

ROGER H. BATES

Airport Consultant

December 17, 2022

Mr. Clint Stephen
Chief Financial Officer
Houston Airport System
16930 JFK Boulevard
Houston, TX 77032

Re: 2023 Annual Rate Report—Consolidated Rental Car Facility

Dear Mr. Stephen:

Acting in the capacity of the City of Houston's designated Independent Rate Consultant, I am pleased to submit this annual Rate Report for Calendar Year 2023 regarding the Consolidated Rental Car Facility (the Project or the Facility) at George Bush Intercontinental Airport / Houston (the Airport).

In March 2001, the City of Houston (the City) issued \$130,250,000 *City of Houston, Texas, Airport System Special Facilities Taxable Revenue Bonds (Consolidated Rental Car Facility Project), Series 2001* (the Bonds) to finance the Project. The Bonds are secured in large part by a pledge of CFC Revenues—revenues derived from a Customer Facility Charge imposed by the City and collected by the rental car operators (the Operators). The City imposed a Customer Facility Charge of \$3.00 per transaction day at the Airport as of April 1, 2001. The Operators have been collecting CFC revenues and forwarding those revenues to the Trustee since that date. The CFC rate has subsequently been adjusted on several occasions over the years. The current CFC is \$4.00 per transaction day, a rate that has been in effect since April 1, 2017.

Purposes of the Rate Report

In connection with the issuance of the Bonds, the City (as the Issuer of the Bonds) entered into a Trust Indenture, dated March 1, 2001, with Chase Manhattan Bank (now The Bank of New York Mellon Trust Company, N.A.) as Trustee.

The specific requirements for the Rate Report are set forth in Section 7.2 of the Trust Indenture.

Section 7.2.a of the Trust Indenture states:

The City shall cause the Customer Facility Charge to be calculated, established and imposed as herein provided so long as any Bonds remain Outstanding, and the City shall use diligence to cause the Customer Facility Charge to be collected by the Operators in accordance with the terms of the Agreement and deposited with the Trustee directly by the Operators. The Customer Facility Charge shall be established initially and reviewed and adjusted (if necessary) annually by the Director based upon the Rate Reports from the Independent Rate Consultant (or, with the consent of the LLC, by the City) at rates

estimated to generate CFC revenues, along with other Pledged Revenues, in such calendar year equal to not less than:

- (1) 125% of the debt service requirements on the Bonds for such calendar year;
and
- (2) the amounts necessary to fund in each calendar year all transfers from the Revenue Fund as required by Article IV of this Indenture.

This provision is referred to as the Rate Covenant.

Section 7.2.b of the Trust Indenture goes on to state:

The Director [the City's Director of Aviation] shall cause the Rate Reports to be prepared and to be filed with the Trustee prior to each calendar year, based upon the Transaction Day and other rental information required to be provided annually to the Independent Rate Consultant by the Operators pursuant to the Agreement.

The Trust Indenture defines "Rate Reports" as follows:

"Rate Reports" shall mean the written reports and recommendations of the Independent Rate Consultant...which shall include the following information:

- (1) the recommended Customer Facility Charge for the ensuing calendar year (or other stated period);
- (2) the recommended transfers to the Revenue Fund from the CFC Stabilization Account or from other amounts in the Facility Improvement Fund;
- (3) pro forma Customer Facility Charge collection data for the ensuing calendar year (or other stated period) on a monthly basis, together with calculations showing 90% and 80% of such monthly amounts;
- (4) the estimated Administrative Cost Requirement for the ensuing calendar year (or other stated period); and
- (5) any additional documentation to support the recommended CFC rate and reflecting the anticipated disposition of the CFC revenues among the funds established and maintained under the Indenture.

This Report has been prepared to respond to the requirements of Section 7.2 of the Trust Indenture.

The Houston Rental Car Operators

The Houston rental car market is served by four companies operating 11 brands: *Avis Budget Group, Inc.* (operating Avis, Budget, Payless and Zipcar); *Enterprise Holdings Inc.* (operating Enterprise, Alamo and National); *The Hertz Corporation* (operating Hertz, Dollar and Thrifty) and *Sixt Rent a Car, LLC* (operating Sixt).

COVID 19 and the Air Transportation and Rental Car Industries

The year 2020 saw a precipitous decline in air traffic and rental car activity at the Airport (and worldwide) as a result of a pandemic—the rapid spread of the novel corona virus that caused the disease known as COVID-19. The pandemic had a major adverse impact on the global and U.S. economies. To mitigate the adverse consequences of the pandemic, in March 2020 Congress passed and then-President Trump signed into law *The Coronavirus Aid, Relief, and Economic Security Act*, also known as the CARES Act, a \$2.2 trillion economic stimulus bill, the largest of its kind in U.S. history.

The pandemic significantly affected many industries—in particular, airlines and rental cars. The long-term impact of the pandemic was difficult to predict in its early days, and repercussions in the U.S. and around the world were severe and widespread. But fortunately, air traffic activity—and with it, rental car demand—have significantly and steadily recovered since the severely depressed levels of 2020.

Air traffic statistics published by the FAA and airport organizations are available only after a significant lag of time. A reliable real time measure of air traffic demand is the number of travelers passing through TSA checkpoints—data which is available with a lag of only a few days. The table on the following page shows the total number of passengers passing through TSA checkpoints by month for 2019 (pre-pandemic), 2020, 2021 and the first 11 months of 2022 and illustrates the effect the COVID-19 pandemic had on overall U.S. air travel demand and the steady recovery that has taken place since April of 2020.

In April 2020 TSA checkpoint traveler throughput declined over 95% from that of April 2019, evidencing how hard air travel demand was impacted by widespread business closures and lockdowns. U.S. air travel demand declined by nearly 62% in 2020 from the pre-pandemic level of 2019.

During the depths of the crisis in 2020, the consensus appeared to be that it would take three to four years for air travel demand to recover fully to pre-COVID (2019) air traffic levels. Concerns were also expressed in late 2021 that the rapid spread of new variants of the virus might cause a reversal of the recovery, in part because of an increase in the number of cancelled flights due to crew shortages. But those concerns proved to be rather short lived. Air traffic levels have recovered faster than expected, improving almost every month since April 2020—a trend that continued and accelerated in 2022. For the most recent three-month period (September – November 2022) national air traffic demand had recovered to within 6% of pre-pandemic levels, suggesting that the recovery is now nearly complete.

The pandemic has resulted in a subtle shift in the composition of air travel demand—away from business travel and toward leisure travel. The strengthening of leisure travel demand reflects, in part, the release of pent-up demand following two years of lockdowns, restrictions and fear of exposure to the virus. The successful development and distribution of vaccines helped significantly in allowing this release. The relatively slower rebound in business travel reflects in part the growing acceptance of video conferencing (with apps such as Zoom) in lieu of face-to-face meetings for business communications.

**TSA Checkpoint Traveler Throughput
Total United States
2019 - 2022 by Month**

| Date | 2019 | 2020 | Percent 2020 / 2019 | 2021 | Percent 2021 / 2019 | 2022 | Percent 2022 / 2019 |
|----------------------|--------------------|--------------------|---------------------|--------------------|---------------------|--------------------|---------------------|
| January | 59,357,493 | 61,673,279 | 3.9% | 23,421,229 | -60.5% | 46,000,046 | -22.5% |
| February | 57,525,435 | 60,463,775 | 5.1% | 24,867,048 | -56.8% | 48,528,013 | -15.6% |
| March | 72,683,832 | 31,029,383 | -57.3% | 38,562,607 | -46.9% | 63,643,054 | -12.4% |
| April | 70,075,772 | 3,332,788 | -95.2% | 41,599,455 | -40.6% | 63,436,314 | -9.5% |
| May | 74,731,369 | 7,481,008 | -90.0% | 50,231,199 | -32.8% | 67,182,736 | -10.1% |
| June | 76,510,126 | 15,252,076 | -80.1% | 57,177,210 | -25.3% | 68,163,881 | -10.9% |
| July | 79,931,926 | 20,858,398 | -73.9% | 63,279,389 | -20.8% | 70,290,673 | -12.1% |
| August | 73,646,197 | 21,293,376 | -71.1% | 56,710,858 | -23.0% | 67,343,384 | -8.6% |
| September | 67,578,986 | 22,107,158 | -67.3% | 51,636,312 | -23.6% | 63,580,597 | -5.9% |
| October | 71,984,802 | 25,705,632 | -64.3% | 57,143,187 | -20.6% | 68,031,983 | -5.5% |
| November | 68,364,056 | 25,106,377 | -63.3% | 57,294,066 | -16.2% | 64,371,135 | -5.8% |
| December | 70,250,692 | 26,417,472 | -62.4% | 58,863,955 | -16.2% | | |
| Total | 842,640,686 | 320,720,722 | -61.9% | 580,786,515 | -31.1% | | |
| 1st 11 months | 772,389,994 | | | | | 690,571,816 | -10.6% |
| 1st 10 months | 704,025,938 | | | | | 626,200,681 | -11.1% |

Source: Transportation Security Administration

Recent Trends in Air Traffic Demand

Table 1 on the following page shows recent trends in air traffic activity at the Airport by month for calendar year 2021 and year-to-date (January through October) 2022, as obtained from HAS records. (Note: Traffic data for November 2022 are not yet available.) For the purposes of documenting the recovery of the air traffic market from the pandemic, additional columns have been added to show “% Change from 2019.”

Table 1

RECENT TRENDS IN AIR TRAFFIC ACTIVITY
Calendar Years 2022 and 2021
George Bush Intercontinental Airport / Houston

| Year / Month | Enplaned Passengers | | | Originating Passengers | | | % of Total Enplaned Passengers |
|-------------------|---------------------|--------------------------|-----------------------|------------------------|--------------------------|-----------------------|--------------------------------|
| | Number | % Change from Prior Year | % Change from CY 2019 | Number | % Change from Prior Year | % Change from CY 2019 | |
| | <i>Pre Pandemic</i> | | | <i>Pre Pandemic</i> | | | |
| 2022 | | | | | | | |
| Jan | 1,324,049 | 83.4% | -24.5% | 742,002 | 84.4% | -18.2% | 56.0% |
| Feb | 1,346,965 | 115.3% | -15.8% | 757,656 | 111.8% | -9.3% | 56.2% |
| Mar | 1,700,644 | 54.6% | -13.7% | 1,008,098 | 62.8% | -5.8% | 59.3% |
| Apr | 1,682,016 | 35.6% | -9.1% | 972,460 | 40.8% | -3.8% | 57.8% |
| May | 1,856,346 | 30.3% | -7.2% | 1,135,259 | 31.8% | -2.7% | 61.2% |
| Jun | 1,812,593 | 9.1% | -12.7% | 1,129,228 | 15.8% | -7.3% | 62.3% |
| Jul | 1,869,500 | -1.2% | -11.2% | 1,178,767 | 7.2% | -4.8% | 63.1% |
| Aug | 1,699,060 | 4.0% | -12.6% | 1,033,796 | 16.8% | -7.4% | 60.8% |
| Sep | 1,695,846 | 16.1% | 3.6% | 1,030,960 | 26.9% | 10.3% | 60.8% |
| Oct | 1,873,207 | 12.8% | -1.5% | 1,128,278 | 22.0% | 5.6% | 60.2% |
| | 16,860,226 | 25.6% | -10.5% | 10,116,504 | 32.6% | -4.3% | 60.0% |
| Nov | | | | | | | |
| Dec | | | | | | | |
| Total 2022 | | | | | | | |
| 2021 | | | | | | | |
| Jan | 721,876 | -60.4% | -58.9% | 402,346 | -58.6% | -55.6% | 55.7% |
| Feb | 625,529 | -62.8% | -60.9% | 357,704 | -59.7% | -57.2% | 57.2% |
| Mar | 1,100,009 | 10.6% | -44.2% | 619,219 | 9.9% | -42.2% | 56.3% |
| Apr | 1,240,878 | 1279.8% | -33.0% | 690,899 | 1084.5% | -31.6% | 55.7% |
| May | 1,424,286 | 685.3% | -28.8% | 861,117 | 789.6% | -26.2% | 60.5% |
| Jun | 1,661,960 | 463.4% | -19.9% | 975,338 | 513.9% | -19.9% | 58.7% |
| Jul | 1,892,163 | 289.1% | -10.1% | 1,099,156 | 251.2% | -11.2% | 58.1% |
| Aug | 1,633,426 | 196.8% | -15.9% | 885,205 | 156.4% | -20.7% | 54.2% |
| Sep | 1,461,190 | 142.7% | -10.7% | 812,126 | 118.6% | -13.1% | 55.6% |
| Oct | 1,661,313 | 117.3% | -12.7% | 924,580 | 101.8% | -13.4% | 55.7% |
| | 13,422,630 | 79.8% | -28.8% | 7,627,690 | 80.6% | -27.8% | 56.8% |
| Nov | 1,692,292 | 113.6% | -7.4% | 996,737 | 89.6% | -3.2% | 58.9% |
| Dec | 1,749,454 | 97.6% | -14.6% | 1,013,403 | 104.2% | -12.0% | 57.9% |
| | 3,441,746 | 105.2% | -11.2% | 2,010,140 | 96.7% | -7.8% | 58.4% |
| Total 2021 | 16,864,376 | 84.4% | -25.8% | 9,637,830 | 83.7% | -24.4% | 57.1% |

Source: Houston Airport System

For the first 10 months of 2022, total passenger originations at the Airport (the driver of rental car activity) increased by over 32% from the same period of 2021, marking the continuing recovery of Airport traffic from the pandemic lows. More significantly, in September and October 2022, originating passengers exceeded levels for the same months of 2019, evidencing a full market recovery.

For the first 10 months of 2022 versus the first 10 months of 2019, air traffic activity at the Airport (-4.3%) has been better than the national trend (-11.1%).

Recent Trends in Transaction Days and CFC Revenues

Tables 2A and 2B on the following page show (1) rental car transaction days and (2) CFC revenues, respectively, at the Airport for the first 10 months of Calendar Years 2022 and 2019. Actual CFC revenues and transaction days for 2022 are then compared with the projections for 2022 prepared in December 2021. (Note that CFC Revenues are shown on an accrual basis; i.e., the revenues *earned* in the particular month.)

Total rental car transaction days for the first 10 months of 2022 were *18.1% less than* the total for the same period of 2019. In comparing year-to-date 2022 data versus 2019, the decline in transaction days (18%) was considerably more than the decline in originating passengers (4%) during the same period. The relatively larger decline in rental car business (i.e., transaction days) is likely attributable to (1) a reduction in business travel relative to leisure travel during the pandemic, as business travelers generally have a higher propensity to rent cars, and (2) the continued growth and success of ride share services such as Uber and Lyft.

For the first 10 months of 2022, the total number of transaction days and CFC revenues are *1.5% behind* the projections prepared in December 2021.

Table 2A

2022 TRANSACTION DAYS¹
Consolidated Rental Car Facility
George Bush Intercontinental Airport / Houston

| Applicable Month | Month of Payment | Total Transaction Days | | Increase (Decrease) | Percentage Change | 2022 Projection ² | Actual 2022 vs. Projection | Percentage Change |
|------------------|------------------|------------------------|---------------------|---------------------|-------------------|------------------------------|----------------------------|-------------------|
| | | Actual 2022 | Actual 2019 | | | | | |
| | | | <i>Pre Pandemic</i> | | | | | |
| Jan | Feb | 245,758 | 319,041 | (73,283) | -23.0% | 361,000 | (115,242) | -31.9% |
| Feb | Mar | 256,698 | 331,059 | (74,361) | -22.5% | 301,000 | (44,302) | -14.7% |
| Mar | Apr | 321,026 | 407,095 | (86,069) | -21.1% | 337,000 | (15,974) | -4.7% |
| Apr | May | 334,012 | 400,206 | (66,194) | -16.5% | 344,000 | (9,988) | -2.9% |
| May | Jun | 347,586 | 427,931 | (80,346) | -18.8% | 335,000 | 12,586 | 3.8% |
| Jun | Jul | 297,286 | 373,433 | (76,148) | -20.4% | 292,000 | 5,286 | 1.8% |
| Jul | Aug | 302,392 | 363,067 | (60,676) | -16.7% | 278,000 | 24,392 | 8.8% |
| Aug | Sep | 305,134 | 375,518 | (70,384) | -18.7% | 309,000 | (3,866) | -1.3% |
| Sep | Oct | 297,295 | 330,749 | (33,454) | -10.1% | 237,000 | 60,295 | 25.4% |
| Oct | Nov | 340,763 | 393,515 | (52,752) | -13.4% | 300,000 | 40,763 | 13.6% |
| | | 3,047,948 | 3,721,614 | (673,666) | -18.1% | 3,094,000 | (46,052) | -1.5% |
| Nov | Dec | | 363,963 | | | 296,000 | | |
| Dec | Jan | | 336,504 | | | 291,000 | | |
| | | | 700,467 | | | 587,000 | 0 | |
| | | | 4,422,081 | | | 3,681,000 | (46,052) | |

- Source: Derived from reported CFC revenues by dividing by the \$4.00 CFC rate.
- Roger H. Bates, "2022 Annual Rate Report--Consolidated Rental Car Facility" dated December 29, 2021.

Table 2B

2022 CFC REVENUES¹
Consolidated Rental Car Facility
George Bush Intercontinental Airport / Houston

| Month of Accrual | Month of Payment | Total CFC Revenues | | Increase (Decrease) | Percentage Change | 2022 Projection ² | Actual 2022 vs. Projection | Percentage Change |
|------------------|------------------|---------------------|---------------------|----------------------|-------------------|------------------------------|----------------------------|-------------------|
| | | Actual 2022 | Actual 2019 | | | | | |
| | | | <i>Pre Pandemic</i> | | | | | |
| Jan | Feb | \$983,032 | \$1,276,164 | (\$293,132) | -23.0% | \$1,444,000 | (\$460,968) | -31.9% |
| Feb | Mar | \$1,026,792 | \$1,324,236 | (\$297,444) | -22.5% | \$1,204,000 | (\$177,208) | -14.7% |
| Mar | Apr | \$1,284,103 | \$1,628,380 | (\$344,277) | -21.1% | \$1,348,000 | (\$63,897) | -4.7% |
| Apr | May | \$1,336,048 | \$1,600,824 | (\$264,776) | -16.5% | \$1,376,000 | (\$39,952) | -2.9% |
| May | Jun | \$1,390,342 | \$1,711,724 | (\$321,382) | -18.8% | \$1,340,000 | \$50,342 | 3.8% |
| Jun | Jul | \$1,189,142 | \$1,493,732 | (\$304,590) | -20.4% | \$1,168,000 | \$21,142 | 1.8% |
| Jul | Aug | \$1,209,566 | \$1,452,268 | (\$242,702) | -16.7% | \$1,112,000 | \$97,566 | 8.8% |
| Aug | Sep | \$1,220,535 | \$1,502,072 | (\$281,537) | -18.7% | \$1,236,000 | (\$15,465) | -1.3% |
| Sep | Oct | \$1,189,180 | \$1,322,995 | (\$133,815) | -10.1% | \$948,000 | \$241,180 | 25.4% |
| Oct | Nov | \$1,363,052 | \$1,574,060 | (\$211,008) | -13.4% | \$1,200,000 | \$163,052 | 13.6% |
| | | \$12,191,792 | \$14,886,455 | (\$2,694,663) | -18.1% | \$12,376,000 | (\$184,208) | -1.5% |
| Nov | Dec | | \$1,455,852 | | | \$1,184,000 | | |
| Dec | Jan | | \$1,346,015 | | | \$1,164,000 | | |
| | | | \$2,801,867 | | | \$2,348,000 | | |
| | | | \$17,688,322 | | | \$14,724,000 | | |

- Source: As reported by the Operators to the Trustee.
CFC payments are required to be sent to the Trustee by the 20th day of the month following collection. Therefore, for example, the payments received the Trustee in May represent CFC revenues accrued in April.
- Roger H. Bates, "2022 Annual Rate Report--Consolidated Rental Car Facility," dated December 29, 2021.

Projection of Rental Car Demand and CFC Revenues in 2022

Table 3, “Estimated Rental Car Transaction Days and CFC Revenues—Calendar Year 2022,” on the following page, shows relationships between air traffic activity, rental car transaction days and CFC revenues and CFC collections for the first 10 months of 2022 and develops projections of CFC revenues and CFC collections for the full year 2022.

For reasons discussed in the next section, despite the precipitous decline in rental car demand occasioned by the pandemic, HAS decided to (1) leave the current \$4.00 CFC rate in place throughout calendar years 2020, 2021 and 2022 and (2) supplement available CFC revenues with additional monthly transfers from the Facility Improvement Fund.

In Table 3, CFC revenues are projected for the months of November and December based on assumptions regarding originating passenger traffic growth (5% increase from 2019), percentage of originating passengers to total enplaned passengers (60%), and transaction days per originating passenger (0.300 and 0.275 respectively) highlighted in yellow. Perhaps significantly, the gap between 2022 CFC revenues and 2019 CFC revenues closed a bit in September and October of 2022, evidencing a continuing recovery in the rental car market at the Airport.

Total CFC *revenues* are projected to be \$14,816,000 in 2022—*16.2% below* actual CFC revenues in 2019 but 0.6% above the projection of 2022 CFC revenues made last December. Total CFC *collections* are projected to be \$14,557,000 in 2022—*17.4% below* actual CFC collections in 2019 and 0.2% below the projection of 2022 CFC collections made last December.

How HAS Addressed the 2020 CFC Revenue Shortfall

Under the Trust Indenture, scheduled debt service payments are pre-funded by monthly transfers from the Revenue Fund to the Debt Service Fund. Then, moneys then accumulated in the Debt Service Fund are used to pay annual principal and semi-annual interest on the bonds when due.

During the first half of 2020, HAS adapted its business plan for the enterprise to address the precipitous decline in CFC revenues and collections that began in the wake of the COVID-19 pandemic. HAS’s principal objective in 2020 was to make sure that debt service payments on the outstanding bonds were made on July 2nd and January 2nd each year as required.

Of principal concern in 2020 was the fact that no one knew how long the decline in rental car activity—and with it, CFC revenues—would continue. Rather than attempt to guess the longer term timing and financial consequences of the market decline, HAS decided to *eliminate any risk of default* (due to a revenue shortfall) *by transferring moneys from the Facility Improvement Fund to the Revenue Fund each month to provide for the full amount of required debt service transfers.*

Such transfers are allowable under the Trust Indenture. The Trust Indenture defines “Pledged Revenues” as:

“...the aggregate of (i) the Special Facilities Rent [i.e., Customer Facility Charges] received or receivable; (ii) all investment income of every kind derived from amounts credited to the Pledged Funds..., and (iii) *amounts transferred to the Revenue Fund from the Coverage Fund or [the] Facility Improvement Fund.*” [Italics added.]

Table 3
ESTIMATED RENTAL CAR TRANSACTION DAYS AND CFC REVENUES
Calendar Year 2022
Consolidated Rental Car Facility
George Bush Intercontinental Airport / Houston

| Applicable Month | Actual or Projection | CFC Rate | | | | | | | | | | | | | |
|------------------------------------|----------------------|--------------------|---------------|---------------------|--------------------|------------------------|--------------------|---------------------|------------------|--------------------|---------------------------|--------------------|---------------------|---------------|--------------------|
| | | % Change from 2019 | | Enplaned Passengers | % Change from 2019 | Originating Passengers | % Change from 2019 | Percent Originating | Transaction Days | % Change from 2019 | Transaction Days per O.P. | % Change from 2019 | Jan-Mar Apr-Dec | CFC Revenues | % Change from 2019 |
| Jan | Actual | 1,324,049 | -24.5% | 742,002 | -18.2% | 56.0% | 245,758 | -23.0% | 0.331 | -5.8% | \$983,032 | -23.0% | \$1,069,697 | -16.0% | |
| Feb | Actual | 1,346,965 | -15.8% | 757,656 | -9.3% | 56.2% | 256,698 | -22.5% | 0.339 | -14.5% | 1,026,792 | -22.5% | 983,032 | -23.0% | |
| Mar | Actual | 1,700,644 | -13.7% | 1,008,098 | -5.8% | 59.3% | 321,026 | -21.1% | 0.318 | -16.2% | 1,284,103 | -21.1% | 1,026,792 | -22.5% | |
| Apr | Actual | 1,682,016 | -9.1% | 972,460 | -3.8% | 57.8% | 334,012 | -16.5% | 0.343 | -13.3% | 1,336,048 | -16.5% | 1,284,103 | -21.1% | |
| May | Actual | 1,856,346 | -7.2% | 1,135,259 | -2.7% | 61.2% | 347,586 | -18.8% | 0.306 | -16.5% | 1,390,342 | -18.8% | 1,336,048 | -16.5% | |
| Jun | Actual | 1,812,593 | -12.7% | 1,129,228 | -7.3% | 62.3% | 297,286 | -20.4% | 0.263 | -14.1% | 1,189,142 | -20.4% | 1,390,342 | -18.8% | |
| Jul | Actual | 1,869,500 | -11.2% | 1,178,767 | -4.8% | 63.1% | 302,392 | -16.7% | 0.257 | -12.5% | 1,209,566 | -16.7% | 1,189,142 | -18.8% | |
| Aug | Actual | 1,699,060 | -12.6% | 1,033,796 | -7.4% | 60.8% | 305,134 | -18.7% | 0.295 | -12.3% | 1,220,535 | -18.7% | 1,209,566 | -16.7% | |
| Sep | Actual | 1,695,846 | 3.6% | 1,030,960 | 10.3% | 60.8% | 297,295 | -10.1% | 0.288 | -18.5% | 1,189,180 | -10.1% | 1,220,535 | -18.7% | |
| Oct | Actual | 1,873,207 | -1.5% | 1,128,278 | 5.6% | 60.2% | 340,763 | -13.4% | 0.302 | -18.0% | 1,363,052 | -13.4% | 1,189,180 | -10.1% | |
| | | 16,860,226 | -10.5% | 10,116,504 | -4.3% | 60.0% | 3,047,948 | -18.1% | 0.301 | -14.5% | 12,191,792 | -18.1% | 11,898,437 | -18.4% | |
| Nov | Estimate | 1,828,000 | 0.0% | 1,081,000 | 5.0% | 60.0% | 324,000 | | 0.300 | | 1,296,000 | | 1,363,052 | | |
| Dec | Estimate | 2,048,000 | 0.0% | 1,209,000 | 5.0% | 60.0% | 332,000 | | 0.275 | | 1,328,000 | | 1,296,000 | | |
| Total | Estimate | 20,736,000 | | 12,407,000 | | | 3,704,000 | | 0.300 | | \$14,816,000 | -16.2% | \$14,557,000 | -17.4% | |
| Prior Projection (Dec 2021) | | 21,237,000 | | 11,680,000 | | 55.0% | 3,681,000 | | 0.368 | | \$14,724,000 | | \$14,584,000 | | |
| Change from Projection | | (501,000) | | 727,000 | | | 23,000 | | 0.6% | | 92,000 | | (27,000) | | |
| % Change | | -2.4% | | 6.2% | | | 0.6% | | | | 0.6% | | -0.2% | | |

Source: Houston Airport System

Therefore, amounts transferred from the Facility Improvement Fund to the Revenue Fund, for any reason, may be used to pay debt service and counted as Pledged Revenues for the purposes of debt service coverage.

In April 2020 HAS began making such transfers in the amount of \$1,250,000 a month. That practice continued throughout 2020. Beginning in January 2021 the monthly amount was reduced to \$1,000,000 a month and gradually reduced thereafter as the recovery in air traffic demand and CFC revenues continued:

**MONTHLY TRANSFERS FROM THE FACILITY IMPROVEMENT FUND
 TO THE REVENUE FUND
 2020, 2021 and 2022**

| | 2020 | 2021 | 2022 |
|--------------|--------------|-------------|---------------|
| Jan | \$0 | \$1,000,000 | \$500,000 |
| Feb | \$0 | \$1,000,000 | \$500,000 |
| Mar | \$0 | \$1,250,000 | \$500,000 |
| Apr | \$1,250,000 | \$1,000,000 | \$500,000 |
| May | \$1,250,000 | \$750,000 | \$500,000 |
| Jun | \$1,250,000 | \$750,000 | \$500,000 |
| Jul | \$1,250,000 | \$750,000 | \$500,000 |
| Aug | \$1,250,000 | \$500,000 | \$500,000 |
| Sep | \$1,250,000 | \$500,000 | \$500,000 |
| Oct | \$1,250,000 | \$500,000 | \$500,000 |
| Nov | \$1,250,000 | \$250,000 | \$500,000 est |
| Dec | \$1,250,000 | \$250,000 | \$500,000 est |
| Total | \$11,250,000 | \$8,500,000 | \$6,000,000 |

Transfers *from* the Facility Improvement Fund *to* the Revenue Fund are made early in each month. Then, at the end of each month, the amount by which CFC collections plus FIF transfers exceed the cash flow requirements of the enterprise (including required debt service transfers) is transferred from the Revenue Fund *back to* the FIF. Throughout 2022, the month-end transfers from the Revenue Fund back to the FIF have exceeded the early-in-the-month transfers from the FIF to the Revenue Fund, contributing to a moderately increasing balance of cash reserves in the FIF as the recovery has continued.

Availability of Funds for Upcoming Debt Service Payment

Projected CFC collections for November and December of 2022, together with (1) moneys currently available in the Debt Service Account and (2) projected transfers from the FIF in November and December, are projected to be more than sufficient to provide for the debt service payments coming due on January 2, 2023:

Funds Available for January 2, 2023 Debt Service Payment

| | |
|---|-----------------------------------|
| Balance in Debt Service Fund - October 31, 2022 | \$8,195,762 |
| Estimated CFC Collections - November | 1,363,052 |
| Estimated CFC Collections - December | 1,296,000 |
| Total Funds Available | <u><u>\$10,854,814</u></u> |

Debt Service Requirements--January 2, 2023

| | |
|--|-----------------------------------|
| Remaining 2001 Bonds | |
| Principal | \$8,165,000 |
| Interest | 2,087,392 |
| Total Debt Service Payment--January 2, 2023 | <u><u>\$10,252,392</u></u> |

Trends in Transaction Days per Originating Passenger

Table 4 shows historical patterns in monthly transaction days per enplaned passenger for calendar years 2019, 2020, 2021 and year-to-date 2022, and projected monthly transaction days per originating passenger for the last two months of 2022 and all of calendar year 2022.

Table 4

**Trends in Transaction Days per Originating Passenger
Rental Car Market**

George Bush Intercontinental Airport / Houston

| | Actual | | | | Projected |
|----------------|--------------|--------------|--------------|------------------|--|
| | 2019 | 2020 | 2021 | 2022 | 2023 |
| | | | | | <i>assume no change from actual 2022</i> |
| Jan | 0.352 | 0.345 | 0.611 | 0.331 | 0.331 |
| Feb | 0.396 | 0.386 | 0.718 | 0.339 | 0.339 |
| Mar | 0.380 | 0.425 | 0.518 | 0.318 | 0.318 |
| Apr | 0.396 | 1.099 | 0.483 | 0.343 | 0.343 |
| May | 0.367 | 0.794 | 0.404 | 0.306 | 0.306 |
| Jun | 0.307 | 0.680 | 0.305 | 0.263 | 0.263 |
| Jul | 0.293 | 0.381 | 0.275 | 0.257 | 0.257 |
| Aug | 0.336 | 0.356 | 0.345 | 0.295 | 0.295 |
| Sep | 0.354 | 0.362 | 0.366 | 0.288 | 0.288 |
| Oct | 0.368 | 0.376 | 0.369 | 0.302 | 0.302 |
| | | | | | |
| | | | | Projected | |
| Nov | 0.354 | 0.314 | 0.290 | 0.300 | 0.300 |
| Dec | 0.292 | 0.277 | 0.264 | 0.275 | 0.275 |
| Annual Average | 0.347 | 0.384 | 0.374 | 0.300 | 0.300 |

Assumptions regarding transaction days per originating passenger are the principal drivers of the projection of transaction days and, in turn, CFC revenues. Monthly transaction days per originating passenger fluctuated widely from historical patterns in the immediate aftermath of the pandemic compared to 2019. But later in 2021 those patterns returned more closely to historical levels. However, monthly transaction days per originating passenger in 2022 are generally lower than the historical patterns of 2019. This is likely attributable to a slower recovery in business travel compared to leisure travel in the Houston market. It is difficult to anticipate when or if business travel will fully recover and if transaction days per originating passenger will return fully to pre-pandemic (2019) patterns.

For the purposes of projecting CFC revenues in 2023, it is assumed that the monthly transaction days per originating passenger in 2023 would be the same as in 2022, reflecting a continuation of the relatively slower recovery of business travel.

Projected CFC Revenues and Collections at the Current CFC Rate

Table 5, “Projection of Rental Car Transaction Days and CFC Revenues—Calendar Year 2023,” extrapolates the historical relationships shown in Table 3 to produce a projection of CFC revenues and CFC collections for 2023 *assuming continuation of the current \$4.00 CFC Rate*. The forecast of CFC revenues is also based on the following key assumptions:

- Overall air traffic activity (passenger enplanements) would be equal to 2019 (pre-COVID) levels reflecting the full recovery achieved in the fall (September/October) of 2022.
- Originating passengers would account for a higher-than-historical average 60% of enplanements in 2023, the level achieved in September and October of 2022.
- Monthly transaction days per originating passenger in 2023 would be the same as in 2022 and consistent with the seasonal patterns of the past year.

Assuming no change in the CFC rate, CFC *revenues* are projected to be \$16,364,000 and CFC *collections* are projected to be \$16,340,000 in 2023.

Although not shown in this report, based on the above assumptions the computed “breakeven” CFC rate for 2022 (the rate required to cover only debt service requirements and fund replenishments, without any supplemental transfers from the FIF) is **\$2.97**—significantly less than the \$4.00 rate currently in place.

Recommended CFC Rate

As noted above, the current \$4.00 CFC rate exceeds the minimum “breakeven” rate. However, HAS historically has pursued rate stability as a goal, even where moderate rate reductions or increases might otherwise be supportable. This has allowed HAS to maintain CFC rate stability and demonstrate debt service coverage margins well in excess of the minimum requirements of the Trust Indenture. The Operators and the Trustee have concurred with this policy.

In addition, in past years HAS has kept the CFC rate above minimum “breakeven” rates in order to accumulate reserves in the Facility Improvement Fund for potential future Facility expansion. (Those reserves were available to help HAS address the COVID-19 market disruption without having to resort to increasing costs to rental car customers.) While current defined capital needs are modest, HAS believes there may be a need to expand the Customer Service Building at some point to better accommodate the changing market shares of the current Operators. In addition, another major bus replacement cycle may need to start in the next few years.

For these reasons, HAS has decided to *keep the current \$4.00 CFC rate in place in 2023*. I concur with this decision.

Table 5
PROJECTION OF RENTAL CAR TRANSACTION DAYS AND CFC REVENUES
Calendar Year 2023

Consolidated Rental Car Facility
George Bush Intercontinental Airport / Houston

| 2023 | Assumptions: | | 0.0% | 60.0% | Jan-Mar | CFC Rate | | Transaction Days per O.P. | % Change from 2019 | Transaction Days | % Change from 2019 | Transaction Days per O.P. | % Change from 2019 | CFC Revenues | % Change from 2019 | CFC Collections | % Change from 2019 |
|---------------------|------------------|----------------------|-------------|------------|---------|----------|--------|---------------------------|--------------------|------------------|--------------------|---------------------------|--------------------|---------------------|--------------------|---------------------|--------------------|
| | Applicable Month | Actual or Projection | | | | Apr-Dec | \$4.00 | | | | | | | | | | |
| Jan | Projection | 1,754,000 | 0.0% | 60% | | | | 0.331 | | 348,000 | | 0.331 | | \$1,392,000 | | \$1,328,000 | |
| Feb | Projection | 1,600,000 | 0.0% | 60% | | | | 0.339 | | 325,000 | | 0.339 | | \$1,300,000 | | \$1,392,000 | |
| Mar | Projection | 1,972,000 | 0.0% | 60% | | | | 0.318 | | 377,000 | | 0.318 | | \$1,508,000 | | \$1,300,000 | |
| Apr | Projection | 1,851,000 | 0.0% | 60% | | | | 0.343 | | 382,000 | | 0.343 | | \$1,528,000 | | \$1,508,000 | |
| May | Projection | 2,001,000 | 0.0% | 60% | | | | 0.306 | | 368,000 | | 0.306 | | \$1,472,000 | | \$1,528,000 | |
| Jun | Projection | 2,075,000 | 0.0% | 60% | | | | 0.263 | | 328,000 | | 0.263 | | \$1,312,000 | | \$1,472,000 | |
| Jul | Projection | 2,106,000 | 0.0% | 60% | | | | 0.257 | | 324,000 | | 0.257 | | \$1,296,000 | | \$1,312,000 | |
| Aug | Projection | 1,943,000 | 0.0% | 60% | | | | 0.295 | | 344,000 | | 0.295 | | \$1,376,000 | | \$1,296,000 | |
| Sep | Projection | 1,636,000 | 0.0% | 60% | | | | 0.288 | | 283,000 | | 0.288 | | \$1,132,000 | | \$1,376,000 | |
| Oct | Projection | 1,902,000 | 0.0% | 60% | | | | 0.302 | | 345,000 | | 0.302 | | \$1,380,000 | | \$1,132,000 | |
| Nov | Projection | 1,828,000 | 0.0% | 60% | | | | 0.300 | | 329,000 | | 0.300 | | \$1,316,000 | | \$1,380,000 | |
| Dec | Projection | 2,048,000 | 0.0% | 60% | | | | 0.275 | | 358,000 | | 0.275 | | \$1,352,000 | | \$1,316,000 | |
| Total - 2023 | | 22,716,000 | 0.0% | 60% | | | | 0.300 | -13.5% | 4,091,000 | -7.5% | 0.300 | -13.5% | \$16,364,000 | -7.5% | \$16,340,000 | -7.2% |

Given the extent of the recovery since the depths of the market recession in 2020 and the further gradual recovery anticipated in 2022, the amount of the monthly transfers from the FIF could be eliminated in 2023 while still ensuring debt service payments are made as required. However HAS has decided to (1) *make monthly transfers of \$250,000 for the first six months of 2023* as a matter of caution and to help maintain debt service coverage margins consistent with recent history, and (2) review the situation in June 2022 to determine if any further adjustment, up or down, to the monthly transfer amount is warranted. For the purposes of the 2023 projections in this report, it is assumed the \$250,000 monthly transfers from the FIF to the Revenue Fund would continue for the entire year.

Assuming no change in the CFC rate, projected monthly CFC collections in 2022 are summarized in Table 6 below:

Table 6

PROJECTED CFC COLLECTIONS

Calendar Year 2023

George Bush Intercontinental Airport / Houston

| Projected CFC Collections | | | |
|----------------------------------|---------------------|---------------------|---------------------|
| | 100.0% | 90.0% | 80.0% |
| January | \$1,328,000 | \$1,195,200 | \$1,062,400 |
| February | 1,392,000 | 1,252,800 | 1,113,600 |
| March | 1,300,000 | 1,170,000 | 1,040,000 |
| April | 1,508,000 | 1,357,200 | 1,206,400 |
| May | 1,528,000 | 1,375,200 | 1,222,400 |
| June | 1,472,000 | 1,324,800 | 1,177,600 |
| July | 1,312,000 | 1,180,800 | 1,049,600 |
| August | 1,296,000 | 1,166,400 | 1,036,800 |
| September | 1,376,000 | 1,238,400 | 1,100,800 |
| October | 1,132,000 | 1,018,800 | 905,600 |
| November | 1,380,000 | 1,242,000 | 1,104,000 |
| December | 1,316,000 | 1,184,400 | 1,052,800 |
| Total | \$16,340,000 | \$14,706,000 | \$13,072,000 |

Operating Cash Flow

Table 7 below on the following page shows projected operating cash flow associated with the Consolidated Rental Car Facility in 2021, 2022 and 2023 *assuming continuation of the current \$4.00 CFC rate in 2021.*

Table 7

PROJECTED ANNUAL CFC REQUIREMENT AND CASH FLOWS
For Calendar Years Ending December 31
Consolidated Rental Car Facility
George Bush Intercontinental Airport / Houston

| | | Actual 2021 | Estimated 2022 | Projected 2023 |
|--|------------------------------------|------------------------|---------------------------|---------------------------|
| <i>CFC Rate:</i> | <i>Jan-Mar</i> | \$4.00 | \$4.00 | \$4.00 |
| | <i>Apr-Dec</i> | \$4.00 | \$4.00 | \$4.00 |
| CFC Collections (from Tables 3 and 5) | | \$11,360,306 | \$14,557,000 | \$16,340,000 |
| Transfers from CFC Rate Stabilization Account | | 0 | 0 | 0 |
| Transfers from Facility Improvement Fund | | | | |
| | <i>Amount of monthly transfer:</i> | <i>various</i> | \$500,000 | \$250,000 |
| | <i>Months of transfers:</i> | <i>Jan-Dec</i> | <i>Jan-Dec</i> | <i>Jan-Dec</i> |
| | <i>Total amount transferred:</i> | D 8,500,000 | 6,000,000 | 3,000,000 |
| Investment Income | | 2,139 | 105,000 | 250,000 |
| Total Revenues and Transfers | A | \$19,862,445 | \$20,662,000 | \$19,590,000 |
| Replenish Administrative Costs Account (to \$48,000) | | 0 | 78,420 | 0 |
| Replenish CFC Rate Stabilization Account (to \$300,000) | | 0 | 0 | 0 |
| Transfers to Debt Service Fund | | | | |
| Principal | | 7,505,000 | 8,165,000 | 8,870,000 |
| Interest | | 4,691,128 | 4,174,784 | 3,613,000 |
| | | <u>12,196,128</u> | <u>12,339,784</u> | <u>12,483,000</u> |
| Total Requirement | B | \$12,196,128 | \$12,418,204 | \$12,483,000 |
| Projected surplus @ proposed CFC rate (= estimated transfers back to Facility Improvement Fund) | C = A-B | \$7,666,317 | \$8,243,796 | \$7,107,000 |
| Net Transfers from the FIF (subsidy) | C-D | \$833,683 | | |
| Net Transfers to the FIF (surplus) | C-D | | \$2,243,796 | \$4,107,000 |

In 2021, CFC collections, together with \$8.5 million of monthly transfers from the FIF and other available resources, were sufficient to cover all the funding requirements under the Trust Indenture and generate a surplus cash flow of \$7.7 million. So that year the *net subsidy* of the enterprise from the FIF was \$0.8 million. In 2022, CFC collections, together with \$6.0 million of monthly transfers from the FIF and other available resources, are estimated to be sufficient to cover all the funding requirements under the Trust Indenture and generate a surplus cash flow of \$8.2 million. This year, *no net subsidy from the FIF will be required*, and some \$2.2 million is projected to be added to the balance in the FIF.

In 2023, CFC collections, with no transfers from the FIF, are projected to cover all funding requirements and generate net transfers to the FIF of \$1.1 million. However, while some COVID concerns linger and the prognosis continued strengthening of the air traffic market remains somewhat uncertain, HAS plans transfer \$250,000 a month—a total of \$3.0 million for the year—from the FIF to the Revenue Fund to supplement CFC Revenues in 2023.

Other Capital Needs

HAS and the Operators have developed a four-year (2023-2026) capital improvement program for the Facility. In addition, certain other projects are currently in progress or have been completed in 2022. These capital projects are summarized in Table 8 below. The total cost of these projects is estimated by HAS to be approximately \$6.8 million over the five-year period, 2022-2026. All of these projects are anticipated to be funded from the Facility Improvement Fund (internally generated cash flow).

Table 8

2022 - 2026 CAPITAL IMPROVEMENTS
Consolidated Rental Car Facility
George Bush Intercontinental Airport / Houston

| Project | Actual 2022 and Prior | Projected | | | | 2022-2026 Total |
|--|-----------------------------|--------------------|------------|------------|------------|--------------------|
| | | 2023 | 2024 | 2025 | 2026 | |
| <u>Projects in Process or Completed in 2022</u> | | | | | | |
| Capacity Study | 132,140 | 0 | 0 | 0 | 0 | 132,140 |
| Chiller Replacement #1 ¹ | 7,063 | 160,235 | 0 | 0 | 0 | 167,298 |
| Chiller Replacement #2 | 4,095 | 241,802 | 0 | 0 | 0 | 245,897 |
| Electric Vehicle Charging Stations | 552,431 | 1,657,293 | 0 | 0 | 0 | 2,209,725 |
| Emergency Back-up Generators | 2,874,853 | 298,838 | 0 | 0 | 0 | 3,173,691 |
| Rooftop Unit Replacements at Bus Maint Facility ² | 0 | 199,877 | 0 | 0 | 0 | 199,877 |
| | \$3,570,582 | \$2,558,045 | \$0 | \$0 | \$0 | \$6,128,627 |
| <u>Projects Planned for 2023-2026</u> | | | | | | |
| Bus Level Entrance Upgrade | 0 | 53,000 | 0 | 0 | 0 | 53,000 |
| CSB Lobby Seating | 0 | 37,100 | 0 | 0 | 0 | 37,100 |
| CSB Terrazzo Floor Repair | 0 | 100,000 | 0 | 0 | 0 | 100,000 |
| Exterior Escalator Deflector Walls | 0 | 424,000 | 0 | 0 | 0 | 424,000 |
| Fire Alarm Panel Replacement | 0 | 92,220 | 0 | 0 | 0 | 92,220 |
| | \$0 | \$706,320 | \$0 | \$0 | \$0 | \$706,320 |
| Total | \$3,570,582 | \$3,264,365 | \$0 | \$0 | \$0 | \$6,834,947 |

1. Undertaken as an emergency project in 2022 after damage caused by a major winter storm in 2021 was discovered.
2. Approved in July 2022 and currently on order.

Source: CBRE (Rental Car Center facility operator) and Houston Airport System.

The balance in the Facility Improvement Fund (FIF) as of October 31, 2022 (approximately \$41.2 million) is more than sufficient to fund the currently anticipated capital needs of the Facility including the 2022-2026 capital improvement program.

HAS recently undertook a planning study of long-term Facility expansion needs (the Capacity Study). Completed in April 2022, the Capacity Study was prepared by the consultant team of Leigh Fisher and PGAL. The principal findings of the study, as set forth in the consultants' final summary report, are presented on the following page. In general, the Capacity Study concludes that the Facility should be adequate in size and capacity to accommodate projected growth through the year 2035, although some (as yet undefined) expansion of the Customer Service Building and the Parking Structure could be needed to address shifts in Operator market shares and allow more efficient co-location of corporate brands.

Status of the Facility Improvement Fund

As of October 31, 2022 the balance in the FIF was \$41.2 million. These funds represent moneys available for planned capital projects and for capital improvements, contingencies, debt retirement, or, if needed, rate stabilization.

Table 9 shows the projected flows in the FIF in 2022 and 2023. The balance in the FIF is projected to be approximately \$39.7 million at the end of 2022 and \$41.4 million at the end of 2023.

Table 9

PROJECTED CASH FLOWS IN THE FACILITY IMPROVEMENT FUND
Consolidated Rental Car Facility
George Bush Intercontinental Airport / Houston
For Years Ending December 31

| | 10 Mos YTD 2022 | Estimated 2022 | Projected 2023 |
|--|------------------------------|---------------------|---------------------|
| Facility Improvement Fund (FIF) | | | |
| Beginning balance | \$40,588,544 | \$40,589,000 | \$39,672,000 |
| Transfers out (to Revenue Fund) | (5,000,000) | (6,000,000) | (3,000,000) |
| Transfers in (from Revenue Fund) | 6,598,478 | 8,243,000 | 7,107,000 |
| Capital Expenditures | (1,270,876) | (3,571,000) | (3,264,000) |
| Investment income | 261,385 | 411,000 | 900,000 |
| Ending Balance | <u>\$41,177,531</u> | <u>\$39,672,000</u> | <u>\$41,415,000</u> |
| | <i>Actual as of 10/31/22</i> | | |
| | <u>\$41,177,531</u> | | |
| | <i>per Trustee Statement</i> | | |

FINDINGS / NEXT STEPS / AREAS FOR FURTHER STUDY
Capacity Study
Consolidated Rental Car Facility

Findings

Ready/Return Garage - The capacity of the garage is expected to be sufficient for demand until at least 2035, based on analysis of rental transactions. However, a larger footprint may be required for operational improvements, such as the ability to co-locate brands from the same brand-family on the same floor. Areas for planned expansion are available if needed. A reallocation of space may be appropriate at this time to align with changing market share numbers for each company.

Customer Service Center – The overall capacity is expected to be sufficient now until 2035, unless the number of operators increases. Space can be reallocated to align with changing market share numbers for each company. If additional counter space is required, the option of utilizing non-rental car customer counter areas (building manager, storage) for RAC use could be explored.

Maintenance Service Sites – There is plentiful land area for service site expansion if required in future. No consideration was given at this time for the addition of a consolidated Quick Turnaround Area (QTA) located adjacent to the ready / return garage.

Employee Parking – Currently there is sufficient capacity in the Ready/Return Garage for it to accommodate some RAC employee parking, if that is the approach preferred by the operators. However, if capacity concerns arise in future it is recommended that RAC employees park in the designated employee parking area rather than in the garage.

Recommended Next Steps

- Revisit assessment of requirements with consideration of post-pandemic trends for air travel and rental car demand
- Revisit reallocation options with consideration of new transaction data and market shares based on data from a period after demand picked up following the worst phase of the pandemic
- A cost/benefit analysis of estimated construction costs for both reallocation and expansion options and their overall impact on CFCs and the facility
- Select a preferred alternative and schedule for expansion / reallocation of the ready/return garage, customer service center and service site.

Planning Study Areas for Further Study

Electric Vehicles – By 2035, the majority of privately owned vehicles are expected to be electric. Hertz recently announced they are acquiring 100,000 Tesla Model 3 sedans. This introduces a new set of challenges and considerations for the RCC: • Power requirements will increase, especially if it is necessary to upgrade from Level 2 to Level 3 to expedite charging time. • Garage capacity requirements may increase if cars may need to sit longer in the garage to charge, impacting capacity requirements and vehicle turns, especially if limited to using Level 2 chargers due to existing power availability in the garage. • Refueling system for limited remaining amount of gas vehicles, may not be able to mix high voltage electric plug with gas fuel • Less maintenance bays may be needed as electric fleet grows and less need for oil changes

TNCs and P2P – TNCs and P2P currently enjoy direct access to the airport curb, whereas RAC customers must take a bus to the RCC. There could be a need to address parity of curb access, or at least the price that these competing modes pay for this access.

Other Emerging Technologies and Trends – Other emerging trends such as automated vehicle parking technology and mobile apps could influence design and reduce staffing requirements.

Source: Leigh Fisher / PGAL, 2022.

Projected Debt Service Coverage

Table 10 shows the calculation of debt service coverage on the 2001 Bonds and 2014 Refunding Bonds for actual 2020, actual 2021, estimated 2022, and projected 2023.

Pledged Revenues include CFC collections, investment income on certain funds and accounts, and transfers from the Rate Stabilization Account (if any), the Coverage Account and the Facility Improvement Fund.

Table 10

CALCULATION OF DEBT SERVICE COVERAGE

Consolidated Rental Car Facility
George Bush Intercontinental Airport / Houston
For Years Ending December 31

| <u>CFC Rate:</u> | Jan - Mar | \$4.00 | \$4.00 | \$4.00 | \$4.00 |
|--|--------------|---------------------|---------------------|---------------------|---------------------|
| | Apr - Dec | \$4.00 | \$4.00 | \$4.00 | \$4.00 |
| | | Actual 2020 | Actual 2021 | Estimated 2022 | Projected 2023 |
| CFC Collections | | \$8,864,373 | \$11,360,306 | \$14,557,000 | \$16,340,000 |
| Investment Income | | 36,808 | 2,139 | 105,000 | 250,000 |
| Transfers from Facility Improvement Fund | | 11,250,000 | 8,500,000 | 6,000,000 | 3,000,000 |
| Transfers from Rate Stabilization Account | | 0 | 0 | 0 | 0 |
| Transfers from Coverage Account | | 3,169,143 | 3,169,000 | 3,169,000 | 3,169,000 |
| Total Resources available for Debt Service | A | \$23,320,323 | \$23,031,445 | \$23,831,000 | \$22,759,000 |
| Total Annual Debt Service ¹ | | | | | |
| 2001 Bonds | | \$4,691,128 | \$12,196,128 | \$12,339,784 | \$12,483,000 |
| 2014 Refunding Bonds | | \$6,426,389 | \$0 | \$0 | \$0 |
| | B | \$11,117,517 | \$12,196,128 | \$12,339,784 | \$12,483,000 |
| Debt Service Coverage Ratio | A / B | 2.10 | 1.89 | 1.93 | 1.82 |

1. Debt service is shown on an accrual basis. For example, 2021 debt service equals the sum of the July 2, 2021 and January 2, 2022 interest and principal payments.

The Trust Indenture requires that Pledged Revenues provide at least 1.25x coverage of debt service each year. Debt service coverage is projected to be **1.93x in 2022** (based on extrapolating 10 months year-to-date actual results) and **1.82x in 2023**—ratios that substantially exceed the 1.25x Trust Indenture requirement.

* * * *

Conclusions

1. HAS has implemented an effective strategy to mitigate the financial risks occasioned by a precipitous reduction of air traffic and rental car demand at the Airport in the spring of 2020—a situation brought on by the COVID-19 pandemic. Transferring funds from the FIF to the Revenue Fund to cover debt service requirements is permitted under the Trust Indenture and, when the Trust Indenture was written, was anticipated as a mechanism to address unexpected contingencies. Such transfers can be counted as Pledged Revenues for the purposes of cash flow needs and debt service coverage calculations.
2. The recovery in the Houston air traffic market and rental car demand has been dramatic in 2021 and 2022—and occurred much sooner than what had been predicted at the end of 2020. Air traffic demand has now fully recovered to 2019 levels; rental car demand remains somewhat lower (10-15%) than 2019 levels, likely because of a lag in recovery of business travel demand.
3. Technically, monthly transfers from the FIF to the Revenue Fund to supplement CFC revenues are no longer needed in 2023. But HAS plans to continue the practice, transferring \$250,000 a month, as a matter of caution and to enhance debt service coverage margins, all while leaving the CFC rate at the current \$4.00 per transaction day.
4. The balance of funds in the FIF (over \$40 million) should be more than sufficient to allow HAS to meet all of its near-term capital needs and address any remaining financial uncertainties occasioned by the COVID-19 pandemic in 2023 and beyond.

Recommendations

Based on the foregoing, I concur with HAS's decision to (1) leave the CFC rate at the current \$4.00 per transaction day and (2) transfer \$250,000 a month from the FIF to the Revenue Fund to enhance operating cash flow in 2023.

Respectfully submitted,



Roger H. Bates