corporation				9,000	9	0.90%
University of Tx Medical Branch at Galveston				12,318	5	1.23%
Total :	201,361		17.31%	123,952		12.39%

SOURCE: GHP Houston Facts-2017; Here is Houston Facts (9/6/2017)

Employers excludes school districts and city, county, state and federal governments.
Employee numbers are for the ten-county region, not the city only.
Employee may live outside the City.

Total Houston Residents employed regardless of where they work:

June 2017 Local Area Unemployment Statistics, Bureau of Labor Statistics	2017	1,163,299
June 2008 Texas Workplace Commission	2008	999,582

DEMOGRAPHIC AND ECONOMIC STATISTICAL SECTION

Fiscal Year	Population (1)		Personal Income (in thousands) (2)	Per Capital Personal Income (2)		Median Age (2)		Education Level in Years of Formal Schooling (2)		School Enrollment (2)		Average Unemployment Rate (percentage) (3)	
2008	2,208,180		$ 54,306,140	$ 26,836		32.8		Not available		811,154	(5)	4.2	(2)
2009	2,244,615		$ 57,795,120	$ 25,563		32.9		13.2		520,118	(6)	5.9	(2)
2010	2,257,926		$ 51,886,111	$ 24,623		32.8		12.4		525,506	(6)	7.0	(2)
2011	2,099,451	(11)	Not available	$ 26,109		32.2		12.7		560,316	(6)	8.2	(7)
2012	2,145,146		Not available	$ 26,179	(8)	33.2	(9)	13.0	(9)	576,020	(8)	7.5	(10)
2013	2,160,821		Not available	$ 26,849	(8)	32.1	(8)	13.0	(6), (8)	548,061	(6)	6.5	(7)
2014	2,195,914		Not available	$ 27,029	(8)	32.3	(8)	13.0	(8)	557,780	(8)	9.0	(8)
2015	2,239,558		Not available	$ 27,305	(11)	32.4	(11)	13.0	(6), (8)	564,871	(8)	4.4	(12)
2016	2,296,224	(8)	Not available	$ 27,938	(8)	32.6	(8)	13.0	(6), (8)	580,250	(8)	5.8	(10)
2017	2,303,482	(8)	Not available	$ 28,503	(8)	32.6	(8)	13.1	(6), (8)	594,377	(8)	5.7	(10)

(1) Source: Population Estimate program, U. S. Census Bureau, as of the beginning of the fiscal year. (Fiscal year 2016 is as of July 1, 2015.)

(2) Source: American Community Survey, U. S. Census Bureau. (Fiscal year 2016 data is for calendar year 2015.)

(4) Source: Texas Workforce Commission

(5) School enrollment for the City of Houston is not available. The number reflects the Houston metropolitan area.

(6) School enrollment includes nursery school through graduate school.

(7) Source: Local Area Unemployment Statistics, Bureau of Labor Statistics Texas Workforce Commission

(8) Source: U. S. Census Bureau FactFinder

(9) This is the average for the MSA (Metropolitan Service Area).

(10) Source: Bureau of Labor Statistics

(11) Source: American FactFinder

(12) Source: Texas Labor Market TRACER

[Intentionally left blank]

Take-Off by Carter Ernst & Paul Kittelson

COMPLIANCE SECTION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

CITY OF HOUSTON
TEXAS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE PASSENGER FACILITY CHARGE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH REQUIREMENTS ISSUED BY THE FEDERAL AVIATION ADMINISTRATION

To the Honorable Mayor, Members of City Council
and City Controller of the City of Houston, Texas

Report on Compliance

We have audited the City of Houston, Texas ("the City") compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies,* issued by the Federal Aviation Administration ("the Guide"), that could have a direct and material effect on its Passenger Facility Charge ("PFC") Program for the year ended June 30, 2017.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its PFC.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the City's PFC program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the PFC program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the PFC program; however, our audit does not provide a legal determination on the City's compliance.

4828 Loop Central Drive • Suite 1000 • Houston, TX • 77081

Opinion

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the PFC program for the year ended June 30, 2017.

Report on Internal Control over **Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the PFC program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the PFC program and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion of the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or to detect and correct, noncompliance with a type of compliance requirement of the Guide on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of the Guide will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a PFC program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weakness or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.

McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

BANKS, FINLEY, WHITE & CO.
CERTIFIED PUBLIC ACCOUNTANTS

To the Honorable Mayor, Members of City Council
and City Controller of the City of Houston, Texas
November 20, 2017

Report on Passenger Facility Charge Revenues and Disbursements Schedules

We have audited the basic financial statements of the City, as of and for the year ended June 30, 2017, and have issued our report thereon dated November 20, 2017, which contained an unmodified opinion on those financial statements and a reference to other auditors. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying passenger facility charge revenues and disbursements schedules are presented for purposes of additional analysis as required by the Guide and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the passenger facility charge revenues and disbursements schedules are fairly stated in all material respects in relation to the financial statements as a whole.

McConnell & Jones LLP   Banks, Finley, White & Co.

November 20, 2017

4828 Loop Central Drive • Suite 1000 • Houston, TX • 77081

CITY OF HOUSTON, TEXAS
PASSENGER FACILITY CHARGE REVENUES AND DISBURSEMENTS SCHEDULE
CITY OF HOUSTON AIRPORT SYSTEM
WILLIAM P. HOBBY AIRPORT (HOU)
For the Year Ended June 30, 2017

	June 30, 2016 Program Total	Quarter 1 Jul-Sept	Quarter 2 Oct-Dec	Quarter 3 Jan-Mar	Quarter 4 Apr-Jun	FY 2017 Total	June 30, 2017 Program Total
REVENUES							
Collections (Note 3)	$ 133,432,136	6,182,224	5,654,398	5,763,785	6,463,188	24,063,595	$ 157,495,731
Interest	2,377,197	119,323	146,352	139,622	93,016	498,313	2,875,510
Total Revenues	135,809,333	6,301,547	5,800,750	5,903,407	6,556,204	24,561,908	160,371,241
DISBURSEMENTS							
1.01 Rehab Runways	2,857,271	-	29,676	-	161,028	190,704	3,047,975
1.02 Rehab & Modification to Taxiways	13,429,853	-	72,462	-	342,696	415,158	13,845,011
1.03 Expand Taxiway Electrical System	3,220,026	-	-	-	-	-	3,220,026
1.04 Arpt Drainage & Stormwater Improvs	3,366,230	-	73,830	-	196,732	270,562	3,636,792
1.05 Acquire Runway 17 Protection Zone	487,746	-	6,047	-	23,968	30,015	517,761
1.06 Airfield Lighting & Control	7,062,960	-	30,010	-	35,020	65,030	7,127,990
1.07 Central Terminal Expansion	25,224,594	-	279,037	-	1,084,292	1,363,329	26,587,923
1.08 Conduct Master Plan	393,948	-	-	-	-	-	393,948
1.09 Central Concourse Equipment	12,541,851	-	106,035	-	200,936	306,971	12,848,822
1.10 Apron Reconstruction	2,505,217	-	129,987	-	221,388	351,375	2,856,592
1.11 Taxiway & Taxilane Reconstruction	5,244,390	-	272,112	-	463,452	735,564	5,979,954
1.12 Overlay Runway 12R/30L	5,047,388	-	33,092	-	52,231	85,323	5,132,711
1.13 Perimeter Fencing & Obstruction	1,509,231	-	1,266	-	1,999	3,265	1,512,496
1.14 Access Controls & Telecom	479,939	-	37,288	-	58,856	96,144	576,083
1.15 Environmental Impact Statement	200,576	-	5,737	-	15,081	20,818	221,394
1.16 Land Acquisition RW4 RPZ	565,283	-	1,877	-	8,878	10,755	576,038
1.17 Drainage/Stormwater Plan	1,375,000	-	-	-	-	-	1,375,000
1.18 PFC Consulting, Admin, Audit	97,621	-	-	-	-	-	97,621
Subtotal HOU 1.00 Projects	85,609,124	-	1,078,456	-	2,866,557	3,945,013	89,554,137
2.03 International Terminal - Roadways	-	-	-	3,295,421	-	3,295,421	3,295,421
2.04 Elevated passenger walkway	-	-	-	449,304	-	449,304	449,304
2.05 Satellite utilities plant - Phase I	-	-	-	1,458,059	-	1,458,059	1,458,059
2.07 Central concourse expansion	-	-	-	25,815,725	9,662,512	35,478,237	35,478,237
2.08 Explosive detection baggage equip.	-	-	-	5,295,282	-	5,295,282	5,295,282
2.09 Partial reconstruction R/W 4-22	-	-	-	-	1,407,091	1,407,091	1,407,091
2.10 Partial reconstruction Taxiway C	-	-	-	-	356,727	356,727	356,727
2.11 Partial reconstruct NE perimeter rd	-	-	-	-	218,000	218,000	218,000
Subtotal HOU 2.00 Projects	-	-	-	36,313,791	11,644,330	47,958,121	47,958,121
Total Disbursements	85,609,124	-	1,078,456	36,313,791	14,510,887	51,903,134	137,512,258
Net PFC Revenues	$ 50,200,209	6,301,547	4,722,294	(30,410,384)	(7,954,683)	(27,341,226)	$ 22,858,983
PFC Account Balance	$ 50,200,209	56,501,756	61,224,050	30,813,666	22,858,983	22,858,983	$ 22,858,983

See Notes to the Passenger Facility Charge Revenues and Disbursements Schedules.

CITY OF HOUSTON, TEXAS
PASSENGER FACILITY CHARGE REVENUES AND DISBURSEMENTS SCHEDULE
CITY OF HOUSTON AIRPORT SYSTEM
GEORGE BUSH INTERCONTINENTAL AIRPORT (IAH)
For the Year Ended June 30, 2017

	June 30, 2016 Program Total	Quarter 1 Jul-Sept	Quarter 2 Oct-Dec	Quarter 3 Jan-Mar	Quarter 4 Apr-Jun	FY 2017 Total	June 30, 2017 Program Total
REVENUES							
Collections (Note 3)	$ 414,050,383	20,243,899	18,318,552	18,337,414	14,746,122	71,645,987	$ 485,696,370
Interest	5,534,572	335,480	414,520	426,512	396,201	1,572,713	7,107,285
Total Revenues	419,584,955	20,579,379	18,733,072	18,763,926	15,142,323	73,218,700	492,803,655
DISBURSEMENTS							
1.01 Automated People Mover System	135,387,173	256,026	4,709,961	171,600	16,092,071	21,229,658	156,616,831
1.02 Terminal B Expansion & Improvements	33,539,948	-	866,512	51,667,000	5,043,499	57,577,011	91,116,959
1.03 Central FIS Facility	66,759,283	-	2,370,715	-	6,612,291	8,983,006	75,742,289
1.04 North Parallel Runway 8L/26R	23,925,688	-	1,008,486	-	2,012,648	3,021,134	26,946,822
1.05 Administrative Costs	112,917	-	-	-	-	-	112,917
1.06 Central Plant HVAC Upgrades	8,261,805	-	377,579	-	4,859,401	5,236,980	13,498,785
1.07 Terminal A/B South Taxiways	10,457,702	-	404,715	-	1,087,999	1,492,714	11,950,416
Total Disbursements	278,444,516	256,026	9,737,968	51,838,600	35,707,909	97,540,503	375,985,019
Net PFC Revenues	$ 141,140,439	20,323,353	8,995,104	(33,074,674)	(20,565,586)	(24,321,803)	$ 116,818,636
PFC Account Balance	$ 141,140,439	161,463,792	170,458,896	137,384,222	116,818,636	116,818,636	$ 116,818,636

See Notes to the Passenger Facility Charge Revenues and Disbursements Schedules.

CITY OF HOUSTON, TEXAS
NOTES TO THE PASSENGER FACILITY CHARGE REVENUES AND DISBURSEMENTS SCHEDULES
For the year ended June 30, 2017

NOTE 1 - PASSENGER FACILITY CHARGE PROGRAM

The Passenger Facility Charge ("PFC") was established by Title 49, United States Code ("U.S.C."), Section 40117, which authorizes the Secretary of Transportation (further delegated to the FAA Administrator) to approve the local imposition of an airport PFC of $1, $2, $3, $4, or $4.50 per enplaned passenger for use on certain airport projects. Under Part 158, public agencies (as defined in the statute and regulation) controlling commercial service airports can apply to the FAA for authority to impose a PFC for use on eligible projects.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The accompanying passenger facility charge revenues and disbursements schedules present revenues received on a cash basis, while expenditures are reported based upon the allocation of costs to approved projects.

NOTE 3 - RECONCILIATION TO STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Passenger facility charges are reported on an accrual basis in the City of Houston Airport System Fund Statement of Revenues, Expenses and changes in Net Position in the Comprehensive Annual Financial Report. Reporting standards adopted by the FAA require for purposes of the PFC Revenues and Disbursements Schedule such charges be reported on a cash basis. A reconciliation between cash collections and revenue reported on the accrual basis is as follows:

Fiscal year 2017	William P. Hobby Airport	George Bush Intercontinental	Airport System Total
Passenger Facility Charges:			
Cash collections per Revenues and Disbursements Schedule	$ 24,063,595	$ 71,645,987	$ 95,709,582
Less prior year accrual	(2,213,634)	(7,330,056)	(9,543,690)
Add current year accrual	2,338,353	13,034,554	15,372,907
Amounts per Statement of Revenues, Expenses and Changes in Net Position	$ 24,188,314	$ 77,350,485	$ 101,538,799

CITY OF HOUSTON, TEXAS
PASSENGER FACILITY CHARGE PROGRAM AUDIT SUMMARY
For the year ended June 30, 2017

1.	Type of report issued on PFC financial statements.	Unmodified
2.	Type of report on PFC compliance.	Unmodified
3.	Quarterly Revenues and Disbursements reconcile with submitted quarterly reports and reported un-liquidated revenue matches actual amounts.	___X___Yes ________No
4.	PFC Revenues and Interest are accurately reported.	___X___Yes ________No
5.	The Public Agency maintains a separate financial accounting record for each application.	___X___Yes ________No
6.	Funds disbursed were for PFC-eligible items as identified in the FAA Decision to pay only for the allowable costs of the projects.	___X___Yes ________No
7.	Monthly carrier receipts were reconciled with quarterly carrier reports.	___X___Yes ________No
8.	PFC revenues were maintained in a separate interest-bearing capital account or commingled only with other interest-bearing airport capital funds.	___X___Yes ________No
9.	Serving carriers were notified of PFC program actions/changes approved by the FAA.	___X___Yes ________No
10.	Quarterly Reports were transmitted (or available via website) to remitting carriers.	___X___Yes ________No
11.	The Public Agency is in compliance with Assurances 5, 6, 7 and 8.	___X___Yes ________No
12.	Project design and implementation are carried out in accordance with Assurance 9.	___X___Yes ________No
13.	Program administration is carried out in accordance with Assurance 10.	___X___Yes ________No
14.	For those public agencies with excess revenue, a plan for the use of this revenue has been submitted to the FAA for review and concurrence.	___X___Yes ________No

CITY OF HOUSTON, TEXAS
PASSENGER FACILITY CHARGE PROGRAM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2017

A. SUMMARY OF AUDITORS' RESULTS

1) There were no material weaknesses identified during the audit of the passenger facility charge program.
2) There were no significant deficiencies identified during the audit of the passenger facility charge program.
3) The auditors' report on compliance for the passenger facility charge program expresses an unmodified opinion.

B. FINDINGS AND QUESTIONED COSTS

None

CITY OF HOUSTON
TEXAS