

OFFICIAL STATEMENT DATED JULY 24, 2025

NEW ISSUES – BOOK-ENTRY ONLY

Ratings: See “RATINGS” herein

In the opinion of Bracewell LLP, Tax Counsel, under existing law, interest on the Series 2025A Bonds (i) is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), except for any period during which a Series 2025A Bond is held by a person who is a “substantial user” of the facilities financed or refinanced with the proceeds of the Series 2025A Bonds or a “related person” to such a “substantial user,” each within the meaning of section 147(a) of the Code and (ii) is an item of tax preference for purposes of the alternative minimum tax on individuals. Furthermore, under existing law, interest on the Series 2025B Bonds (i) is excludable from gross income for federal income tax purposes under section 103 of the Code and (ii) is not an item of tax preference for purposes of the alternative minimum tax on individuals. See “TAX MATTERS” herein, including information regarding potential alternative minimum tax consequences for corporations.



\$699,855,000
CITY OF HOUSTON, TEXAS
AIRPORT SYSTEM
SUBORDINATE LIEN REVENUE BONDS
Consisting of:



\$677,820,000
CITY OF HOUSTON, TEXAS
AIRPORT SYSTEM
SUBORDINATE LIEN REVENUE AND REFUNDING
BONDS, SERIES 2025A (AMT)

\$22,035,000
CITY OF HOUSTON, TEXAS
AIRPORT SYSTEM
SUBORDINATE LIEN REVENUE BONDS,
SERIES 2025B (NON-AMT)

Interest Accrual Date: August 13, 2025 (Date of Delivery)

Due: July 1, as shown on inside cover pages

This Official Statement is provided to furnish information in connection with the offering by the City of Houston, Texas (the “City”) of its Airport System Subordinate Lien Revenue and Refunding Bonds, Series 2025A (AMT) (the “Series 2025A Bonds”) and its Airport System Subordinate Lien Revenue Bonds, Series 2025B (Non-AMT) (the “Series 2025B Bonds” and, together with the Series 2025A Bonds, the “Series 2025 Bonds”). Proceeds of the sale of the Series 2025A Bonds will be used, together with other lawfully available funds, if any, to (i) provide financing for Authorized System Purposes (as defined herein); (ii) refund certain Outstanding Senior Lien Notes, as more specifically described in Schedule I; (iii) fund capitalized interest for the Series 2025A Bonds; (iv) fund the Subordinate Lien Bond Reserve Fund (as defined herein); and (v) pay related costs of issuance of the Series 2025A Bonds. Proceeds of the sale of the Series 2025B Bonds will be used, together with other lawfully available funds, if any, to (i) provide financing for Authorized System Purposes; (ii) fund capitalized interest for the Series 2025B Bonds; (iii) fund the Subordinate Lien Bond Reserve Fund; and (iv) pay related costs of issuance of the Series 2025B Bonds. See “PURPOSE AND PLAN OF FINANCING.”

The Series 2025 Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof. Interest on the Series 2025 Bonds will accrue from their Date of Delivery and will be payable semi-annually on each January 1 and July 1, commencing January 1, 2026, until maturity or prior redemption. The Bank of New York Mellon Trust Company, National Association (the “Paying Agent/Registrar”) is the initial Paying Agent/Registrar.

The Series 2025 Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Series 2025 Bonds, until DTC resigns or is discharged. The Series 2025 Bonds will be available to purchasers only in book-entry form. For as long as Cede & Co. is the exclusive registered owner of the Series 2025 Bonds, the principal of and interest on the Series 2025 Bonds will be payable by the Paying Agent/Registrar to DTC, which will be responsible for making such payments to DTC Participants for subsequent remittance to the owners of beneficial interests in the Series 2025 Bonds. The purchasers of the Series 2025 Bonds will not receive certificates representing their beneficial ownership interests therein. See APPENDIX F – DEPOSITORY TRUST COMPANY.

The Series 2025 Bonds are special obligations of the City which, together with the Outstanding Subordinate Lien Bonds and any Additional Subordinate Lien Bonds hereafter issued, are payable from, and equally and ratably secured by, a lien on the Net Revenues of the Houston Airport System (as used herein, such term shall have the meaning assigned to the term “Airport System” within the hereinafter defined Ordinance), subject and subordinate to the prior and superior lien of Outstanding Senior Lien Obligations and Additional Senior Lien Obligations, if any, and certain Funds established pursuant to the Ordinance, all as defined herein. See “COVENANTS AND TERMS OF THE ORDINANCE.”

THE SERIES 2025 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OR GENERAL OBLIGATION OF THE CITY. OWNERS OF THE SERIES 2025 BONDS SHALL NEVER HAVE THE RIGHT TO DEMAND PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2025 BONDS FROM ANY FUNDS RAISED OR TO BE RAISED BY TAXATION.

The Series 2025 Bonds are subject to optional and mandatory redemption prior to maturity, as described herein. See “THE SERIES 2025 BONDS – Redemption.”

**SEE INSIDE COVER PAGES FOR MATURITIES,
PRINCIPAL AMOUNTS, INTEREST RATES, PRICES AND YIELDS**

This cover page is not intended to be a summary of the terms of, or the security for, the Series 2025 Bonds. Investors are advised to read the Official Statement in its entirety to obtain information essential to the making of an informed investment decision. See “INVESTMENT CONSIDERATIONS” herein.

The Series 2025 Bonds are offered by the Underwriters listed below when, as and if issued by the City and accepted by the Underwriters, subject to the approving opinions of the Attorney General of the State of Texas and the opinions of Bracewell LLP, Houston, Texas, Co-Bond Counsel and Tax Counsel, and of West & Associates, L.L.P., Houston, Texas, Co-Bond Counsel. Certain matters will be passed upon for the City by its Special Disclosure Co-Counsel, Greenberg Traurig, LLP, Houston, Texas and Cantu Harden Montoya LLP, Houston, Texas. Certain other legal matters will be passed upon for the Underwriters by their co-counsel, Holland & Knight LLP, Houston, Texas and Bratton & Associates, PLLC, Houston, Texas. The Series 2025 Bonds are expected to be available for delivery on or about August 13, 2025 (the “Date of Delivery”) through the facilities of DTC in New York, New York.

Wells Fargo Securities
Siebert Williams Shank **Jefferies**
Blaylock Van, LLC **BOK Financial Securities, Inc.** **Cabrera Capital Markets LLC**

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, PRICES AND YIELDS

\$677,820,000
CITY OF HOUSTON, TEXAS
AIRPORT SYSTEM
SUBORDINATE LIEN REVENUE AND REFUNDING BONDS,
SERIES 2025A (AMT)

CUSIP Prefix⁽¹⁾: 442349

Maturity Date (July 1) ⁽²⁾	Principal Amount	Interest Rate	Yield	CUSIP Suffix ⁽¹⁾
2028	\$11,600,000	5.000%	3.080%	JA5
2029	12,180,000	5.000	3.190	JB3
2030	12,790,000	5.000	3.300	JC1
2031	13,430,000	5.000	3.510	JD9
2032	14,100,000	5.000	3.740	JE7
2033	14,805,000	5.000	3.870	JF4
2034	15,545,000	5.000	4.040	JG2
2035	16,325,000	5.000	4.220	JH0
2036	17,140,000	5.250	4.360 ⁽³⁾	JJ6
2037	18,040,000	5.250	4.490 ⁽³⁾	JK3
2038	18,985,000	5.250	4.610 ⁽³⁾	JL1
2039	19,985,000	5.250	4.720 ⁽³⁾	JM9
2040	21,035,000	5.250	4.790 ⁽³⁾	JN7
2041	22,140,000	5.250	4.910 ⁽³⁾	JP2
2042	23,300,000	5.250	5.010 ⁽³⁾	JQ0
2043	24,525,000	5.500	5.040 ⁽³⁾	JR8
2044	25,870,000	5.500	5.100 ⁽³⁾	JS6
2045	27,295,000	5.500	5.140 ⁽³⁾	JT4

Term Bonds

\$160,715,000 Term Bonds Due July 1, 2050⁽²⁾⁽⁴⁾, Interest Rate 5.500%, Yield 5.22%⁽³⁾, CUSIP Suffix⁽¹⁾ JU1

\$188,015,000 Term Bonds Due July 1, 2055⁽²⁾⁽⁴⁾, Interest Rate 5.500%, Yield 5.26%⁽³⁾, CUSIP Suffix⁽¹⁾ JV9

- ⁽¹⁾ CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by FactSet Research Systems Inc. on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the City, the Co-Financial Advisors or the Underwriters is responsible for the selection or correctness of the CUSIP numbers set forth herein.
- ⁽²⁾ The City reserves the right, at its option, to redeem Series 2025A Bonds having stated maturities on or after July 1, 2036, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on July 1, 2035, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. See “THE SERIES 2025 BONDS – Redemption – *Optional Redemption*.”
- ⁽³⁾ The initial yield on the Series 2025A Bonds sold at an original issue premium is calculated to the first optional redemption date, which is July 1, 2035.
- ⁽⁴⁾ Subject to mandatory sinking fund redemption, as described in “THE SERIES 2025 BONDS – Redemption – *Mandatory Sinking Fund Redemption*.”

\$22,035,000
CITY OF HOUSTON, TEXAS
AIRPORT SYSTEM
SUBORDINATE LIEN REVENUE BONDS,
SERIES 2025B (NON-AMT)

CUSIP Prefix⁽¹⁾: 442349

\$22,035,000 Term Bonds Due July 1, 2055⁽²⁾⁽⁴⁾, Interest Rate 5.500%, Yield 5.010%⁽³⁾, CUSIP Suffix⁽¹⁾ JW7

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- ⁽¹⁾ CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by FactSet Research Systems Inc. on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the City, the Co-Financial Advisors or the Underwriters is responsible for the selection or correctness of the CUSIP numbers set forth herein.
- ⁽²⁾ The City reserves the right, at its option, to redeem the Series 2025B Bonds in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on July 1, 2035, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. See “THE SERIES 2025 BONDS – Redemption – *Optional Redemption*.”
- ⁽³⁾ The initial yield on the Series 2025B Bonds sold at an original issue premium is calculated to the first optional redemption date, which is July 1, 2035.
- ⁽⁴⁾ Subject to mandatory sinking fund redemption, as described in “THE SERIES 2025 BONDS – Redemption – *Mandatory Sinking Fund Redemption*.”

No broker, dealer, sales representative or any other person has been authorized by the City or the Underwriters to give any information or to make any representation other than as contained in this Official Statement in connection with the offering described in it and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy any securities other than those described on the cover page, nor shall there be any offer to sell, solicitation of any offer to buy or sale of such securities by any persons in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

THE SERIES 2025 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACT. THE REGISTRATION OR QUALIFICATION OF THE SERIES 2025 BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAWS OF THE STATES IN WHICH THE SERIES 2025 BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THIS OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE SERIES 2025 BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

This Official Statement includes descriptions and summaries of certain events, matters and documents. Such descriptions and summaries do not purport to be complete, and all such descriptions, summaries and references thereto are qualified in their entirety by reference to this Official Statement in its entirety and to each such document, copies of which may be obtained from the City. Any statements made in this Official Statement or the appendices hereto involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of such opinions or estimates will be realized.

This Official Statement is delivered in connection with the sale of securities referred to herein and may not be reproduced or used, in whole or in part, for any other purposes. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2025 Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation, or sale. No dealer, salesperson, or other person has been authorized by the City to give any information or to make any representation other than those contained herein, and, if given or made, such other information or representation must not be relied upon as having been authorized by the City, the Underwriters, or any other person. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the matters described herein since the date hereof.

Certain statements in this Official Statement, which may be identified by the use of such terms as “plan,” “project,” “expect,” “estimate,” “budget” or other similar words, constitute forward-looking statements. Such forward-looking statements refer to the achievement of certain results or other expectation or performance that involves known and unknown risks, uncertainties and other factors. These risks, uncertainties and other factors may cause actual results, performance or achievements to be materially different from any projected results, performance or achievements described or implied by such forward-looking statements. Although the City currently publishes certain monthly financial reports that are available upon written request from the City to the extent permitted by applicable law, the City reserves the right to discontinue or modify this practice at any time, and the City does not plan to issue any other updates or revisions to any forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based, occur, or if actual results, performance or achievements are materially different from any results, performance or achievements described or implied by such forward-looking statements.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The prices and other terms respecting the offering and sale of the Series 2025 Bonds may be changed from time to time by the Underwriters after such Series 2025 Bonds are released for sale, and the Series 2025 Bonds may be offered and sold at prices other than the initial offering prices, including to dealers who may sell the Series 2025 Bonds into investment accounts.

All financial and other information presented herein, except for the information expressly attributed to other sources, has been provided by the City from its records and is intended to show recent historical information. Such information is not guaranteed as to accuracy or completeness. No representation is made that past performance, as might be shown by such financial and other information, will necessarily continue or be expected in the future. All descriptions of laws and documents contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the Series 2025 Bonds will, under any circumstances, create any implication that the information contained herein has remained unchanged since the respective dates as of which such information is given herein.

None of the City, the Co-Financial Advisor, nor the Underwriters make any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company, New York, New York (“DTC”) or its Book-Entry-Only System, as such information has been provided by DTC.

References to website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader’s convenience. Unless specified otherwise, such websites and the information or hyperlinks contained therein are not incorporated into, and are not part of, this Official Statement for any purpose.

THE COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY AND IS NOT INTENDED AS A SUMMARY OF THIS OFFERING. INVESTORS SHOULD READ THIS ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2025 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

CITY OF HOUSTON, TEXAS

ELECTED OFFICIALS

John Whitmire, Mayor

Chris Hollins, City Controller

CITY COUNCIL

Council Member,
District A Amy Peck

Council Member,
District B Tarsha Jackson

Council Member,
District C Abbie Kamin

Council Member,
District D Carolyn Evans-Shabazz

Council Member,
District E Fred Flickinger

Council Member,
District F Tiffany D. Thomas

Council Member,
District G Mary Nan Huffman

Council Member,
District H Mario Castillo

Council Member,
District I Joaquin Martinez

Council Member,
District J Edward Pollard

Council Member,
District K Martha Castex-Tatum

Council Member, At-Large
Position 1 Julian Ramirez

Council Member, At-Large
Position 2 Willie Davis

Council Member, At-Large
Position 3 Twila Carter

Council Member, At-Large
Position 4 Letitia Plummer

Council Member, At-Large
Position 5 Sallie Alcorn

APPOINTED OFFICIALS

City Attorney Arturo Michel
Deputy City Controller Vernon Middleton Lewis
Director, Department of Finance Melissa Dubowski
Director of Aviation, Houston Airport System Jim Szczesniak
Interim City Secretary Troy Lemon

CONSULTANTS AND ADVISORS

Co-Financial Advisor Masterson Advisors LLC
Knight & Day Group, LLC
Tax Counsel Bracewell LLP
Co-Bond Counsel Bracewell LLP
West & Associates, L.L.P.
Co-Disclosure Counsel Greenberg Traurig, LLP
Cantu Harden Montoya LLP
Airport Management Consultant Ricondo & Associates, Inc.

FINANCING WORKING GROUP MEMBERS

Houston Airport System Clint Stephen (CFO of Houston Airport System)
Kertecia Hampton
James Storemski
Roy Carter
Scott Feldman
Mandy Wu

Office of the City Attorney	Eric Nguyen
Department of Finance	Alma Tamborello
	Elvira Ontiveros
	Chris Gonzalez
	Sana Ali
	Lauren Yaxon
	Lisa Dargie
Office of the City Controller	Han Au
	Sharon Liu
	Linjie Zhu

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OFFICIAL STATEMENT



\$699,855,000
CITY OF HOUSTON, TEXAS
AIRPORT SYSTEM SUBORDINATE
LIEN REVENUE BONDS



Consisting of:

\$677,820,000
CITY OF HOUSTON, TEXAS
AIRPORT SYSTEM SUBORDINATE LIEN
REVENUE AND REFUNDING BONDS,
SERIES 2025A (AMT)

\$22,035,000
CITY OF HOUSTON, TEXAS
AIRPORT SYSTEM SUBORDINATE LIEN
REVENUE BONDS,
SERIES 2025B (NON-AMT)

INTRODUCTION

This Official Statement, including the cover page, schedules and appendices hereto, is provided to furnish information in connection with the offer and sale by the City of Houston, Texas (the "City") of its Airport System Subordinate Lien Revenue and Refunding Bonds, Series 2025A (AMT) (the "Series 2025A Bonds") and its Airport System Subordinate Lien Revenue Bonds, Series 2025B (NON-AMT) (the "Series 2025B Bonds" and, together with the Series 2025A Bonds, the "Series 2025 Bonds").

The Series 2025 Bonds are being issued pursuant to Chapters 1201-1205, 1207, 1371 and 1503, Texas Government Code, as amended, Chapter 22 of the Texas Transportation Code, as amended, a master ordinance adopted by the City Council of the City (the "City Council") on November 9, 2016 (the "Master Ordinance"), a supplemental ordinance adopted by the City Council on June 25, 2025 (the "Twelfth Supplemental Ordinance"), and one or more pricing certificates (collectively, the "Officers Pricing Certificate") executed by the pricing officers pursuant to the Twelfth Supplemental Ordinance; collectively, the Master Ordinance, the Twelfth Supplemental Ordinance and the Officers Pricing Certificate are referred to herein as the "Ordinance."

The Houston Airport System, an enterprise system of the City, is currently comprised of the following facilities, each of which the City manages, owns and operates through the Houston Airport System: George Bush Intercontinental Airport/Houston ("Intercontinental"), William P. Hobby Airport ("Hobby") and Ellington Airport ("Ellington"). United Airlines, Inc. ("United") is the largest air carrier operating at Intercontinental. Southwest Airlines, Inc. ("Southwest") is the largest air carrier operating at Hobby. Ellington supports the operations of the United States military, NASA and a variety of general aviation tenants. For additional information about the Houston Airport System, see "THE HOUSTON AIRPORT SYSTEM."

The City is the fourth most populous city in the nation and the most populous city in the State of Texas (the "State") and has a land area of approximately 675 square miles. According to the most recent United States Census Bureau estimate, the City's population was approximately 2.4 million in 2024. The Census Bureau's 2024 estimate for the population of the ten-county metropolitan statistical area (the "MSA"), the fifth largest metropolitan statistical area in the United States, was approximately 7.8 million. The City is located on the Southeast Texas Gulf Coastal Plains, approximately 50 miles from the Gulf of Mexico. The City is a major corporate and international business center. Leading industries include energy, petrochemical engineering and construction, real estate, aerospace, medicine and health care, transportation, biotechnology and computer technology.

Descriptions and summaries of the Series 2025 Bonds, the Houston Airport System and the Ordinance are included in this Official Statement. References herein to the Series 2025 Bonds and the Ordinance are qualified in their entirety by reference to the Ordinance. Attached as APPENDIX A is the Report of Airport Management Consultant dated June 12, 2023, as supplemented by the Letter of the Airport Management Consultant dated July 17, 2025. Houston Airport System Fund Financial Statements for the Fiscal Years ended June 30, 2023 and June 30, 2024 are included in the Annual Comprehensive Financial Report of the Airport System Fund set forth in APPENDIX B. Excerpts of the Master Ordinance and a glossary of defined terms are included as APPENDIX C-1 and, unless otherwise specifically defined, capitalized terms used herein have the meanings set out in APPENDIX C-1. APPENDIX C-2 contains certain proposed amendments to the Master Ordinance adopted in the Twelfth Supplemental Ordinance, which proposed amendments shall be binding upon all Owners of the Series 2025 Bonds upon the Amendment Effective Date (as defined herein). Attached as APPENDIX D are the forms of opinions of Co-Bond Counsel and Tax Counsel. Attached as APPENDIX E is a list of continuing disclosure schedules included in

this Official Statement. Attached as APPENDIX F is information relating to The Depository Trust Company, New York, New York (“DTC”) and its book-entry system applicable to the Series 2025 Bonds.

Lien Securing the Series 2025 Bonds and Other Obligations

The lien on Net Revenues securing the Series 2025 Bonds and other Subordinate Lien Bonds is (i) junior and subordinate to the lien on Net Revenues securing the Outstanding Senior Lien Notes and any Additional Senior Lien Obligations hereafter issued and (ii) senior to the lien on Net Revenues securing any Inferior Lien Bonds hereafter issued.

The City maintains a commercial paper program of Senior Lien Notes supported by a direct pay letter of credit issued by Sumitomo Mitsui Banking Corporation, acting through its New York Branch, which expires on March 25, 2030, in the original stated amount of \$375,890,411 (representing an amount equal to the maximum aggregate principal amount at any time Outstanding of \$350 million plus an amount equal to 270 days’ interest at the maximum rate described therein). As of the date hereof, there are \$71 million of Senior Lien Notes outstanding, a portion of which, in the amount of \$34.2 million, will be refunded with the proceeds of the Series 2025A Bonds. See “PURPOSE AND PLAN OF FINANCING.”

Currently, there are no Senior Lien Bonds Outstanding.

No Inferior Lien Bonds are Outstanding. In February 2020, the City entered into an amended and restated forward bond purchase agreement with Royal Bank of Canada that establishes a mechanism for the City to issue and Royal Bank of Canada to underwrite up to \$450 million of Airport System Inferior Lien Revenue Bonds. Such agreement expires in February 2027. No Inferior Lien Bonds have been issued, and as of the date hereof, no amounts are expected to be issued.

See “DEBT SERVICE REQUIREMENTS OF HOUSTON AIRPORT SYSTEM OBLIGATIONS – Schedule 8: Houston Airport System Outstanding Debt.”

PURPOSE AND PLAN OF FINANCING

The Series 2025 Bonds

Proceeds of the sale of the Series 2025A Bonds will be used to (i) provide financing for Authorized System Purposes; (ii) refund certain Outstanding Senior Lien Notes, as more specifically described in Schedule I (the “Refunded Notes”); (iii) fund capitalized interest on the Series 2025A Bonds; (iv) fund the Subordinate Lien Bond Reserve Fund by depositing cash therein; and (v) pay related costs of issuance of the Series 2025A Bonds.

Proceeds of the sale of the Series 2025B Bonds will be used to (i) provide financing for Authorized System Purposes; (ii) fund capitalized interest on the Series 2025B Bonds; (iii) fund the Subordinate Lien Bond Reserve Fund by depositing cash therein; and (iv) pay related costs of issuance of the Series 2025B Bonds.

The Refunded Notes

A portion of the proceeds of the Series 2025A Bonds, together with other lawfully available funds of the City, will be deposited with U.S. Bank National Association, as the issuing and paying agent for the Refunded Notes (the “Refunded Notes Paying Agent”) and used to defease the Refunded Notes on August 13, 2025 (the “Date of Delivery”).

The sufficiency of the deposit to pay the principal of and interest on the Refunded Notes will be confirmed through a certificate delivered by the Co-Financial Advisors and acknowledged by the Refunded Notes Paying Agent, thereby confirming that the City will have made firm banking and financial arrangements for the discharge and final payment of the Refunded Notes pursuant to the provisions of Chapter 1207, Texas Government Code, as amended.

REPORT OF AIRPORT MANAGEMENT CONSULTANT

On June 12, 2023, Ricondo & Associates, Inc. (the “Airport Management Consultant”) delivered a Report of Airport Management Consultant (the “2023 Report”), in which the Airport Management Consultant concluded that the Houston Airport System was projected to generate sufficient Net Revenues to meet the financial requirements established by the Ordinance for Fiscal Years 2024 through 2032. In connection with the issuance of the Series 2025 Bonds, the Airport Management Consultant has delivered a Letter, dated July 17, 2025 (the “2025 Letter” and, together with the 2023 Report, the “Report”), attached hereto as APPENDIX A, which serves to reaffirm the findings in the 2023 Report and provide new information and developments since the 2023 Report.

The City may issue one or more series of additional Airport Obligations over the next few years to complete the financing of the current Houston Airport System's Capital Improvement Plan ("CIP") and may issue additional Airport Obligations for other improvements not in the current CIP. See "COVENANTS AND TERMS OF THE ORDINANCE - Additional Airport Obligations" and APPENDIX C-1 for further details regarding the conditions to the issuance of additional Airport Obligations. For the purposes of the Report, pending the final determination of the project scope for certain CIP projects, only near-term projects in the current CIP are taken into account in the financial forecasts, including certain projects that may be funded, all or in part, with the proceeds of any such additional Airport Obligations. See "THE HOUSTON AIRPORT SYSTEM – Capital Improvement Program". Further, some of the projects the Report lists as expected to be financed with the proceeds of the Series 2025 Bonds may instead be financed with proceeds of future additional Airport Obligations. Houston Airport System management estimates that almost all of the projects in the current CIP will be appropriated by the end of Fiscal Year 2030. Only those projects expected to be completed by the end of Fiscal Year 2032 are taken into account in the financial forecasts presented in the Report.

The financial forecasts presented in the Report are based on information and assumptions that have been reviewed with and approved by the Houston Airport System management. The Report should be read in its entirety for an understanding of the forecasts and the underlying assumptions contained therein. In the opinion of the Airport Management Consultant, the assumptions underlying the forecasts are reasonable given the information available and circumstances existing as of the date of the Report. However, any forecast is subject to uncertainties and, inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, the actual results achieved may vary from the forecasts, and the variations could be material.

See "CERTAIN INVESTMENT CONSIDERATIONS – Airport Management Consultant Report and Financial Projections" herein.

SOURCES AND USES OF FUNDS

The following table summarizes the estimated sources and uses of proceeds of the Series 2025 Bonds:

	Series 2025A <u>Bonds</u>	Series 2025B <u>Bonds</u>	<u>Total</u>
<u>SOURCES OF FUNDS:</u>			
Principal Amount	\$677,820,000.00	\$22,035,000.00	\$699,855,000.00
Original Issue Premium	<u>22,875,786.50</u>	<u>832,041.60</u>	<u>23,707,828.10</u>
TOTAL SOURCES	<u>\$700,695,786.50</u>	<u>\$22,867,041.60</u>	<u>\$723,562,828.10</u>
<u>USES OF FUNDS:</u>			
Deposit to Project Fund	\$532,200,000.00	\$20,122,000.00	\$552,322,000.00
Deposit to Capitalized Interest Account	82,805,833.03	1,056,444.13	83,862,277.16
Deposit to Refunded Notes Paying Agent ⁽¹⁾	34,200,000.00	--	34,200,000.00
Deposit to Subordinate Lien Bond Reserve Fund ⁽²⁾	47,638,912.20	1,548,675.80	49,187,588.00
Underwriter's Discount	2,276,153.40	78,469.77	2,354,623.17
Costs of Issuance ⁽³⁾	<u>1,574,887.87</u>	<u>61,451.90</u>	<u>1,636,339.77</u>
TOTAL USES	<u>\$700,695,786.50</u>	<u>\$22,867,041.60</u>	<u>\$723,562,828.10</u>

⁽¹⁾ The interest due on the Refunded Notes will be deposited with the Refunded Notes Paying Agent by the City from other lawfully available funds on or before the Date of Delivery.

⁽²⁾ Deposit to the Subordinate Lien Bond Reserve Fund Participant Account, which is the common reserve for all Outstanding Subordinate Lien Bonds. See "SECURITY FOR THE SERIES 2025 BONDS – Debt Service Reserves."

⁽³⁾ Includes legal fees, rating agency fees, fees of the Paying Agent/Registrar, fees of the Refunded Notes Paying Agent, fees of the Airport Management Consultant and other costs of issuance (inclusive of rounding amounts, if any).

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THE SERIES 2025 BONDS

General

The Series 2025 Bonds are Subordinate Lien Bonds that, together with all other Subordinate Lien Bonds from time to time Outstanding, are payable from, and equally and ratably secured by, a lien on the Net Revenues of the Houston Airport System. The lien on Net Revenues securing Subordinate Lien Bonds is subordinate and junior to the superior lien on the Net Revenues securing the Senior Lien Obligations. See “INTRODUCTION – Lien Securing the Series 2025 Bonds and Other Obligations.”

The Series 2025 Bonds will mature in the principal amounts and on the dates indicated on the inside cover pages of this Official Statement. Interest on the Series 2025 Bonds will accrue from the Date of Delivery, be payable on each January 1 and July 1, commencing January 1, 2026, until maturity or earlier redemption, and be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Series 2025 Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof (“Authorized Denominations”).

Principal of the Series 2025 Bonds is payable when due upon presentation and surrender thereof at the principal office of the Paying Agent/Registrar. Interest on the Series 2025 Bonds will be payable to the Registered Owner whose name appears in the registration books for the Series 2025 Bonds (the “Register”) maintained by the Paying Agent/Registrar at the close of business on the 15th day of the calendar month immediately preceding the applicable interest payment date and shall be payable by the Paying Agent/Registrar by check or draft sent by United States mail, first class postage prepaid. Accrued interest payable at maturity of the Series 2025 Bonds will be paid upon presentation and surrender of such Series 2025 Bonds at the principal office of the Paying Agent/Registrar.

Redemption

Optional Redemption

The Series 2025A Bonds maturing on or after July 1, 2036 shall be subject to redemption prior to stated maturity at the option of the City on July 1, 2035 or any date thereafter, in whole or in part, at a price equal to the principal amount of the Series 2025A Bonds to be redeemed, plus the accrued interest thereon to (but not including) the date fixed for redemption.

The Series 2025B Bonds shall be subject to redemption prior to stated maturity at the option of the City on July 1, 2035 or any date thereafter, in whole or in part, at a price equal to the principal amount of the Series 2025B Bonds to be redeemed, plus the accrued interest thereon to (but not including) the date fixed for redemption.

Mandatory Sinking Fund Redemption

The Series 2025A Bonds maturing on July 1, 2050 and July 1, 2055 (the “Series 2025A Term Bonds”) are being issued as term bonds and are subject to mandatory sinking fund redemption prior to their maturity in the following amounts (subject to reduction as hereinafter provided), on the following dates (all mandatory redemption dates for all applicable Series 2025A Bonds are hereinafter referred to as the “Mandatory Redemption Dates”), at a price equal to the principal amount of the Series 2025A Bonds to be redeemed plus accrued interest to (but not including) the applicable Mandatory Redemption Date, subject to the conditions set forth below:

\$160,715,000 Series 2025A Term Bonds Maturing July 1, 2050

Mandatory Redemption Date (July 1)	Principal Amount to be Redeemed
2046	\$28,795,000
2047	30,380,000
2048	32,050,000
2049	33,815,000
2050 (maturity)	35,675,000

\$188,015,000 Series 2025A Term Bonds Maturing July 1, 2055

Mandatory Redemption Date (July 1)	Principal Amount to be Redeemed
2051	\$37,635,000
2052	39,705,000
2053	41,890,000
2054	39,195,000
2055 (maturity)	29,590,000

The Series 2025B Bonds (the “Series 2025B Term Bond” and together with the Series 2025A Term Bonds, the “Term Bonds”) are being issued as a term bond and are subject to mandatory sinking fund redemption prior to their maturity in the following amounts (subject to reduction as hereinafter provided), on the following Mandatory Redemption Dates, at a price equal to the principal amount of the Series 2025B Bonds to be redeemed plus accrued interest to (but not including) the applicable Mandatory Redemption Date, subject to the conditions set forth below:

\$22,035,000 Series 2025B Term Bond Maturing July 1, 2055

Mandatory Redemption Date (July 1)	Principal Amount to be Redeemed
2054	\$5,000,000
2055 (maturity)	17,035,000

On or before 30 days prior to each Mandatory Redemption Date set forth above, the Paying Agent/Registrar shall (i) determine the principal amount of such Term Bonds that must be mandatorily redeemed on such Mandatory Redemption Date, after taking into account deliveries for cancellation and optional redemptions, (ii) select, by lot or other customary random method, the Term Bonds or portions of Term Bonds of such maturity to be mandatorily redeemed on such Mandatory Redemption Date, and (iii) give notice of such redemption as provided below. The principal amount of any Term Bonds to be mandatorily redeemed on a Mandatory Redemption Date shall be reduced by the principal amount of such Term Bonds which, by the 45th day prior to such Mandatory Redemption Date, either have been purchased in the open market and delivered or tendered for cancellation by or on behalf of the City to the Paying Agent/Registrar or optionally redeemed by the City and which, in either case, have not previously been made the basis for a reduction under this sentence.

Partial Redemption

The Series 2025 Bonds may be redeemed in part within a maturity only in integral multiples of \$5,000. If a Series 2025 Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Series 2025 Bond may be redeemed, but only in integral multiples of \$5,000. Upon presentation and surrender of any Series 2025 Bond for redemption in part, the Paying Agent/Registrar, in accordance with the provisions of the Ordinance, shall authenticate and deliver in exchange therefor Series 2025 Bonds of like maturity and interest rate in an aggregate principal amount equal to the unredeemed portion of the Series 2025 Bonds so presented and surrendered.

Selection of Bonds to be Optionally Redeemed

In the case of any optional redemption in part of the Series 2025 Bonds, the City shall select the stated maturities to be redeemed. If less than all of the Series 2025 Bonds of a stated maturity are to be optionally redeemed, the Paying Agent/Registrar shall select the particular Series 2025 Bonds of such stated maturity to be redeemed in such manner as it deems fair and appropriate and consistent with the requirements of the Series 2025 Bonds.

Notice of Redemption

If any of the Series 2025 Bonds are called for redemption, the Paying Agent/Registrar shall give notice, in the name of the City, of the redemption of such Series 2025 Bonds, which notice shall (i) specify the Series 2025 Bonds to be redeemed, the redemption date, the redemption price and the place or places where amounts due upon such redemption will be payable (which shall be the designated principal corporate trust office of the Paying Agent/Registrar) and, if less than all of the Series 2025 Bonds are to be redeemed, the portions of the Series 2025 Bonds to be redeemed, (ii) state any condition to such

redemption and (iii) state that on the redemption date and upon the satisfaction of any such condition, the Series 2025 Bonds to be redeemed shall cease to bear interest. CUSIP number identification shall accompany all redemption notices. Such notice may set forth any additional information relating to such redemption. Such notice shall be given by mail, postage prepaid, at least 30 days but not more than 60 days prior to the date fixed for redemption to each Registered Owner of Series 2025 Bonds to be redeemed at its address shown on the Register; provided, however, that failure to give such notice to any Registered Owner or any defect in such notice shall not affect the validity of the proceedings for the redemption of any of the other Series 2025 Bonds.

Any notice given as provided herein shall be conclusively presumed to have been duly given, whether or not the Registered Owner or Beneficial Owner receives such notice. When the Series 2025 Bonds have been called for redemption in whole or in part, due provision has been made to redeem the same as provided in the Series 2025 Bonds and in the Ordinance, and any condition to redemption stated in the notice of redemption has been satisfied, the Series 2025 Bonds or portions thereof to be so redeemed shall no longer be regarded as Outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest that would otherwise accrue after the redemption date on any Series 2025 Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

Ownership

The City, the Paying Agent/Registrar, and any other person may treat the person in whose name any Series 2025 Bond is registered as the absolute Owner of such Series 2025 Bond for the purpose of making and receiving payment of the principal thereof, premium, if any, and interest thereon, and for all other purposes, whether or not such Series 2025 Bond is overdue, and neither the City nor the Paying Agent/Registrar shall be bound by any notice or knowledge to the contrary. All payments made to the person deemed to be the Owner of any Series 2025 Bond in accordance with the Ordinance shall be valid and effectual and shall discharge the liability of the City and the Paying Agent/Registrar upon such Series 2025 Bond to the extent of the sums paid.

Transfers and Exchanges

Beneficial ownership of the Series 2025 Bonds registered in the name DTC, will initially be transferred as described under APPENDIX F – DEPOSITORY TRUST COMPANY.

So long as any Series 2025 Bonds remain Outstanding, the Paying Agent/Registrar shall keep the Register at its principal office in which, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of the Series 2025 Bonds in accordance with the terms of the Ordinance. A copy of the Register shall be maintained at an office of the Paying Agent/Registrar in Texas.

If the Series 2025 Bonds are not in the DTC book-entry-only registration system, each Series 2025 Bond shall be transferable only upon the presentation and surrender thereof at the principal office of the Paying Agent/Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner or his authorized representative in form satisfactory to the Paying Agent/Registrar. Upon due presentation and surrender of any Series 2025 Bond for transfer, the Paying Agent/Registrar is required to authenticate and deliver in exchange therefor, within 72 hours after such presentation and surrender, a new Series 2025 Bond or Series 2025 Bonds, registered in the name of the transferee or transferees, in Authorized Denominations and of the same series, maturity and aggregate principal amount and bearing interest at the same rate as the Series 2025 Bond or Series 2025 Bonds so presented and surrendered.

If the Series 2025 Bonds are not in the DTC book-entry-only registration system, all Series 2025 Bonds shall be exchangeable upon the presentation and surrender thereof at the principal office of the Paying Agent/Registrar for a Series 2025 Bond or Series 2025 Bonds of the same series, maturity and interest rate and in any Authorized Denomination, in an aggregate principal amount equal to the unpaid principal amount of the Series 2025 Bond or Series 2025 Bonds presented for exchange.

Each Series 2025 Bond delivered in accordance with the Ordinance shall be entitled to the benefits and security of the Ordinance to the same extent as the Series 2025 Bond or Series 2025 Bonds in lieu of which such Series 2025 Bond is delivered.

The City or the Paying Agent/Registrar may require DTC or any subsequent Registered Owner of any Series 2025 Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Series 2025 Bond.

The Paying Agent/Registrar shall not be required to transfer or exchange any Series 2025 Bond during the 45-day period prior to the date fixed for redemption; provided, however, that such restriction shall not apply to the transfer or exchange by the Registered Owner of the unredeemed portion of any Series 2025 Bond called for redemption in part.

SECURITY FOR THE SERIES 2025 BONDS

General

The Series 2025 Bonds are special obligations of the City that, together with the Outstanding Subordinate Lien Bonds and any Additional Subordinate Lien Bonds hereafter issued, are payable from and are equally and ratably secured by a lien on the Net Revenues of the Houston Airport System, the Subordinate Lien Bond Interest and Sinking Fund and the Subordinate Lien Bond Reserve Fund, all as defined and provided in the Ordinance. See APPENDIX C-1 – GLOSSARY OF TERMS AND EXCERPTS OF THE MASTER ORDINANCE. The lien on Net Revenues securing the Series 2025 Bonds and other Subordinate Lien Bonds is (i) junior and subordinate to the lien on Net Revenues securing the Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued and (ii) senior to the lien on Net Revenues securing any Inferior Lien Bonds hereafter issued. See “INTRODUCTION – Lien Securing the Series 2025 Bonds and Other Obligations.”

Passenger facility charge revenues (as more particularly defined in APPENDIX C-1, “PFC Revenues”) are not pledged to the payment of Senior Lien Obligations, the Series 2025 Bonds or any Subordinate Lien Bonds; however, periodically, the Houston Airport System irrevocably commits PFC Revenues to the Subordinate Lien Bond Interest and Sinking Fund for the purpose of paying eligible debt service attributable to certain projects for which the City has received approval from the Federal Aviation Administration (the “FAA”) to use PFC Revenues. See “CAPITAL IMPROVEMENT PROGRAM – PFC Revenues” for a discussion of permitted uses of PFC Revenues. The Master Ordinance provides that the calculation of Debt Service Requirements excludes any portion of the principal or interest due on Airport Obligations (as defined herein) that has been irrevocably committed by the City to be paid from funds other than Net Revenues, including but not limited to PFC Revenues. See “HOUSTON AIRPORT SYSTEM FINANCIAL INFORMATION – Sources of Revenues – *PFC Revenues*,” “HOUSTON AIRPORT SYSTEM FINANCIAL INFORMATION – Schedule 5: Selected Financial Information,” “INVESTMENT CONSIDERATIONS – Passenger Facility Charges – *Availability of PFCs*” and APPENDIX A, “Exhibit 10 and Exhibit 11.”

The Series 2025 Bonds do not constitute a general obligation of the City. Owners of the Series 2025 Bonds shall never have the right to demand payment of principal of, interest on or any redemption premium on the Series 2025 Bonds from any funds raised or to be raised by taxation.

In addition to the definitions described below, see APPENDIX C-1 – GLOSSARY OF TERMS AND EXCERPTS OF THE MASTER ORDINANCE for excerpts of the Master Ordinance, which further details the security for the Series 2025 Bonds.

Net Revenues

Net Revenues means that portion of the Gross Revenues remaining after the deduction of the Operation and Maintenance Expenses of the Houston Airport System.

Gross Revenues

Subject to the exclusions noted below, Gross Revenues means all income and revenues derived directly or indirectly by the City from the operation and use of and otherwise pertaining to the Houston Airport System, or any part thereof, whether resulting from extensions, enlargements, repairs, betterments or other improvements to the Houston Airport System, or otherwise, and includes, except to the extent hereinafter expressly excluded, all revenues received by the City from the Houston Airport System, including, without limitation, all rentals, rates, fees and other charges for the use of the Houston Airport System, or for any service rendered by the City in the operation thereof, interest and other income realized from the investment or deposit of amounts credited to any fund required to be maintained pursuant to the Master Ordinance or any other ordinance authorizing the issuance of Senior Lien Obligations, Subordinate Lien Bonds or Inferior Lien Bonds (collectively, the “Airport Obligations”).

Gross Revenues expressly exclude: (1) proceeds of any Airport Obligations; (2) interest or other investment income derived from proceeds of Airport Obligations deposited to the credit of any construction fund, or applied to fund capitalized interest, or interest or investment income required to be retained in the various reserve funds established by the Ordinance or any escrow fund in order to accumulate therein any amount or balance required to be accumulated or maintained therein

pursuant to any ordinance authorizing any series of Airport Obligations; (3) any moneys received as grants, appropriations, or gifts, the use of which is limited by the grantor or donor to the construction or acquisition of the Houston Airport System facilities, except to the extent any such moneys shall be received as payments for the use of the Houston Airport System facilities; (4) any revenues derived from any Special Facilities that are pledged to the payment of Special Facilities Bonds; (5) insurance proceeds other than loss of use or business interruption insurance proceeds; (6) PFC Revenues and any other per-passenger charge as may be authorized under federal law; (7) sales and other taxes collected by the Houston Airport System on behalf of the State and any other taxing entities; (8) Federal Payments received by the Houston Airport System, unless the City first receives an opinion from nationally recognized bond counsel to the effect that such payments, if included in Gross Revenues, would not cause the interest on the Airport Obligations to be includable within the gross income of the Owners thereof for federal income tax purposes; (9) the net proceeds received by the City from the disposition of any Houston Airport System property; (10) any Excluded Fee and Charge Revenues; and (11) any Taxable Bond Credit Revenues.

See APPENDIX C-2 – PROPOSED AMENDMENTS TO THE MASTER ORDINANCE” and “COVENANTS AND TERMS OF THE ORDINANCE – Proposed Amendments to the Master Ordinance – *Released Revenues*” for a discussion of a proposed amendment to the Master Ordinance that would, under certain circumstances, allow certain revenues to be released from the definition of “Gross Revenues.”

Operation and Maintenance Expenses

Subject to the exclusions noted below, Operation and Maintenance Expenses means all reasonable and necessary current expenses of the City, paid or accrued, of operating, maintaining and repairing the Houston Airport System including, without limitation, those reasonably allocated City overhead expenses relating to the administration, operation and maintenance of the Houston Airport System; insurance and fidelity bond premiums; payments to pension and other funds and to any self-insurance fund not in excess of premiums that would otherwise be required for such insurance; any general and excise taxes or other governmental charges imposed by entities other than the City; costs of contractual and professional services, labor, materials and supplies for current operations, including the costs of such direct City services rendered to the Houston Airport System as are requested from the City by the Houston Airport System and as are reasonably necessary for the operation of the Houston Airport System; costs of issuance of Airport Obligations (except to the extent paid from the proceeds thereof); fiduciary costs; costs of collecting and refunding Gross Revenues; utility costs; any lawful refunds of any Gross Revenues; and all other administrative, general and commercial expenses. Operation and Maintenance Expenses include only those current expenses due or payable within the next 30 days.

The following expenses are specifically excluded from the definition of Operation and Maintenance Expenses: (1) any allowance for depreciation; (2) costs of capital improvements; (3) reserves for major capital improvements, Houston Airport System operations, maintenance or repair; (4) any allowance for redemption of, or payment of interest or premium on, Airport Obligations; (5) any liabilities incurred in acquiring or improving properties of the Houston Airport System; (6) expenses of lessees under Special Facilities Leases and operation and maintenance expenses pertaining to Special Facilities to the extent they are required to be paid by such lessees pursuant to the terms of the Special Facilities Leases; (7) any charges or obligations incurred in connection with any lawful Houston Airport System purpose, including the lease, acquisition, operation or maintenance of any facility or property benefiting the Houston Airport System, provided that the payment of such charges or obligations is expressly agreed by the payee to be payable solely from proceeds of the Airports Improvement Fund; (8) liabilities based upon the City’s negligence or other grounds not based on contract; and (9) so long as Federal Payments are excluded from Gross Revenues, an amount of expenses that would otherwise constitute Operation and Maintenance Expenses for such period equal to the Federal Payments for such period.

Perfection of Security Interest in Revenues

The Master Ordinance provides that pursuant to Chapter 1208, Texas Government Code, the liens on Net Revenues created under the Master Ordinance are valid, effective and perfected.

Bondholders’ Remedies

The Ordinance provides that if the City defaults in the payment of principal of or interest on any Subordinate Lien Bonds, including the Series 2025 Bonds, or the performance of any duty or covenant provided by law or in the Ordinance, Owners of such Subordinate Lien Bonds, including the Series 2025 Bonds, may pursue all legal remedies afforded by the Constitution and the laws of the State to compel the City to remedy such default and to prevent further default or defaults. See APPENDIX C-1 – GLOSSARY OF TERMS AND EXCERPTS OF THE MASTER ORDINANCE.

The Ordinance neither appoints nor makes any provision for the appointment of a trustee to protect the rights of Owners of the Series 2025 Bonds. Furthermore, the Ordinance does not provide for acceleration of maturity of the Series

2025 Bonds or for foreclosure on Net Revenues or possession of Net Revenues by a trustee or agent for Owners of the Series 2025 Bonds or for operation of the Houston Airport System by an independent third party in the event of default.

No lien has been placed on any of the physical properties comprising the Houston Airport System to secure the payment of or interest on the Series 2025 Bonds. Moreover, in the event of default, the Owners of the Series 2025 Bonds have no right or claim under the laws of the State against the Houston Airport System or any property of the City other than their right to receive payment from Net Revenues and certain Funds maintained pursuant to the Ordinance. Owners of the Series 2025 Bonds have no right to demand payment of principal of or interest or premium, if any, on the Series 2025 Bonds from any funds raised or to be raised by taxation or from any funds on deposit in any of the special Funds described in the Ordinance, except the Subordinate Lien Bond Interest and Sinking Fund, and the applicable account of the Subordinate Lien Bond Reserve Fund. Further, unless sovereign immunity is expressly waived by the Texas Legislature or it is determined that the borrowing of money related to the provision of airport services is a proprietary rather than a governmental function of the City, local governmental immunity would be available as a defense against suits for money damages against the City or the Houston Airport System in connection with the Series 2025 Bonds. Chapter 1371, Texas Government Code, as amended, permits the City to waive sovereign immunity in the proceedings authorizing its debt. The City has not waived sovereign immunity against suit in connection with the issuance of the Series 2025 Bonds. Accordingly, the only practical remedy in the event of a default may be a mandamus proceeding to compel the City to increase rates and charges reasonably required for the use and service of the Houston Airport System or perform its other obligations under the Ordinance, including the deposit of the Gross Revenues into the special Funds provided in the Ordinance and the application of such Gross Revenues and such special Funds in the manner required in the Ordinance. Such remedy may need to be enforced on a periodic basis because maturity of the Series 2025 Bonds is not subject to acceleration. In addition, the City's ability to comply with the Rate Covenant will be limited by contractual and competitive supply and demand constraints. See "COVENANTS AND TERMS OF THE ORDINANCE – Rate Covenant."

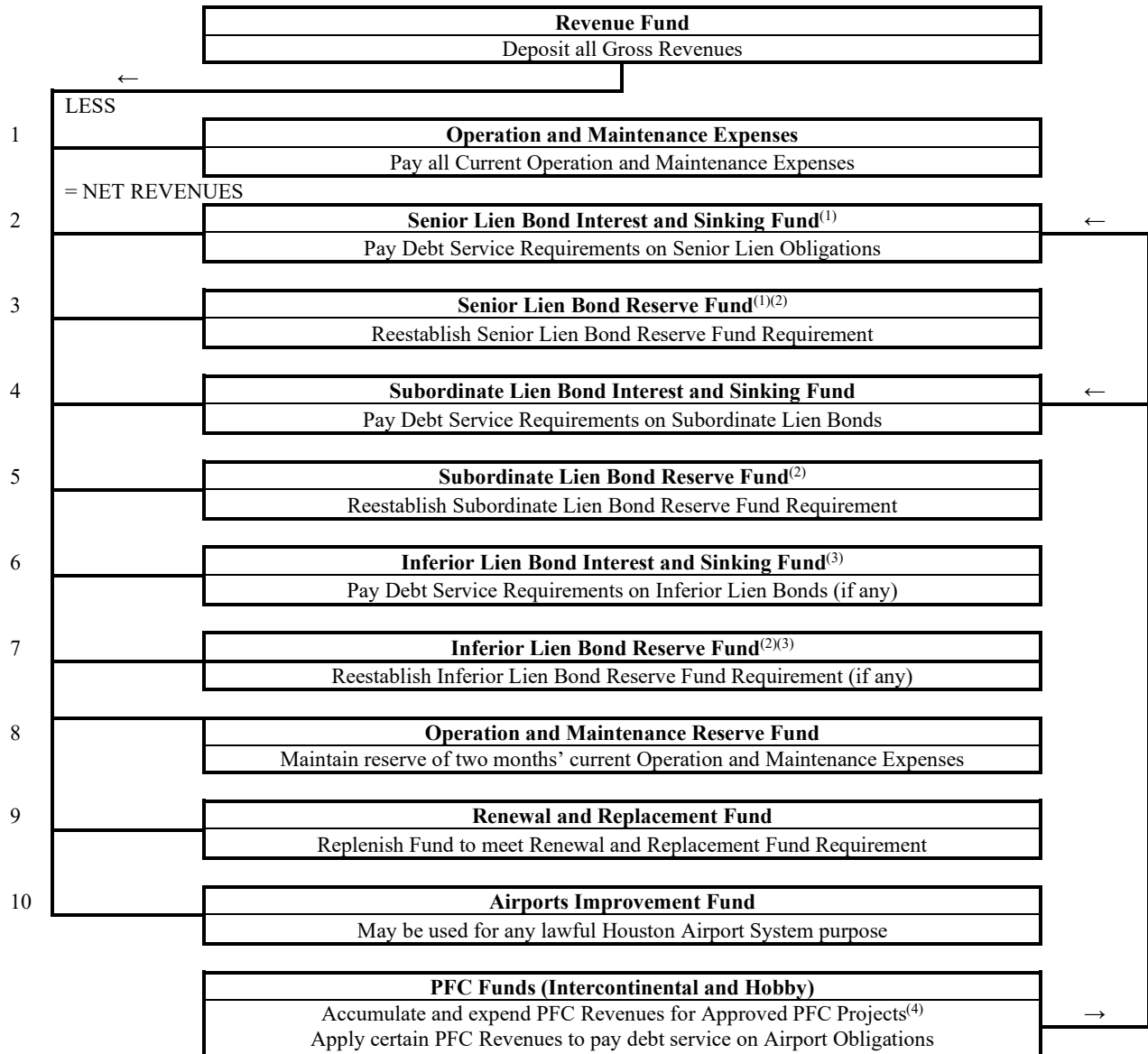
The enforcement of a claim for payment of principal of or interest on the Series 2025 Bonds and the City's other obligations with respect to the Series 2025 Bonds are subject to the applicable provisions of the federal bankruptcy laws and to any other similar laws affecting the rights of creditors of political subdivisions generally. The City may seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Should the City become a debtor in a Chapter 9 bankruptcy proceeding, the owners of the Series 2025 Bonds would continue to have a lien on Net Revenues after the commencement of the bankruptcy case so long as the Net Revenues constitute "special revenues" within the meaning of the Bankruptcy Code. "Special revenues" are defined under the Bankruptcy Code to include, among other things, receipts by local governments from the ownership, operation or disposition of projects or systems that are primarily used to provide transportation services. While the Net Revenues appear to be "special revenues," no assurance can be given that a court would not determine otherwise. Bankruptcy courts are courts of equity and as such have broad discretionary powers. If Net Revenues do not constitute "special revenues," there could be delays or reductions in payments by the City with respect to the Series 2025 Bonds. See APPENDIX D – FORMS OF OPINIONS OF CO-BOND COUNSEL AND TAX COUNSEL.

If the City were to become a debtor in a proceeding under Chapter 9, the automatic stay of section 362 of the Bankruptcy Code would be applicable to the City's proceedings, subject to certain possible exceptions. For example, the proceeding should not operate to stay application of pledged "special revenues" to the payment of indebtedness secured by such revenue. However, although the automatic stay has historically been understood not to stay the collection and application of such "special revenues" to payment of bonds secured by such special revenues, the bankruptcy court could possibly decide that (i) post-bankruptcy Series 2025 Bond payments by the City are merely optional and not mandatory under the special revenues provisions of the Bankruptcy Code and/or (ii) the automatic stay exception for special revenues in those provisions does not apply (including to possible enforcement actions by the owners of the Series 2025 Bonds) or is limited to amounts then in the possession of the owners of the Series 2025 Bonds. If the bankruptcy court were to interpret the Bankruptcy Code in that (or a similar) fashion, the parties to the proceeding may thus be prohibited from taking any action to collect the Net Revenues, or to enforce any related obligation connected with the Series 2025 Bonds, without the bankruptcy court's permission.

Regardless of any specific determinations by a bankruptcy court in a City bankruptcy proceeding that may be adverse to the Houston Airport System or the owners, the mere filing by the City for bankruptcy protection likely would have a material adverse effect on the marketability and market price of the Series 2025 Bonds. In addition, there may be delays or reductions in payments on the Series 2025 Bonds in a Chapter 9 proceeding, especially if the City does not voluntarily pay debt service on the Series 2025 Bonds as and when required by the Ordinance.

Flow of Funds

Below is a presentation of the application of revenues under the Master Ordinance. For more information about the Houston Airport System's revenues, see "SECURITY FOR THE SERIES 2025 BONDS" and APPENDIX C-1 – GLOSSARY OF TERMS AND EXCERPTS OF THE MASTER ORDINANCE.



(1) Currently, there are no Senior Lien Bonds Outstanding; however, the City maintains a commercial paper program of Senior Lien Notes. See "INTRODUCTION – Lien Securing the Series 2025 Bonds and Other Obligations" and "Schedule 8: Houston Airport System Outstanding Debt". While PFC Revenues may in the future be irrevocably committed to the Senior Lien Bond Interest and Sinking Fund, the City does not currently commit PFC Revenues for such purposes.

(2) Interest income on funds on deposit in the Senior Lien Bond Reserve Fund, Subordinate Lien Bond Reserve Fund and Inferior Lien Bond Reserve Fund may be transferred to the related Interest and Sinking Fund, or such other funds as may be permitted by federal tax law.

(3) As of the date of this Official Statement, there are no Inferior Lien Bonds Outstanding.

(4) PFC Revenues are not included in the definition of Net Revenues and are not pledged to pay debt service on any Outstanding Airport Obligations, including the Series 2025 Bonds, but may be pledged or otherwise obligated, consistent with FAA regulations. However, the Houston Airport System periodically irrevocably commits PFC Revenues to the Subordinate Lien Bond Interest and Sinking Fund for the purpose of paying eligible debt service attributable to certain projects for which the City has received approval from the FAA to use PFC Revenues. See "HOUSTON AIRPORT SYSTEM FINANCIAL INFORMATION –Sources of Revenues –PFC Revenues."

Debt Service Reserves

The Master Ordinance establishes a Subordinate Lien Bond Reserve Fund for all Subordinate Lien Bonds and requires to be maintained therein a balance equal to the Reserve Fund Requirement.

Reserve Fund Requirement for Reserve Fund Participants. Within the Subordinate Lien Bond Reserve Fund, there is a Subordinate Lien Bond Reserve Fund Participant Account (i.e., the common reserve account), which constitutes trust funds held in trust for Owners of the Subordinate Lien Bonds that are secured thereby (the “Reserve Fund Participants”). All Subordinate Lien Bonds Outstanding as of the date hereof have been declared and designated to be Reserve Fund Participants; and the Series 2025 Bonds will be Reserve Fund Participants. With respect to those Subordinate Lien Bonds that are Reserve Fund Participants (i.e., all Outstanding Subordinate Lien Bonds), the Reserve Fund Requirement is equivalent to the maximum annual Debt Service Requirements on such bonds, which amount shall be computed and recomputed upon the issuance of each series of Subordinate Lien Bonds that are Reserve Fund Participants and on each date on which such bonds are paid at maturity or optionally or mandatorily redeemed.

Reserve Fund Non-Participants. The Master Ordinance also provides that any issue of Subordinate Lien Bonds may be secured by a lien on an account of the Subordinate Lien Bond Reserve Fund that is created and held for the sole benefit of such series of Subordinate Lien Bonds, referred to in the Master Ordinance as “Reserve Fund Non-Participants.” No Outstanding Subordinate Lien Bonds are Reserve Fund Non-Participants; therefore, no such account has been created within the Subordinate Lien Bond Reserve Fund. All of the Outstanding Subordinate Lien Bonds are secured by, and the Series 2025 Bonds will be secured by, a lien on the Subordinate Lien Bond Reserve Fund Participant Account.

Draws on the Subordinate Lien Bond Reserve Fund Participant Account. The Subordinate Lien Bond Reserve Fund Participant Account is required to be used to pay the principal of and interest on the Subordinate Lien Bonds that are Reserve Fund Participants at any time when there is not sufficient money available in the Subordinate Lien Bond Interest and Sinking Fund for such purpose (with the requirement that all cash and investments on deposit in such account be depleted before drawing upon any Subordinate Lien Bond Reserve Fund Surety Policies allocable to the Subordinate Lien Bond Reserve Fund Participant Account) and to repay amounts drawn under any Subordinate Lien Bond Reserve Fund Surety Policy allocable to the Subordinate Lien Bond Reserve Fund Participant Account for such purpose, together with interest thereon, in accordance with the terms of the City’s reimbursement obligations incurred in connection with such Subordinate Lien Bond Reserve Fund Surety Policies. The Subordinate Lien Bond Reserve Fund Participant Account may also be used to make the final payments for the retirement or defeasance of all Subordinate Lien Bonds then Outstanding that are Reserve Fund Participants.

Funding the Reserve Fund Requirement. As further provided in the Master Ordinance, each increase in the Reserve Fund Requirement resulting from the issuance of Additional Subordinate Lien Bonds is required to be funded at the time of issuance and delivery of such series of bonds. The Reserve Fund Requirement may be satisfied by depositing to the credit of the appropriate account of the Subordinate Lien Bond Reserve Fund either (1) proceeds of such Additional Subordinate Lien Bonds or other lawfully appropriated funds or (2) a Subordinate Lien Bond Reserve Fund Surety Policy.

Deficiencies in the Subordinate Lien Bond Reserve Fund. As further provided in the Master Ordinance, in any month in which any account of the Subordinate Lien Bond Reserve Fund contains less than the applicable Reserve Fund Requirement, the City shall transfer from the Revenue Fund, after making all required payments of Operation and Maintenance Expenses and after making all required transfers to the (i) Senior Lien Bond Interest and Sinking Fund, (ii) the Senior Lien Bond Reserve Fund and (iii) the Subordinate Lien Bond Interest and Sinking Fund, on a pro rata basis into the Subordinate Lien Bond Reserve Fund Participant Account and other designated non-participant accounts, if any, such amounts as shall be required to permit the City to pay all reimbursement obligations under the Subordinate Lien Bond Reserve Fund Surety Policies allocable to the Subordinate Lien Bond Reserve Fund Participant Account or such other designated non-participant accounts, as applicable, within a twelve-month period, and such additional amounts as shall be sufficient to enable the City within a twelve-month period to reestablish the Reserve Fund Requirement in the Subordinate Lien Bond Reserve Fund Participant Account or such other designated accounts, as applicable.

See APPENDIX C-1 – GLOSSARY OF TERMS AND EXCERPTS OF THE MASTER ORDINANCE for excerpts of the Master Ordinance relating to the Subordinate Lien Bond Reserve Fund. For a discussion regarding the City’s current surety policies for the Outstanding Subordinate Lien Bonds and the Senior Lien Notes, see “RESERVE FUNDS AND RESERVE FUND SURETY POLICIES.”

Additional Reserves and Other Funds

The Master Ordinance also provides for maintenance of an Operation and Maintenance Reserve Fund and a Renewal and Replacement Fund. The Operation and Maintenance Reserve Fund is required to be funded in an amount at least equal to two months' current Operation and Maintenance Expenses (which amount shall annually be re-determined by the Director of Aviation for the Houston Airport System at the time the department submits the proposed annual Houston Airport System budget based upon either such official's recommended budget for Operation and Maintenance Expenses or an estimate of actual Operation and Maintenance Expenses for the then-current Fiscal Year). The amount required by the Master Ordinance to be maintained in the Renewal and Replacement Fund is \$10 million but may be increased by any supplemental ordinance authorizing any series of additional Airport Obligations). Unappropriated funds in the Operations and Maintenance Reserve Fund and the Renewal and Replacement Fund may be used to pay Operation and Maintenance expenses, if needed, among other purposes. See APPENDIX C-1 – GLOSSARY OF TERMS AND EXCERPTS OF THE MASTER ORDINANCE and "DEBT SERVICE REQUIREMENTS OF HOUSTON AIRPORT SYSTEM OBLIGATIONS – Schedule 8A: Cash and Liquidity."

RESERVE FUNDS AND RESERVE FUND SURETY POLICIES

Reserve Fund for the Subordinate Lien Bonds

Reserve Fund Requirement

All amounts credited to the Subordinate Lien Bond Reserve Fund Participant Account are pledged and available to pay debt service on all Subordinate Lien Bonds that are Reserve Fund Participants (i.e., all the Outstanding Subordinate Lien Bonds). As of the date of this Official Statement, the Reserve Fund Requirement for the Subordinate Lien Bonds that are Reserve Fund Participants, which includes all of the Outstanding Subordinate Lien Bonds (and excludes the Series 2025 Bonds), is approximately \$244,672,291. As of May 31, 2025 (prior to the issuance of the Series 2025 Bonds), the Reserve Fund Requirement for the Subordinate Lien Bonds that are Reserve Fund Participants was satisfied by cash and investments in the approximate amount of \$121,400,310.48, and Subordinate Lien Bond Reserve Fund Surety Policies in the approximate amount of \$123 million, as described below under "- Subordinate Lien Bond Reserve Fund Surety Policies."

The Series 2025 Bonds will be issued as Reserve Fund Participants. On the Date of Delivery of the Series 2025 Bonds, the Reserve Fund Requirement in the Subordinate Lien Bond Reserve Fund Participant Account will be \$293,859,877.98. As of the Date of Delivery, the amount on deposit in the Subordinate Lien Bond Reserve Fund Participant Account will be sufficient to satisfy the Reserve Fund Requirement in the Subordinate Lien Bond Reserve Fund Participant Account and will consist of cash deposited therein, allowable investments and amounts attributable to each Subordinate Lien Bond Reserve Fund Surety Policy, as described in the table below. See "SOURCES AND USES OF FUNDS." Therefore, on the Date of Delivery, the increase in the Reserve Fund Requirement resulting from the issuance of the Series 2025 Bonds will be satisfied.

The City has never utilized any amounts or drawn upon any surety policies in the Subordinate Lien Bond Reserve Fund to pay Debt Service Requirements. Based on a variety of factors, the City may supplement the current funding of the Subordinate Lien Bond Reserve Fund with lawfully available funds of the Houston Airport System, including bond proceeds derived from future issuances or a Subordinate Lien Reserve Fund Surety Policy (as defined in APPENDIX C-1 – GLOSSARY OF TERMS AND EXCERPTS OF THE MASTER ORDINANCE).

See "SECURITY FOR THE SERIES 2025 BONDS – Debt Service Reserves" herein.

Subordinate Lien Bond Reserve Fund Surety Policies

As shown in the table below, the Reserve Fund Requirement for Subordinate Lien Bonds that are Reserve Fund Participants (i.e., all of the Outstanding Subordinate Lien Bonds) is partially funded with Subordinate Lien Bond Reserve Fund Surety Policies insured by National Public Finance Guarantee Corporation ("National"), Build America Mutual ("BAM") and Assured Guaranty Municipal Corp., formerly known as Financial Security Assurance, Inc. ("AGM").

The following table describes the cash and investments and surety policies that will be on deposit in the Subordinate Lien Bond Reserve Fund Participant Account on the date of issuance of the Series 2025 Bonds. See “SOURCES AND USES OF FUNDS”.

<u>Reserve Fund Policy Issuer</u>	<u>Termination Date</u>	<u>Maximum Amount</u>
National ⁽¹⁾	July 1, 2028	\$32,050,000.00
National ⁽¹⁾	July 1, 2030	43,269,100.00
National ⁽¹⁾	July 1, 2032	3,152,880.00
BAM	July 1, 2032	12,800,000.00
AGM	Earlier of July 1, 2053, or the date that no Series 2023 Bonds are Outstanding	32,000,000.00
RESERVE FUND POLICY SUBTOTAL:		\$123,271,980.00
Cash and Investments		\$170,587,898.48
TOTAL:		\$293,859,878.48

(1) On August 19, 2013, pursuant to a novation agreement, National became the primary insurer of the policies originally issued by Financial Guaranty Insurance Corporation.

Reserve Fund for the Senior Lien Obligations

Senior Lien Notes. The City maintains a separate reserve account within the Senior Lien Bond Reserve Fund for the Senior Lien Notes. The Senior Lien Bond Reserve Fund account for the Senior Lien Notes is funded with (i) cash and investments in the approximate amount of \$10 million, (ii) a surety policy issued by National in the maximum amount of approximately \$6 million that terminates on July 1, 2030, and (iii) a surety policy issued by AGM in the amount of approximately \$6.4 million that terminates September 22, 2033.

No Senior Lien Bonds Outstanding. There are currently no Senior Lien Bonds Outstanding and, consequently, no debt service reserves relating to Senior Lien Bonds.

COVENANTS AND TERMS OF THE ORDINANCE

The following section describes certain covenants and other terms of the Ordinance. For additional information relating to the covenants in the Master Ordinance, see APPENDIX C-1 – GLOSSARY OF TERMS AND EXCERPTS OF THE MASTER ORDINANCE. Certain proposed amendments to the Master Ordinance were adopted as part of the Twelfth Supplemental Ordinance and shall be binding upon all Owners of the Series 2025 Bonds, upon the effective date of such proposed amendments. See APPENDIX C-2 – PROPOSED AMENDMENTS TO THE MASTER ORDINANCE for a description of the proposed amendments and “– Proposed Amendments to the Master Ordinance” below for a discussion of when and how such amendments will become effective.

Rate Covenant

The City has covenanted in the Master Ordinance that it will at all times fix, charge, impose and collect rentals, rates, fees and other charges for use of the Houston Airport System, and, to the extent it legally may do so, revise the same as may be necessary or appropriate, in order that in each Fiscal Year the Net Revenues will at all times be at least sufficient to equal the larger of either: (1) all amounts required to be deposited in such Fiscal Year to the credit of the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Reserve Fund, the Inferior Lien Bond Interest and Sinking Fund and the Inferior Lien Bond Reserve Fund or (2) an amount not less than 125% of the Debt Service Requirements for the Outstanding Senior Lien Obligations for such Fiscal Year, plus 110% of the Debt Service Requirements for the Outstanding Subordinate Lien Bonds for such Fiscal Year, plus 100% of the Debt Service Requirements for the Outstanding Inferior Lien Bonds for such Fiscal Year. (Such covenant is referred to herein as the “Rate Covenant.”)

As further set forth in APPENDIX C-1 – GLOSSARY OF TERMS AND EXCERPTS OF THE MASTER ORDINANCE, the calculation of Debt Service Requirements excludes any portion or all of the interest on or principal of Airport Obligations which has been irrevocably committed by the City to be paid from Houston Airport System funds other than Net Revenues including, but not limited to, PFC Revenues. Additionally, the calculation of Debt Service Requirements does not include any capitalized interest on Airport Obligations.

If the Net Revenues in any Fiscal Year are less than the amounts specified above, the City, promptly upon receipt of the annual audit for such Fiscal Year, must request an Airport Management Consultant to make its recommendations, if any, as to a revision of the City's rentals, rates, fees and other charges, its Operation and Maintenance Expenses or the method of operation of the Houston Airport System in order to satisfy as quickly as practicable the foregoing requirements. Copies of such request and the recommendations of the Airport Management Consultant, if any, shall be filed with the City Secretary. So long as the City substantially complies in a timely fashion with the recommendations of the Airport Management Consultant, the City will not be deemed to have defaulted in the performance of its duties under the Master Ordinance even if the resulting Net Revenues are not sufficient to be in compliance with the Rate Covenant, so long as there is no other default under the Master Ordinance.

For further description of the Rate Covenant and related definitions, see APPENDIX C-1 – GLOSSARY OF TERMS AND EXCERPTS OF THE MASTER ORDINANCE.

Other Factors Affecting Rate Covenant

The City's ability to comply with the Rate Covenant may be limited in that, among other things, (1) a significant portion of the Gross Revenues of the Houston Airport System is derived pursuant to contracts that cannot be adjusted unilaterally by the City, (2) the use and lease agreements with the airlines provide for recovery of certain, but not all, operating and capital costs attributable to certain facilities and do not include a debt service coverage factor, (3) parking and other sources of Gross Revenues, which are not derived under contracts, are subject to competitive supply and demand constraints and (4) certain City Charter tax and revenue limitations, voter-approved propositions and ongoing litigation involving such limitations and propositions could have an impact on the operations of the Houston Airport System. See "THE CITY AND CITY FINANCIAL INFORMATION – City Charter Tax and Revenue Propositions."

Additional Airport Obligations

The Master Ordinance permits the City to issue, for any lawful Houston Airport System purpose, Additional Subordinate Lien Bonds, Additional Senior Lien Obligations and additional Inferior Lien Bonds, if certain conditions are satisfied. For detailed information relating to the issuance of additional Airport Obligations, see APPENDIX C-1 – GLOSSARY OF TERMS AND EXCERPTS OF THE MASTER ORDINANCE – Article V – Additional Bonds.

Amendments to Ordinance

As further set forth in APPENDIX C-1 – GLOSSARY OF TERMS AND EXCERPTS OF THE MASTER ORDINANCE, the Ordinance provides that it may be amended either with or without the consent of Owners under certain circumstances. See also "– Proposed Amendments to the Master Ordinance" below and APPENDIX C-2 – PROPOSED AMENDMENTS TO THE MASTER ORDINANCE."

Amendments of Ordinance without Consent

The City may, without the consent of or notice to the Owners of the Airport Obligations, amend the Ordinance for any one or more of the following purposes: (1) to cure any ambiguity, defect, omission or inconsistent provision in the Ordinance or in the Airport Obligations; or to comply with any applicable provision of state or federal law or regulation of federal agencies; provided, however, that such action shall not adversely affect the interests of the Owners of the Airport Obligations; (2) to change the terms or provisions of the Ordinance to the extent necessary to prevent the interest on the Airport Obligations from being includable within the gross income of the Owners thereof for federal income tax purposes; (3) to grant to or confer upon the Owners of the Airport Obligations any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Owners of the Airport Obligations; (4) to add to the covenants and agreements of the City contained in the Ordinance other covenants and agreements of, or conditions or restrictions upon, the City or to surrender or eliminate any right or power reserved to or conferred upon the City in the Ordinance; (5) to subject to the lien and pledge of the Ordinance additional Net Revenues that may include revenues, properties or other collateral, (6) to add requirements or incorporate modifications the compliance with which is required by a rating agency in connection with issuing or confirming a rating with respect to any series of Airport Obligations; (7) to authorize any series of Additional Senior Lien Bonds, Additional Senior Lien Notes, Additional Subordinate Lien Bonds or Inferior Lien Bonds, and, in connection therewith: (i) to specify and determine the terms, forms and details thereof and (ii) to create such additional funds and accounts and to effect such amendments of the Ordinance that may be necessary for such issuance, provided in each case that no such amendment or supplement shall be contrary to or inconsistent with the limitations set forth in the Ordinance; (8) to evidence any sale, transfer or encumbrance of the Houston Airport System in accordance with the Ordinance; (9) to make any other modification, amendment or supplement that shall not materially adversely affect the interests of the Owners of the Airport Obligations; (10) to cure or correct any technical defect in connection with the terms, conditions or procedures relating

to the variable rate provisions contained in any Supplemental Ordinance, provided, however, that such action shall not adversely affect the interests of the owners of the Airport Obligations; and (11) prior to the conversion of any variable rate Airport Obligations to a different interest rate mode, to change the terms, conditions or procedures relating to the new interest rate mode.

Amendments of Ordinance with Consent

The City may at any time adopt one or more ordinances amending, modifying, adding to or eliminating any provisions of the Ordinance, but, if such amendment is not of the character described in the preceding paragraph, only with the consent given in accordance with the Ordinance of the Owner or Owners of not less than a majority in aggregate unpaid principal amount of the Airport Obligations then Outstanding and affected by such amendment, modification, addition or elimination; provided, however, no such amendment, modification, addition or elimination shall permit (1) an extension of the maturity of the principal of or interest on any Airport Obligation issued under the Ordinance, (2) a reduction in the principal amount of any Airport Obligations or the rate of interest on any Airport Obligations, (3) a privilege or priority of (a) any Senior Lien Obligation(s) over any other Senior Lien Obligation(s), (b) Subordinate Lien Bond(s) over any other Subordinate Lien Bond(s), or (c) Inferior Lien Bond(s) over any other Inferior Lien Bond(s) or (4) a reduction in the aggregate principal amount of the Airport Obligations required for consent to such amendment, unless the Owner or Owners of 100% in aggregate principal amount of the Airport Obligations shall consent to any of such changes. Before the City may adopt such an ordinance, the City must receive an opinion from nationally recognized bond counsel to the effect that such ordinance does not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Airport Obligations.

Proposed Amendments to the Master Ordinance

The City has determined to amend the Master Ordinance in the form set forth in APPENDIX C-2 – PROPOSED AMENDMENTS TO THE MASTER ORDINANCE (such amendments are collectively referred to as the “Proposed 2016 Amendments”). The following summarizes the changes made to the Master Ordinance by the Proposed 2016 Amendments.

The Proposed 2016 Amendments were adopted as part of the Twelfth Supplemental Ordinance and shall be binding upon all Owners of the Series 2025 Bonds. The City intends to include the Proposed 2016 Amendments in each future supplemental ordinance until the Proposed 2016 Amendments become effective.

The Proposed 2016 Amendments (or any portion thereof) shall not become effective until the date on which the Proposed 2016 Amendments (or portions thereof) have become incorporated or deemed incorporated into every ordinance pursuant to which Airport Obligations are then Outstanding (the “Amendment Effective Date”), subject to satisfaction of any required conditions. Although the Proposed 2016 Amendments have been incorporated into the Twelfth Supplemental Ordinance authorizing the Series 2025 Bonds and certain other Airport Obligations issued in 2018, 2020, 2021 and 2023, the amendments are not yet effective and the City may not exercise its rights under any portion of the Proposed 2016 Amendments until the Amendment Effective Date. The Master Ordinance will not be deemed to be amended by the Proposed 2016 Amendments until the Amendment Effective Date.

Short-Term/Demand Obligations

The Master Ordinance provides that the aggregate principal amount of Short Term/Demand Obligations Outstanding at any time may not exceed the greater of \$150,000,000 or 30% of the aggregate principal amount of Senior Lien Obligations and Subordinate Lien Bonds Outstanding at the time of issuance of the last series of Short Term/Demand Obligations. The City has determined to amend the Master Ordinance to delete this limitation on the total aggregate principal amount of Short-Term/Demand Obligations that may be Outstanding at any time. Additionally, the City has determined to amend the definition of “Short-Term/Demand Obligations” to delete the requirement that an obligation must be secured by a credit or liquidity facility to qualify as a Short-Term/Demand Obligation.

Released Revenues

The City has determined to amend the Master Ordinance to allow the City to remove a specific, identifiable portion of the income and revenues from the definition of “Gross Revenues” once certain conditions are met, including meeting a debt service coverage test, the delivery of an opinion of bond counsel to the effect that the exclusion of such revenues will not, in and of itself, cause the interest on any Outstanding Airport Obligations to be included in gross income for purposes of federal income tax, and ratings confirmations from each rating agency rating the Airport Obligations affected thereby. See APPENDIX C-2 – PROPOSED AMENDMENTS TO THE MASTER ORDINANCE for a full description of such conditions.

Reserve Fund Requirement for Reserve Fund Non-Participants

The Master Ordinance requires all Reserve Fund Non-Participants to maintain a Reserve Fund Requirement equal to maximum annual Debt Service Requirements for all Airport Obligations that are secured thereby. The City has determined to amend the definition of Reserve Fund Requirement for Reserve Fund Non-Participants to be any amount set forth in the supplemental ordinance that authorizes the issuance of such Reserve Fund Non-Participants. There is no effect on the Reserve Fund Requirement for Reserve Fund Participants, including the Series 2025 Bonds.

Qualified Hedge Agreements

The City has determined to amend the Master Ordinance to allow a financial institution that has long-term credit ratings in one of the two highest rating categories by a single nationally recognized rating service to qualify as a qualified hedge counterparty. The Master Ordinance currently requires such an institution to have such long-term credit ratings from two nationally recognized rating services.

THE HOUSTON AIRPORT SYSTEM

General

The Houston Airport System, the City of Houston's Department of Aviation, functions as an enterprise fund of the City. It is comprised of three airports – George Bush Intercontinental, William P. Hobby and Ellington Airport/Houston Spaceport. Intercontinental is the nation's 15th busiest airport (as measured by enplaned passengers in calendar year 2024) and is classified as a "large hub airport" by the FAA. It serves as an international gateway airport and a primary connecting point in the national air transportation system and was the third busiest hub for United in the calendar year 2024 based on total departures. Additionally, Intercontinental is the primary air cargo airport for the region. Hobby is the nation's 36th busiest airport (as measured by enplaned passengers in calendar year 2024) and is classified as a "medium hub airport" by the FAA. Hobby is one of the major operating bases for Southwest, which offers domestic service and international service to destinations in Mexico, Central America, and the Caribbean. Ellington is used for general aviation, military, and the National Aeronautics and Space Administration's ("NASA") operations, but currently has no commercial airline passenger service. The Houston Airport System obtained a spaceport license for Ellington in June 2015 from the FAA, which was renewed in June 2025 for a period of five (5) years, allowing Ellington to accommodate horizontal-launch commercial spaceflight operations. See "– Houston Airport System Facilities – Ellington Airport/Spaceport Development."

From 2000 to 2010, the Houston Airport System undertook a major renovation, modernization and expansion project at all three airports totaling approximately \$2.8 billion. At Intercontinental, the Houston Airport System built, among other projects, two new air carrier runways and related airfield expansions and improvements; a new international arrivals facility; an extended automated people mover system; and expansions and renovations to existing terminal, garage, and support facilities. At Hobby, the Houston Airport System constructed a new central concourse, substantially expanded the main terminal building, and completed various runway and taxiway improvements. At Ellington, the Houston Airport System made various airfield improvements.

See "INVESTMENT CONSIDERATIONS" herein.

Houston Airport System Facilities

George Bush Intercontinental Airport/Houston

Intercontinental is situated on approximately 10,800 acres of land approximately 22 miles north of downtown Houston and is the Houston area's busiest commercial airport. Intercontinental has five runways interconnected by a system of taxiways. The longest runway is approximately 12,000 feet long; two are approximately 10,000 feet long; and the remaining two are at least 9,000 feet long. The runways are equipped with instrument landing systems, lighting systems, and other navigation aids and are configured to permit the simultaneous use of the three east-west runways for aircraft landings in most weather conditions.

Intercontinental's passenger terminal facilities currently consist of five terminal buildings and related concourses – Terminals A, B, C, D and E – with a total of 125 aircraft gates and thirteen hardstand positions. The facilities provide public parking for approximately 28,970 automobiles in multi-story garages and surface lots, an automated underground inter-terminal train system (the "Subway") that connects (pre-security) the existing five terminals and the Marriott Hotel, and an above-ground level automated people mover system (the "Skyway") that connects (post-security) all five terminals and a

central federal customs and immigration inspection services building (the “Central FIS Facility”) accommodating international arrivals from Terminals D and E. The Central FIS Facility has the capacity to process approximately 4,500 arriving international passengers per hour.

Terminals B, C and E are used exclusively by United and its United Express affiliates. Terminal B, containing 37 aircraft gates (26 of which are labeled Terminal B and 11 of which are labeled Terminal C), is used by United and United Express for regional jet operations. Pursuant to the Terminal B Special Facilities Lease (as defined herein), United has constructed two phases of its Terminal B redevelopment plan and has commenced construction of the final phase pursuant to an amendment to the Terminal B Special Facilities Lease (“Phase III”). Upon completion of Phase III, there will be a total of 51 aircraft gates in Terminal B (40 gates labeled as Terminal B gates and 11 gates labeled as Terminal C gates). See “CAPITAL IMPROVEMENT PROGRAM – CIP Projects – Special Facilities Projects” herein. Terminal C contains 29 aircraft gates and primarily accommodates United and United Express domestic operations. Terminal E, containing 22 gates, is used by United for mainline international arrivals and departures and domestic arrivals and departures and by United Express for some international arrivals. Terminal A contains 23 aircraft gates as well as two regional aircraft hardstand positions and is used by various airlines (including United and its United Express affiliates) for domestic and precleared international aircraft operations. Foreign-flag airlines conduct international operations out of Terminal D, which contains 18 aircraft gates equipped to accommodate international flights with 13 of them capable of accommodating super jumbo jets. Additionally, Terminal D is used by United and its United Express affiliates, Frontier Airlines and Spirit Airlines for some international arrivals.

Also located on Intercontinental property are multiple air cargo buildings providing nearly one million square feet of space and a fuel farm that currently provides approximately 13 million gallons of storage capacity for jet fuel. Two fixed base operators provide airline, corporate and general aviation aircraft operations support. The Marriott Hotel is located between Terminals B and C, has 573 rooms and underwent a substantial renovation completed in January 2016.

United operates facilities for aircraft maintenance, catering, flight attendant training, and other support functions, and constructed a new 270,000-square-foot technical operations center to accommodate a hangar for widebody aircraft maintenance and is improving and expanding other aircraft maintenance and support facilities at Intercontinental. The office areas of the technical operations center and associated widebody hangar opened in February 2020 and the supporting shops were completed in 2022.

A consolidated rental car facility was financed by the proceeds of certain Special Facilities Bonds issued in 2001. The Special Facilities Bonds related to the consolidated rental car facility are secured by and payable from a customer facility charge assessed on rental car customers at Intercontinental and are not secured by a lien on Net Revenues. The facility opened in August 2003.

See “CAPITAL IMPROVEMENT PROGRAM” below for a discussion of planned renovations and improvements to Intercontinental. See “HOUSTON AIRPORT SYSTEM SIGNIFICANT CONTRACTUAL AGREEMENTS – Airport Use and Lease Agreements and Special Facilities Lease Agreements” below for descriptions of the lease agreements and Special Facilities Leases relating to the facilities at Intercontinental and “– Other Significant Airport Agreements – *Rental Car Facilities at Intercontinental*” for a description of the lease agreement relating to the consolidated rental car facility at Intercontinental.

Hobby Airport

Hobby is located on approximately 1,500 acres of land approximately 7 miles southeast of downtown Houston. It has a terminal building with two concourses. The Central Concourse contains 30 gates and is used primarily for domestic arrivals and departures. The West Concourse contains five gates, all connected to the federal immigration and customs inspection services building, which can accommodate up to approximately 800 arriving passengers per hour. Southwest’s ticketing facilities are in the West Terminal, while ticketing facilities for other airlines are located in the Central Terminal. All domestic baggage claim facilities are in the Central Terminal. The entire terminal complex includes over 910,000 square feet of space. Hobby has three runways in total: two runways are approximately 7,600 feet long, and one runway is approximately 5,150 feet long. The runways are equipped with instrument landing systems, lighting systems, and other navigation aids to permit use in most weather conditions.

Additional facilities at Hobby include approximately 6,500 public parking spaces, rental car facilities, an underground fuel distribution system, a cargo building, several aircraft maintenance facilities, and some corporate hangars. Five fixed-base operators support Hobby’s significant corporate and general aviation operations. Southwest maintains a maintenance facility and hangars at Hobby, including a 240,000 square foot hangar that opened in January 2020. The Houston Airport System and Southwest Airlines are partnering to add seven new gates to the West Concourse at Hobby Airport. The

concourse expansion will accommodate both domestic and international flights, modernize the baggage claim area, and add a canopy for passenger comfort between the Red Garage and the departures level.

See “CAPITAL IMPROVEMENT PROGRAM” below for a discussion of planned improvements to Hobby. See “HOUSTON AIRPORT SYSTEM SIGNIFICANT CONTRACTUAL AGREEMENTS – Airport Use and Lease Agreements and Special Facilities Lease Agreements” below for descriptions of the lease agreements relating to the facilities at Hobby.

Ellington Airport/Spaceport Development

Ellington is located approximately 15 miles southeast of downtown Houston on approximately 2,400 acres. It has no scheduled commercial flights and its non-governmental operations are for general and corporate aviation. The Texas Air National Guard, NASA, Coast Guard, and the U.S. Air Force currently use Ellington. Ellington has three runways: one is approximately 9,000 feet long, another is approximately 8,000 feet long and the third is approximately 4,600 feet long.

Ellington has one fixed-based operator leasing two fixed-base operating facilities, approximately 90 T-hangers, and three corporate-base operators that allow it to relieve Hobby of general aviation traffic. Lone Star Flight Museum opened a new facility at Ellington in September 2017 to replace its prior facility in Galveston.

The Houston Airport System was granted a Commercial Spaceport Launch Site License from the FAA in June 2015 that enables Ellington to establish itself as a horizontal launch site for Reusable Launch Vehicles (“RLV”), making it the 10th commercial spaceport in the United States. The Houston Airport System designated over 400 acres on the southeast side of Ellington as the Houston Spaceport development (the “Spaceport”). In October 2015, the Houston Airport System acquired a 53,000-square-foot aerospace engineering building and land adjacent to Ellington which is currently occupied by Intuitive Machines, a spacecraft manufacturing company and a workforce development center, operated by San Jacinto College. In December 2020, Axiom Space, Inc., a space habitat manufacturer (“Axiom”), announced plans to build a facility in Phase 1 of the Spaceport. In December 2023, the Axiom completed construction of its first 106,000 square foot facility. On September 2022, Collins Aerospace (Hamilton Sundstrand) opened its first 125,000 square foot facility at the Spaceport. In September 2023, Intuitive Machines completed construction of a 120,000 square foot facility. Construction of the Taxiway Lima Phase I and II is expected to be complete by 2027. No spaceflight operations are currently scheduled.

See “CAPITAL IMPROVEMENT PROGRAM” below for a discussion of planned improvements to Ellington.

Management

The management of the Houston Airport System is the responsibility of the Director of Aviation, who is appointed by the Mayor and confirmed by the City Council. The Director of Aviation has a staff of approximately 1,271 employees. The Airport System Fund is an enterprise fund of the City, under the administrative control of the Mayor. The City Controller, as the chief financial officer of 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 Houston Airport System.

Following is selected biographical information for certain principal administrative officers and airport staff of the Houston Airport System:

Jim Szczesniak, Director of the City of Houston Department of Aviation, is responsible for the overall management of Houston Airport System’s three aviation facilities. Prior to being appointed as director, Mr. Szczesniak held the position of Chief Operating Officer of the Houston Airport System. Previously, Mr. Szczesniak served as the Airport Director for the Ted Stevens Anchorage International Airport (ANC). ANC is the world’s fourth busiest air cargo airport and gateway to Alaska. He also spent a decade at the Chicago Department of Aviation. Mr. Szczesniak started in airport operations at O’Hare International Airport, became Director of Airport Planning and ultimately became Deputy Commissioner of Aviation overseeing the section at both O’Hare and Midway International airports. Mr. Szczesniak holds a Master of Business Administration from the University of Chicago and a Bachelor’s in Aviation Management from Southern Illinois University and is an Accredited Airport Executive. He is also a licensed commercial pilot and aircraft mechanic.

Kelly Woodward, Chief Operating Officer for the Houston Airport System, is responsible for executing the strategic initiatives of the Houston Airport System, ensuring a 5-Star system performance at both George Bush Intercontinental and William P. Hobby Airports, and enhancing efficiency within all divisions of the airport system. She also collaborates with airport stakeholders and maintains operational excellence throughout the entire airport system. Most recently, Woodward served as a Managing Director with AvAirPros in Houston, overseeing operational readiness, terminal systems integration, move sequence teams, and baggage handling systems teams for the Intercontinental Terminal B redevelopment. She previously worked for Houston Airports from 2002 to 2023. During that time, Woodward worked in various leadership roles,

such as Operations, Contract Services, Custodial Services, Interim General Manager of Intercontinental Airport and most recently as the Assistant Director of the Operational Readiness Division. Woodward holds a Master of Science Degree and a Bachelor of Science Degree, both in Aeronautical Science from Embry Riddle Aeronautical University. She also possesses an FAA Commercial Pilot/Flight Instructor Certificate and is a Certified Member (CM) of the American Association of Airport Executives (AAAE).

Saba Abashawl, Chief External Affairs Officer, manages the External Affairs division for Global Industry Relations, Government Affairs and Corporate Communications. She leads a variety of Business Development initiatives that, together, provide a vital support network for new and expanded air service in Houston. This means a greater level of connectivity for millions of Houstonians, fueling economic growth. Ms. Abashawl also serves as Executive Officer for the Mayor of Houston in foreign affairs and business development initiatives, fostering economic vitality for both the Houston Airport System and the greater Houston region. Her efforts not only seek to maximize the number of nonstop flights available to Houston, but also position and reinforce Houston as a “global gateway” destination to international leaders. Her efforts in working with leaders at the Department of Homeland Security and key communities has been instrumental in developing various passenger facilitation best practices and was integral in ensuring the timely opening of the new international concourse at Hobby in 2015, as well as implementing a touchless biometrics travel process at both Intercontinental and Hobby. Ms. Abashawl holds a bachelor’s degree in marketing and a master’s degree in International Finance and Business, both from the University of St. Thomas and is an active member of numerous civic and professional organizations.

Francisco Cuellar, Chief Commercial Officer for the Houston Airport System, oversees the commercial activities at the Houston Airport System’s three airports, including concessions, parking, and real estate development. Mr. Cuellar joined the Houston Airport System in 2022. With a career in the aviation industry spanning more than 20 years, Francisco Cuellar has participated in airport bids in countries such as Argentina, Chile, Uruguay, Dominican Republic, Colombia, and Mexico. Some bids involved forming a consortium to invest in large infrastructure investments ranging from \$100 million to \$2.5 billion. Mr. Cuellar recently served as the Chief Commercial and Marketing Officer for Aerodom, which was owned by Latin American Airports Holding at the time. At Aerodom, he was responsible for leading the commercial development and marketing for six airports in the Dominican Republic. At that time, he also served as Chief Commercial and Marketing Officer in charge of Terminal 1 at Mexico City International Airport, which operated under concession by Latin American Airports Holding. Mr. Cuellar has held several executive-level positions at other regional airport groups, like Chief Business Development Officer at ASUR, a private airport group in Mexico that operates several airports including Cancún, Cozumel and Mérida. He also created the first professional airport marketing team in Latin America. Mr. Cuellar holds a Global Master of Business Administration from The Thunderbird School of International Management, a Bachelor of Science in Business Administration degree from The Ohio State University and a Financial Valuation Executive Education Diploma from Harvard University.

Darryl Daniel, Chief Technology Officer at Houston Airport System, leads the Communications Technology, Technology Infrastructure, Applications and Support, IT Security, and Technology Project Management Office business units. In this capacity, he is responsible for the maintenance and integrity of all technology and communications systems supporting Intercontinental, Hobby, and Ellington as well as developing and aligning technology vision with business strategy. With 25 years of experience in airport systems and technology consulting, Mr. Daniel’s background includes time with EDS Aviation Group, Continental Airlines, Avidel Consulting, Burns Engineering where he led technology design teams on major terminal expansion and development programs across the United States. Mr. Daniel is a certified Project Management Professional (PMP), a licensed commercial pilot, and holds a Bachelor of Science degree in Industrial Distribution from Texas A&M University’s College of Engineering.

Gary High serves as the Deputy Director of Large Capital Projects for Houston Airports. His extensive responsibilities include overseeing construction management, project delivery, design, project controls, the building standards group, quality assurance, and the City Engineer. In this capacity, Gary is the key communicator for Houston Airports on all construction-related endeavors, ensuring alignment with the Houston Airport System's strategic goals. He also represents the Infrastructure Division's interests in collaborations with both internal and external stakeholders on current and future developments. As the former HAS Assistant Director of Construction Management, Gary is dedicated to ensuring the Infrastructure Division fully supports HAS' mission, vision, core values, and strategic priorities. He leads the division in the on-time delivery of the HAS Capital Improvement Program, with a primary focus on enhancing reliability, resilience, sustainability, and cost-effectiveness. Gary is committed to extending the lifespan of HAS' infrastructure assets by continuously evaluating existing conditions and prioritizing constructability, cost efficiency, and life safety to deliver an exceptional customer experience. With over two decades of experience in construction management, Gary brings a wealth of expertise to the team. Before joining HAS, he held various senior leadership positions in the private sector, managing all aspects of comprehensive project delivery. Gary earned his Bachelor of Science in Construction Management from the University of Houston.

Scott Hill is the Deputy Director of Infrastructure at Houston Airports. In this role, he provides executive leadership for the HAS Infrastructure Division, overseeing contracts, fleet management, asset management, project controls, design management, and project delivery for all airport facilities. The Infrastructure Division manages the life cycle of physical assets and infrastructure, ensuring the on-time delivery of capital renewal projects at the three HAS airports. Mr. Hill has over 20 years of experience in the aviation industry, gained through his roles in the United States Air Force and the Houston Airports. While at HAS, Scott has held various positions, including Inspector, Management Analyst IV, Senior Project Manager, Interim Division Manager, Assistant Director, and Deputy Director. He is a certified Project Management Professional (PMP) with the Project Management Institute (PMI), Certified Facility Manager (CFM) with the International Facility Management Association (IFMA), and a Certified Member (C.M.) with the American Association of Airport Executives (AAAE). In 2018, Mr. Hill was one of the Airport Business Top 40 under 40.

Arturo Machuca, Director of Ellington Airport and Houston Spaceport, is responsible for the daily operations and the development and implementation of policies and procedures at Ellington. He also is the lead on the Houston Spaceport project. Mr. Machuca joined the Houston Airport System in 2009 with over 30 years of sales and marketing experience in the aviation industry. His prior responsibilities included economic development, industry affairs and business relations for all three airports, and was tasked with the responsibility of developing a plan to bring a commercial spaceport to Ellington. He worked with various federal and local agencies, as well as key players in the aerospace industry, to create preliminary plans and conceptual drawings to pursue a license to bring commercial spaceflights to Ellington and is now leading commercial development efforts for Ellington Airport and Houston Spaceport. Mr. Machuca holds a Bachelor of Arts degree in Hotels and Tourism Administration from Universidad Regiomontana (Monterrey, Mexico).

Steve Runge, A.A.E., ACE, Chief of Operations for the Houston Airport System, is responsible for Operations at Intercontinental and Hobby, which includes the Airport Operations Centers, Airside, Safety Management System (SMS), Landside, Ground Transportation, Security/Badging and Safety & Emergency Management business units. Mr. Runge has been with the Houston Airport System for 20 years and has worked in a variety of positions at William P. Hobby, Ellington, and Intercontinental Airports. Most recently Mr. Runge was the Assistant Director for Terminal Management at Intercontinental Airport. Mr. Runge received a Master of Science degree in Aviation Safety from the University of Central Missouri as well as a Bachelor of Science degree in Aviation Business Administration from Embry-Riddle Aeronautical University. He's an active American Association of Airport Executives (AAAE) member and is an Accredited Airport Executive (A.A.E.) as well as an Airport Certified Employee (ACE) for Safety Management Systems. Additionally, Mr. Runge has extensive emergency management training and is a certified Incident Command System (ICS) instructor through the Center for Domestic Preparedness.

Clint Stephen, Chief Financial Officer, is responsible for monitoring the overall financial health of the Houston Airport System. Mr. Stephen provides financial leadership by working with the Executive Management Team to establish long-range financial goals, strategies, and plans, while also ensuring that short-term funding needs are met. He oversees all aspects of the airports' financial operation including accounting and control, corporate finance, budget and forecasting, financial planning and analysis, capital program control, audit, tax, airline affairs and risk management. He plays a leading role in driving the Houston Airport System's "Build the Platforms for Future Success" strategic priority, as he helps the organization maintain fiscal discipline, fund capital improvements and pursue revenue growth opportunities. Mr. Stephen's 30-year finance and accounting career began at United Parcel Service managing multiple Finance and Accounting functional areas. He later joined Continental Airlines and held a variety of financial positions, including controller positions for the Cargo, Corporate Real Estate, Airports and Operations divisions and as a member of the negotiating team for Labor Relations. Recently, Clint worked as a Financial Officer for Starcon International in the petrochemical construction industry. Clint holds both a Bachelor of Business Administration in Finance and a Master's of Business Administration from the University of Houston.

Molly E. Waits, the Chief Marketing, Air Service Development and Communications Officer, oversees all marketing efforts, specifically targeting an understanding of passengers' needs, air service development activities to expand air service at Houston's two commercial airports, and all external communications and public relations outreach. She joined the Houston Airport System in October 2004 as Senior Marketing Specialist within the Air Service Development Team. In that position, Ms. Waits was responsible for the development of new air service for Houston's two commercial airports. Prior to joining the Houston Airport System, Ms. Waits served as a Corporate and Agency Sales Executive for Northwest Airlines. Ms. Waits received a bachelor's degree in International Trade and Finance from Louisiana State University and a Master of Business Administration degree in Global Management from the University of Phoenix.

Mandy Wu, Assistant Director of Accounting for the Houston Airport System, oversees the proper and timely recording of financial transactions within the General Accounting and Financial Reporting, Revenue Accounting, Fixed Assets and Grant Administration and Accounts Payable groups. She also ensures the proper internal and external reporting of Houston Airport System financial activities, and continually monitors and implements internal controls as necessary to

enhance confidence in the integrity of published financial statements and interim reports. Ms. Wu joined Houston Airport System in June 2020 with over 14 years of professional experience, including Big Four audit experience with Deloitte. Ms. Wu gained progressive experience in accounting, financial analysis and process improvement in the oil and gas industry over the past decade with Schlumberger, Juneau Exploration and Rosehill Resources. Additionally, she has manufacturing cost accounting experience as an Accounting Manager with Sinomax USA. Ms. Wu holds a Master of Business Administration and a Master of Science in Accountancy from the University of Houston and is a Licensed Certified Public Accountant (CPA) in the State.

Airport Service Region

The primary service region for the Houston Airport System is the ten-county Houston-Pasadena-The Woodlands-Metropolitan Statistical Area (“MSA”) and the broader Houston-Pasadena Combined Statistical Area (“CSA”). The 2020 U.S. Census population estimates for the MSA and CSA were approximately 7.5 million and 7.7 million, respectively. The MSA contains the City, the nation’s fourth most populous city. Harris County (the county in which the City is primarily located) accounted for 66.7% of the MSA’s U.S. Census 2020 population. The extended air service region includes smaller markets with limited or no air service within driving distance of Houston Airport System airports, including Beaumont/Port Arthur, Bryan/College Station, Lufkin/Nacogdoches, and Victoria, Texas, and Lake Charles, Louisiana.

The MSA’s population growth between 2020 and 2024 is described in the table below:

Historical Houston-Pasadena-The Woodlands MSA		
	Population Estimates	
<u>Year (July 1)</u>	<u>Population Estimate</u>	<u>Annual Percentage Change</u>
2020	7,140,749	1.10
2021	7,215,837	1.05
2022	7,340,118	1.72
2023	7,510,253	2.32
2024	7,796,182	3.81

Source: Greater Houston Partnership and U.S. Census Bureau

The development and strength of the economic base of the Houston Airport System’s service region is important to airline traffic growth at the airports. This dependency is particularly true for an economy with large trade volumes, such as that of the region, in which industries rely on airports for the connections provided by passenger and cargo airline service. Houston’s location supports routes to destinations in Latin America. Intercontinental is currently the second busiest U.S. international gateway to Latin America, behind only Miami International airport. The region also is a center for the energy, financial, medical, transportation, retail and manufacturing industries. The region has 26 Fortune 500 companies headquartered in its metropolitan area, third in the country according to the Greater Houston Partnership.

The 10 largest private employers in the Houston area in 2024 are shown in the table below:

<u>Top 10 Greater Houston Private Employers</u>
AT&T
Baker Hughes
CenterPoint Energy
ConocoPhillips
Enterprise Product Partners
EOG Resources
ExxonMobil
Group 1 Automotive
Halliburton
Kinder Morgan

Source: Greater Houston Partnership

According to a study performed for the Houston Airport System, in 2024 by Campbell Hill Consulting, Intercontinental supports more than 157,000 local jobs and contributes more than \$30.7 billion to the local economy. Hobby supports more than 41,000 local jobs and contributes more than \$7.8 billion to the local economy. Ellington supports more than 8,000 local jobs and contributes more than \$2.0 billion to the local economy.

Sustainable Management Program

The Houston Airport System has developed a Sustainable Management Plan to guide its use of the Airport System's financial, natural and human capital resources. Houston Airport System promotes economic, social and environmental excellence through actions that enhance the mission of connecting the people, businesses, cultures, and economies of the world to Houston. The Houston Airports System identified issues important in becoming a sustainable organization by defining operational areas of energy, solid waste/recycling, water, and greenhouse gas emissions, which focused on providing sustainable design, assets, infrastructure, and procurement.

The Houston Airport System recognizes that sustainability is not only about using less resources but is also about recognizing the role of airports in creating enduring communities, acknowledging the social costs of air travel, and creating airports that are resilient to future stresses such as energy and/or water scarcity.

CAPITAL IMPROVEMENT PROGRAM

General Discussion

The City updates and adopts annually a rolling five-year comprehensive plan that determines and prioritizes its capital and infrastructure needs, including for the Houston Airport System. In connection with updates to its master plans for its airports, the Houston Airport System publishes its CIP extending past the City's five-year requirement, which is described below. The Houston Airport System continuously monitors and adjusts its CIP based upon financial capacity, air travel demand and airline industry developments. See "INVESTMENT CONSIDERATIONS."

Master Plans

The Houston Airport System completed updates to the Intercontinental, Hobby, and Ellington Master Plans in 2014 and 2015. These long-term development plans are generally demand-driven (with respect to activity levels), time-driven (with respect to facility condition), and consistent with management's strategic goals. Projects are identified as needed when a pre-defined demand level is reached but are revalidated before implementation in the then-current operating environment. In October 2023, Houston Airport System commenced a new Master Plan program.

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CIP Projects

City Council approved the Houston Airport System management \$2.72 billion Fiscal Year 2026-2030 Capital Improvement Plan (the “Fiscal Year 2026-2030 CIP”) on June 25, 2025. Currently, Houston Airport System management expects the amount of the Fiscal Year 2026-2030 CIP to be \$2.92 billion. The approved Fiscal Year 2026-2030 CIP, adjusted as described in the footnotes to the table, is summarized in the table below.

The capital improvement program described in APPENDIX A – Report of Airport Management Consultant -- Table 3 sets forth the amounts the City expects to expend over Fiscal Years 2026-2032. In contrast, Fiscal Year 2026-2030 CIP only includes amounts to be appropriated by City Council over such period. City Council appropriated certain projects and dollar amounts that will be spent during Fiscal Years 2026-2030 in the fiscal years prior to Fiscal Year 2026. Those amounts that were previously appropriated are not included in the Fiscal Year 2026-2030 CIP or the table below. For further discussion of the capital improvement program and timing of expenditures, see APPENDIX A – Report of Airport Management Consultant – Airports Capital Program Update.

Approved Fiscal Year 2026-2030 CIP (dollars in millions)

<u>Airport</u>	<u>Description</u>	<u>Amount</u>
Intercontinental	Terminal Redevelopment Programs	\$930
	Runway, Taxiway and Airfield Projects	249
	Skyway Automated People Mover	270
	Terminal B Enabling Projects	324 ^(a)
	Central Plant Improvements	125
	Parking Improvements	60
	Other Improvements	215
Hobby ^(b)	Runway, Taxiway and Airfield Projects	534
	Terminal Improvements	46
	Other Improvements	34
Ellington	Taxiway Lima (adjacent to RWY 4-22)	28
	Spaceport and Other Improvements	21
Administration	System Support	70
	Technology Projects	14
Total		\$2,920

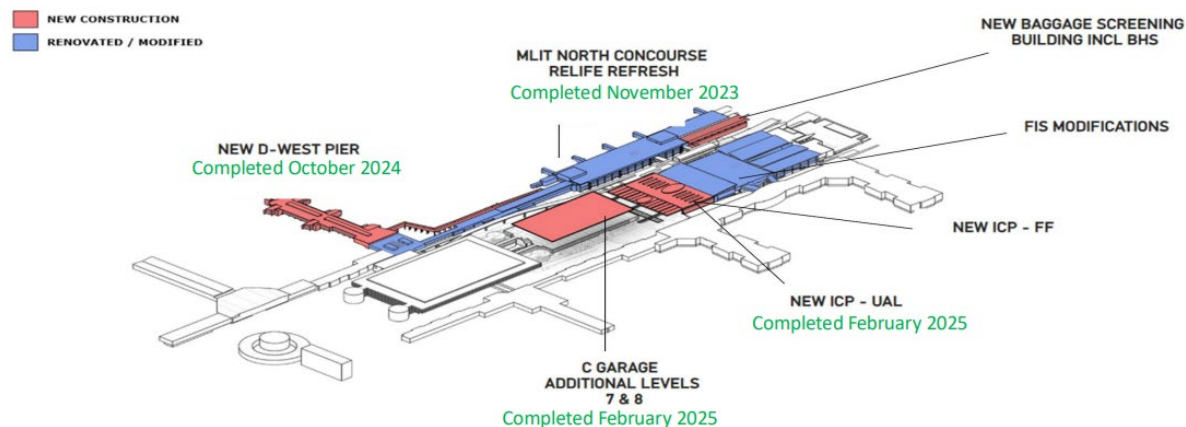
(a) City Council has previously appropriated \$150 million of Terminal B enabling projects. The Fiscal Year 2026-2030 CIP includes \$124 million of Terminal B enabling projects; however, Airport System management currently expects to appropriate \$324 million for Terminal B enabling projects over such period, for a total expenditure for \$474 million.

(b) City Council has previously appropriated \$470 million for the seven gate expansion project (the West Concourse Expansion) at Hobby. These amounts are not reflected in the table above because the Fiscal Year 2026-2030 CIP only includes amounts that have not been previously appropriated by City Council. See APPENDIX A – Report of Airport Management Consultant -- Table 3 for further information regarding the capital improvement program and timing of expenditures.

Intercontinental Capital Improvement Program. The Domestic Redevelopment Plan (DRP) will expand the domestic gate capacity for the increasing traffic of the non-hub airlines. The project will include expanded passenger parking facilities, increased airfield capacity, and retail and food and retail concessions. The project is expected to be completed after Fiscal Year 2030.

Runway, Taxiway and Airfield Projects include the full length mill and overlay of Taxiway SA / SB, significant improvements to Taxiways RA and RB, and replacement of the airfield lighting system. Central plant and other infrastructure improvements are required for the entire Intercontinental terminal complex as well as the roadway system. A portion of the costs of the central plant and taxiway improvements are being financed by the Series 2025 Bonds. Many of these capital improvements are part of the final phases of the International Terminal Redevelopment Program (“ITRP”) along with other capital improvements being completed at Intercontinental. Below is a rendering of the ITRP.

IAH Terminal Redevelopment Program (ITRP)



Terminal B Enabling Projects include certain commitments the City has made in connection with United's redevelopment of Terminal B. In December 2024, the City issued Special Facilities Bonds in the aggregate principal amount of \$1.1 billion to finance improvements to Terminal B, secured by the lease payments from United pursuant to the Terminal B Special Facilities Lease (as defined herein). The Special Facilities Bonds are not secured by or payable from Net Revenues. In connection with the improvements financed by Special Facilities Bonds for Terminal B, the City has agreed to pay certain costs of enabling projects in an amount not to exceed \$624 million. A portion of the enabling projects for Terminal B are being financed by the Series 2025 Bonds. See "HOUSTON AIRPORT SYSTEM SIGNIFICANT CONTRACTUAL AGREEMENTS – Airport Use and Lease Agreements and Special Facilities Lease Agreements."

Hobby Capital Improvement Program. The Hobby Master Plan provides for expansion of the international concourse and apron to add seven gates (for a total of 12 gates). City Council has previously appropriated funds for the expansion of the international concourse, which amounts are not reflected in the Fiscal Year 2026-2030 CIP. Terminal projects included in the Fiscal Year 2026-2030 CIP are made up of anticipated capital improvements related to the concession program as well as various other smaller rehabilitation projects.

In March of 2022, the City entered into a Memorandum of Agreement with Southwest Airlines (the "MOA") relating to the initial design and engineering of the seven gate expansion project, which includes a new baggage handling system and renovated baggage claim area. The MOA obligates the City to reimburse Southwest for up to \$20 million of costs incurred. The Houston Airport System estimates the total project will cost \$470 million and anticipates funding the costs with debt in the approximate amount of \$250 million, Airport Improvement Funds in the approximate amount of \$150 million, PFC Revenues in the approximate amount of \$50 million. A portion of the costs of the seven gate expansion project are being financed by the Series 2025 Bonds. The project is currently on-schedule to be completed and fully operational by 2027.

Key airfield projects in the Hobby Master Plan include the reconstruction of the north end of Runway 13R-31L to correct areas the FAA had identified as having high probabilities of runway incursions and the rehabilitation of taxiway and apron pavement. Construction of the extended runway is currently scheduled to be completed in 2028. Additional taxiway rehabilitation work (Taxiways C, E, M and N) is planned and will be scheduled accordingly in order to not interfere with airport operations. Additional airfield projects include drainage and grading improvements along with the construction of a floodwater detention pond currently scheduled for completion in 2029.

Ellington Capital Improvement Program. The Houston Airport System completed an update to the Master Plan for Ellington in 2015. Projects in the Ellington Master Plan include the extension of Runway 17R 35L to 10,000 feet, land acquisition for a runway protection zone for the extended runway, reconfiguration of other airfield facilities, construction of additional general aviation hangars, and development of infrastructure to enable future spaceport and other commercial development. In addition, the City approved a binding agreement between the Houston Airport System and Texas Southern University for the creation of a new Aviation Education facility on two acres of land at the Ellington Airport to be completed in Fiscal Year 2026.

Key Ellington Field projects included in the Fiscal Year 2026-2030 CIP are the construction of Taxiway Lima. Taxiway Lima will be a full-length taxiway parallel to Runway 4-22. Construction of Taxiway Lima Phase 1 and 2 is

scheduled to be completed in 2027 and is critical for the development of the Houston Spaceport. Several agreements are either in place or in negotiation for the development of facilities for research, engineering, manufacturing and related aerospace activities at a 400-acre Spaceport campus on the east side of Ellington. Axiom Space, the first commercial space station builder, completed phase one of their worldwide headquarters at the Houston Spaceport in Fiscal Year 2024. In addition to employee offices, the 105,000 square-foot facility houses astronaut training, mission control, engineering development, testing, and high-bay production facilities for the space station modules. Intuitive Machines continues work on their 12.5-acre plot for the company’s lunar program, which includes a moon lander and deep space communications.

CIP Project Funding

The Houston Airport System anticipates funding the Fiscal Year 2026-2030 CIP from multiple sources, including available cash in the AIF and Renewal and Replacement Fund, entitlement and discretionary grants and awards from the FAA and the Transportation Security Administration, PFC Pay-Go Revenues, and bond proceeds. The Houston Airport System also anticipates issuing Senior Lien Notes to fund projects on an interim basis, and periodically refinancing Outstanding Senior Lien Notes into long-term Subordinate Lien Bonds.

The table below describes funding for the Fiscal Year 2026-2030 CIP. The Fiscal Year 2026-2030 CIP anticipates the issuance of additional general airport revenue bonds to finance certain capital expenditures. The timing and structure of any new bond issue is uncertain and depends upon, among other things, market considerations, the amount of cash generated internally by the Houston Airport System. See also APPENDIX C-1 – GLOSSARY OF TERMS AND EXCERPTS OF THE MASTER ORDINANCE – Article V—Additional Bonds.

CIP Funding Sources⁽¹⁾	
Funding Source	FY 2026-2030 (dollars in millions)
Airport Improvement Fund	\$ 741
Bonds/Commercial Paper	1,431
Pay-Go PFCs	78
AIP/FAA/AIG/ATP Grants	626
Renewal & Replacement	44
Total	\$2,920

⁽¹⁾ CIP funding sources, as shown, are subject to approval and are subject to change based on the above-mentioned factors.

The Infrastructure Investment and Jobs Act of 2021 (“IIJA”) was passed by the 117th Congress and signed into law by President Biden on November 15, 2021. The IIJA included \$25 billion in funding for the FAA to invest in airport terminals, airport infrastructure and air traffic facilities over the next five years. The Houston Airport System was awarded \$278 million (\$55.6 million annually, beginning in Fiscal Year 2023) in entitlement grants to support airport terminal and infrastructure projects as part of IIJA. The Houston Airport System intends to seek additional grants under the IIJA’s Airport Terminal Program, a discretionary grant program providing \$1 billion per year to airports nationwide, to replace aging terminals and airport-owned towers, increase terminal energy efficiency and accessibility, and more.

PFC Revenues

As described under “HOUSTON AIRPORT SYSTEM FINANCIAL INFORMATION – Sources of Revenues – PFC Revenues,” the City currently collects PFC Revenues for existing capital improvements at Intercontinental and received approval in September 2020 from the FAA for authority to impose and use PFC Revenues for future capital improvements at Intercontinental, including for the ITRP and other projects in the CIP. The City is also authorized to use and is collecting PFC Revenues to pay debt service on certain projects relating to Hobby.

The City is authorized to use PFC Revenues to (a) pay debt service on outstanding bonds issued for certain completed Intercontinental projects; (b) reimburse the Houston Airport System for the unamortized costs of certain other Intercontinental projects that were originally funded from the Houston Airport System’s resources, such as the AIF; (c) provide pay-as-you-go funding of the local share of the costs of certain planned future projects; and (d) pay debt service on commercial paper and future bonds to finance certain projects. The City is also authorized to use and is collecting PFC Revenues to pay debt service on certain projects relating to Hobby.

The City’s authority to impose and use PFCs at both Intercontinental and Hobby is subject to certain terms and conditions in the federal PFC authorizing legislation, the PFC regulations adopted by the FAA and specific FAA approvals

applicable to the Intercontinental and Hobby PFC programs. If the City fails to comply with any of these requirements, the failure could reduce or terminate the City's authority to impose PFCs at one or both airports and use such PFCs to finance a portion of the CIP.

The City imposes a PFC of \$4.50 (\$4.39 net of \$0.11 airline collections fee permitted by federal regulation) per enplaned passenger at both Intercontinental and Hobby. The City has authority from its initial application to impose and use approximately \$1.4 billion of PFCs collected at Intercontinental through January 1, 2028 and the authority to impose and use approximately \$736 million of PFCs collected at Hobby through September 1, 2038. In September 2020, the FAA approved the City's second application to impose and use PFCs at Intercontinental beginning January 1, 2028 through May 1, 2039, which will give the City the authority to impose and use an additional estimated \$1.4 billion of PFCs collected at Intercontinental over that time period.

As of June 30, 2024, the aggregate account balances for PFC Revenues were approximately \$194.2 million at Intercontinental, of which approximately \$91.7 million were attributable to collections during Fiscal Year 2024. As of June 30, 2024, the aggregate account balances for PFC Revenues were approximately \$42.2 million at Hobby, of which \$25.7 million were attributable to collections during Fiscal Year 2024. As of December 31, 2024, the Houston Airport System collected \$47.9 million of PFC Revenues for Intercontinental and \$10.1 million of PFC Revenues for Hobby, on a cash basis, for a portion of Fiscal Year 2025. All PFC Revenues are scheduled to be used to either pay future debt service for projects already approved by the FAA or pay the local share of capital projects approved by the FAA on a pay-as-you go basis. Historical PFC collections for the Houston Airport System are shown below.

Schedule A: PFC Collections

Houston Airport System PFC Collections (dollars in thousands)

	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>
Intercontinental	\$61,120	\$46,994	\$81,674	\$84,629	\$91,738
Hobby	17,298	15,547	22,176	24,125	25,669
Total	<u>78,418</u>	<u>\$62,541</u>	<u>\$103,850</u>	<u>\$108,754</u>	<u>117,407</u>
Year-over-Year Change	-29.5%	-20.25%	66.05%	10.47%	7.96%

Source: Houston Airport System audited financial statements for Fiscal Year 2020 to Fiscal Year 2024.

For a discussion of the treatment of PFC Revenues under the Ordinance, see APPENDIX C-1 – GLOSSARY OF TERMS AND EXCERPTS OF THE MASTER ORDINANCE. See “HOUSTON AIRPORT SYSTEM FINANCIAL INFORMATION – Schedule 5: Selected Financial Information” for the historical amounts of PFC Revenues committed to pay Debt Service Requirements and the impact on debt service coverage ratios.

Grants under the FAA Airport Improvement Program and Other Programs

The City has been awarded, on behalf of the Houston Airport System, numerous grants under the FAA Airport Improvement Program, Airport Terminal Program, Airport Infrastructure Grant Program, including grant funding, and awards from the Transportation Security Administration. Eligible projects include runway and taxiway rehabilitation, noise mitigation, environmental impact studies and security projects. The Houston Airport System has recognized capital contributions from these programs totaling over \$165.7 million over the prior five fiscal years ending Fiscal Year 2024. These grant funds are not available for payment of debt service. COVID related Grants for the period totaled \$458 million and were primarily utilized for debt service, parking and utilities.

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HOUSTON AIRPORT SYSTEM OPERATING STATISTICS

According to the U.S. Department of Transportation, Intercontinental and Hobby ranked 15th and 36th among U.S. airports, respectively, based on total enplaned passengers in calendar year 2024.

Airlines Utilizing the Houston Airport System

The table below shows the passenger and cargo airlines that provided scheduled service in Fiscal Year 2025 from either Intercontinental or Hobby. During Fiscal Year 2025, the passenger airlines scheduled 465 average daily departures to 117 domestic destinations and 120 average daily departures to 72 international destinations from Intercontinental. During fiscal year 2025, the passenger airlines scheduled 153 average daily departures to 75 domestic destinations and 10 average daily departures to 9 international destinations from Hobby. The international destinations include or expect to include cities in Mexico, Central America, South America, Canada, Europe, Asia, Middle East, and Australasia. All of the mainline carriers shown below have signatory airline status under various use and lease agreements, except for Alaska Airlines, Allegiant Air, JetBlue and WestJet Airlines.

Intercontinental			Hobby	
Mainline Carriers	Regional Carriers	Cargo Carriers	Mainline Carriers	Regional Carriers
Aeromexico	Commute Air	Air Transport International	Allegiant Air	Envoy Air
Air Canada	Envoy Air	Atlas Air	American Airlines	PSA Airlines
Air France	Jazz Air	C.A.L. Cargo/Challenge Airlines	Avelo Airlines	Skywest Airlines
Air New Zealand	Mesa Airlines	Cargolux	Delta Air Lines	
Alaska Airlines	PSA Airlines	Cathay Cargo	Frontier Airlines	
All Nippon Airways	Republic Airlines	DHL	Southwest Airlines	
American Airlines	SkyWest Airlines	Emirates Sky Cargo	Sun Country	
Avianca S.A.		Federal Express		
British Airways		Lufthansa Cargo		
Delta Air Lines		National Airlines		
Emirates		Qatar Airways Cargo		
EVA Air		Silk Way West Airlines		
Frontier Airlines		Turkish Cargo		
JetBlue Airlines		UPS		
KLM Royal Dutch Airlines				
Lufthansa				
Qatar Airways				
Singapore Airlines				
Southwest Airlines				
Spirit Airlines				
Sun Country Airlines				
Turkish Airlines				
United Airlines				
VivaAerobus				
Volaris				
Volaris El Salvador				
WestJet Airlines				
ZIPAIR				

Source: Houston Airport System

United Airlines

United has the most market share of any airline at Intercontinental and together with its regional affiliates, enplaned 73% of total enplaned passengers in Fiscal Year 2024. See “– Schedule 2: Airline Market Shares.” For a discussion of the sources of operating revenues for the Houston Airport System and the term of United’s use and lease agreements at Intercontinental, respectively, see “HOUSTON AIRPORT SYSTEM FINANCIAL INFORMATION – Sources of Revenues” and “HOUSTON AIRPORT SYSTEM SIGNIFICANT CONTRACTUAL AGREEMENTS – Airport Use and Lease Agreements and Special Facilities Lease Agreements.”

In Fiscal Year 2025, Intercontinental was United’s third busiest hub as measured by available seats, accounting for approximately 10.8% of United’s system-wide seats. United enplaned approximately 12.8 million passengers while its regional affiliates enplaned 3.8 million passengers. The airline with the next highest market share at Intercontinental in Fiscal Year 2025 was Spirit Airlines, with an enplaned passenger market share of 6.8%.

Based on United’s anticipated schedule for the next 12 months as of Fiscal Year 2026 (a) United expects to operate 288 average daily departures (excluding regional jets) from Intercontinental to 127 non-stop destinations, including 52 international destination, and (b) United’s regional carriers expect to operate an additional 197 average daily departures from Intercontinental to 81 domestic destinations and 17 international destinations.

Southwest Airlines

Southwest was the busiest airline at Hobby with 6.6 million enplanements in Fiscal Year 2025. Southwest carried 94.4% of the total Hobby passengers in Fiscal Year 2025. According to Cirium DIIO (a data source that provides published flight schedules), Hobby is the 8th busiest airport for Southwest and their activity at Hobby accounted for 3.8% of Southwest’s system-wide seats for Fiscal Year 2025. See “– Schedule 2: Airline Market Shares.” For a discussion of the sources of operating revenues for the Houston Airport System and the term of Southwest’s use and lease agreement at Hobby, respectively, see “HOUSTON AIRPORT SYSTEM FINANCIAL INFORMATION – Sources of Revenues” and “HOUSTON AIRPORT SYSTEM SIGNIFICANT CONTRACTUAL AGREEMENTS – Airport Use and Lease Agreements and Special Facilities Lease Agreements – Hobby Use and Lease Agreements.”

The following schedules set forth certain statistical information regarding the Houston Airport System as provided by the City.

Schedule 1: Passenger Statistics

Schedule 1 shows total passengers at Intercontinental and Hobby over the most recent five fiscal years.

Schedule 1 Total Passengers (In Thousands)					
Intercontinental Domestic Passengers	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Enplaned and Deplaned	25,068	17,645	31,045	33,449	35,384
Year-over-Year Change	-26.2%	-29.6%	75.9%	7.7%	5.8%
Intercontinental International Passengers					
Enplaned and Deplaned	7,969	3,892	8,436	10,687	12,012
Year-over-Year Change	-27.2%	-51.1%	116.8%	26.7%	12.4%
Total Intercontinental Passengers*					
Enplaned and Deplaned	33,037	21,537	39,481	44,136	47,396
Year-over-Year Change	-26.4%	-34.8%	83.3%	11.8%	7.39%
Hobby Domestic Passengers					
Enplaned and Deplaned	9,998	7,738	11,656	12,656	13,620
Year-over-Year Change	-26.6%	-22.6%	50.6%	8.6%	7.6%
Hobby International Passengers					
Enplaned and Deplaned	591	421	843	976	995
Year-over-Year Change	-38.8%	-28.8%	100.4%	15.8%	1.9%
Total Hobby Passengers					
Enplaned and Deplaned	10,589	8,159	12,499	13,632	14,615
Year-over-Year Change	-27.4%	-23.0%	53.2%	9.1%	7.21%
Total Airport System Passengers*					
Enplaned and Deplaned	43,626	29,696	51,981	57,768	62,011
Year-over-Year Change	-26.7%	-31.9%	75.0%	11.1%	7.3%

Source: Houston Airport System

*Numbers may not total exactly due to rounding.

Schedule 1A: Total Enplaned Passengers for the Houston Airport System

Schedule 1A shows originating and connecting enplaned passengers for Intercontinental and Hobby over the most recent five fiscal years. The enplaned originating percentage has generally stayed within a relatively narrow range for both airports.

Houston Airport System Total Originating and Connecting Enplaned Passengers ⁽¹⁾ (in thousands)					
Intercontinental	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Originating Enplaned	9,275	6,416	11,510	13,595	14,702
Connecting Enplaned	7,252	4,444	8,302	8,525	9,016
Total Enplaned Passengers	16,527	10,861	19,812	22,120	23,718
Enplaned Originating Percentage	56.12%	59.1%	58.1%	61.5%	62.0%
Hobby					
Originating Enplaned	3,657	2,710	4,112	4,577	4,528
Connecting Enplaned	1,645	1,396	2,156	2,248	2,766
Total Enplaned Passengers	5,302	4,107	6,268	6,824	7,294
Enplaned Originating Percentage	69.0%	66.0%	65.6%	67.1%	62.1%
Houston Airport System					
Originating Enplaned	12,931	9,127	15,622	18,172	19,231
Connecting Enplaned	8,897	5,841	10,458	10,773	11,782
Total Enplaned Passengers	21,828	14,969	26,080	28,945	31,013
Enplaned Originating Percentage	59.2%	61.0%	59.9%	62.8%	62.0%

Source: Houston Airport System

*Numbers may not total exactly due to rounding.

(1) Estimates of originating and connecting passengers (and originating percentages) presented above are as reported by the airlines to the Houston Airport System.

Schedule 2: Airline Market Shares

Schedule 2 shows airline passenger market shares for the Houston Airport System over the most recent five fiscal years. United and Southwest have maintained leading market shares at Intercontinental and Hobby, respectively, over the period.

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**Houston Airport System
Market Share Data
(in thousands)***

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Total Passengers- Intercontinental					
Domestic					
United and affiliates	19,620	13,118	23,342	24,692	26,128
Spirit Airlines	1,778	1,739	2,209	2,634	2,693
American and affiliates	1,846	1,305	2,122	2,133	2,263
Delta and affiliates	1,285	811	1,641	1,885	2,003
Southwest		184	1,045	1,194	1,105
Frontier	297	314	325	423	681
JetBlue	71	68	161	234	216
Alaska Airlines	164	99	181	224	267
All Other Airlines	<u>7</u>	<u>6</u>	<u>19</u>	<u>32</u>	<u>28</u>
Subtotal Domestic Passengers	25,068	17,645	31,045	33,449	35,384
International					
United Airlines	5,461	2,776	6,015	7,267	8,032
VivaAerobús	88	299	355	348	398
Spirit Airlines	170	131	268	314	334
Air Canada	231	13	135	251	355
Aeroméxico	116	160	286	234	262
Emirates	178	54	131	227	265
Volaris	56	150	214	226	240
Turkish Airlines	148	82	170	223	246
Qatar Airways	134	64	178	211	221
Lufthansa	187	52	151	199	190
British Airways	160	13	84	189	229
All Other Airlines	<u>1,200</u>	<u>110</u>	<u>533</u>	<u>997</u>	<u>1,240</u>
Subtotal Int'l Passengers	7,969	3,892	8,436	10,687	12,012
Total Domestic and Int'l Passengers	33,037	21,537	39,481	44,136	47,396
Market Share-Intercontinental					
Domestic					
United and affiliates	59.4%	60.9%	59.1%	55.9%	55.1%
Spirit Airlines	5.4%	8.1%	5.6%	6.0%	5.7%
American and affiliates	5.6%	6.1%	5.4%	4.8%	4.8%
Delta and affiliates	3.9%	3.8%	4.2%	4.3%	4.2%
Southwest	0.0%	0.9%	2.6%	2.7%	2.3%
Frontier	0.9%	1.5%	0.8%	1.0%	1.4%
JetBlue	0.2%	0.3%	0.4%	0.5%	.5%
Alaska Airlines	0.5%	0.5%	0.5%	0.5%	.6%
All Other Airlines	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.1%</u>	<u>.1%</u>
Subtotal Domestic Passengers	75.9%	82.0%	78.7%	75.8%	74.7%
International					
United Airlines	16.5%	12.9%	15.2%	16.5%	16.9%
VivaAerobús	0.3%	1.4%	0.9%	0.8%	.8%
Spirit Airlines	0.5%	0.6%	0.7%	0.7%	.7%
Air Canada	0.7%	0.1%	0.3%	0.6%	.7%
Aeroméxico	0.4%	0.7%	0.7%	0.5%	.6%
Emirates	0.5%	0.2%	0.3%	0.5%	.6%
Volaris	0.2%	0.7%	0.5%	0.5%	.5%
Turkish Airlines	0.4%	0.4%	0.4%	0.5%	.5%
Qatar Airways	0.4%	0.3%	0.4%	0.5%	.5%
Lufthansa	0.6%	0.2%	0.4%	0.4%	.4%
British Airways	0.5%	0.1%	0.2%	0.4%	.5%
All Other Airlines	3.1%	0.5%	1.1%	2.3%	2.6%
Subtotal Int'l Passengers	<u>24.1%</u>	<u>18.1%</u>	<u>21.4%</u>	<u>24.2%</u>	<u>25.3%</u>
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Houston Airport System

*Numbers may not total exactly due to rounding.

**Houston Airport System
Market Share Data
(in thousands)***

	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>
Total Passengers-Hobby					
Domestic					
Southwest	9,403	7,224	10,853	11,754	12,773
Delta and affiliates	282	240	352	308	323
American and affiliates	245	206	270	256	286
All Others	<u>68</u>	<u>68</u>	<u>181</u>	<u>339</u>	<u>238</u>
Subtotal Domestic Passengers	9,994	7,738	11,656	12,656	13,620
International					
Southwest	591	421	839	967	987
All Others	<u>0</u>	<u>0</u>	<u>4</u>	<u>9</u>	<u>8</u>
Subtotal Int'l Passengers	591	421	843	976	995
Total Domestic and Int'l	10,585	8,159	12,499	13,632	14,615
 Market Share-Hobby					
Domestic					
Southwest	88.8%	88.5%	86.8%	86.2%	87.4%
Delta and affiliates	2.7%	2.9%	2.8%	2.3%	2.2%
American and affiliates	2.3%	2.5%	2.2%	1.9%	2.0%
All Others	<u>0.6%</u>	<u>0.8%</u>	<u>1.4%</u>	<u>2.5%</u>	<u>1.6%</u>
Subtotal Domestic Passengers	94.4%	94.8%	93.3%	92.8%	93.2%
International					
Southwest	5.6%	5.2 %	6.7%	7.1%	6.7%
All Others	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.0%</u>	<u>0.1%</u>
Subtotal Int'l Passengers*	5.6%	5.2%	6.7%	7.2%	6.8%
Total	100.00%	100.0%	100.0%	100.0%	100.0%

Source: Houston Airport System

*Numbers may not total exactly due to rounding.

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Schedule 3: Total Aircraft Operations and Aircraft Landed Weight

Schedule 3 shows the aircraft operations (take-offs and landings) and aircraft landed weight for the Houston Airport System for the most recent five fiscal years.

	Aircraft Operations (in thousands)				
	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>
Aircraft Operations	624	512	691	690	734
Year-over-Year Change	-17.0%	-17.95%	35.02%	0.0%	6.38%

	Aircraft Landed Weight (in million pounds)				
	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>
Aircraft Landed Weight	30,345	23,454	33,862	35,885	38,761
Year-over-Year Change	-18.55%	-22.71%	44.38%	5.97%	8.01%

Source: Houston Airport System

Schedule 4: Total System Cargo Activity

Schedule 4 shows cargo activity for the Houston Airport System for the most recent five fiscal years.

	Total System Cargo Activity (in metric tons)				
	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>
Domestic Freight	285,135	309,270	321,056	328,285	341,892
International Freight	199,241	153,552	212,883	191,233	197,790
Mail	19,857	21,197	26,760	19,445	7,896
Total Cargo	504,233	484,019	560,699	538,963	547,578
Year-over-Year Change	-5.7%	-4.0%	15.8%	-3.9%	1.6%

Source: Houston Airport System

*Numbers may not total exactly due to rounding.

HOUSTON AIRPORT SYSTEM FINANCIAL INFORMATION

Sources of Revenues

The Houston Airport System generates Operating and Non-Operating Revenues from various sources, as described below.

Landing Fees

Landing fees for airlines that provide scheduled service at Intercontinental and Hobby are computed annually under residual cost-recovery formulas derived from various use and lease agreements and license agreements (see “HOUSTON AIRPORT SYSTEM SIGNIFICANT CONTRACTUAL AGREEMENTS – Airport Use and Lease Agreements and Special Facilities Lease Agreements”). Landing fees are also applied by ordinance to nonscheduled, commercial aircraft and non-signatory scheduled aircraft landings at both airports based upon maximum FAA-approved gross landed weights. The City also receives revenues from aviation fuel flowage fees (currently six cents per gallon) assessed on the delivery of fuel to certain aircraft in lieu of landing fees; however, at Intercontinental and Hobby, this revenue is netted against the airfield costs used to set the landing fees.

Building and Ground Area Revenues

Terminal space rentals paid by signatory airlines under use and lease agreements are computed annually under compensatory cost-recovery formulas derived from various use and lease agreements and license agreements. Ground rentals are charged by the City under long-term ground leases of land at Intercontinental, Hobby and Ellington, typically at market rates escalating periodically. The City leases various parcels of land to airlines, fixed base operators and various corporations for hangars, aircraft maintenance facilities, flight kitchens and cargo buildings, auto rental companies for their service facilities and storage lots, and to a variety of other entities for buildings and other permanent improvements. See “HOUSTON AIRPORT SYSTEM SIGNIFICANT CONTRACTUAL AGREEMENTS – Airport Use and Lease Agreements and Special Facilities Lease Agreements.”

Parking, Concessions and Other Revenues

Other than revenues from airline landing fees and terminal rentals, parking revenues from City-owned facilities are historically the largest single source of revenues of the Houston Airport System. Parking operations are managed and operated on behalf of the Houston Airport System by New South Parking. See “HOUSTON AIRPORT SYSTEM SIGNIFICANT CONTRACTUAL AGREEMENTS – Other Significant Airport Agreements.” Parking rates are approved by the City Council; however, under a City ordinance, the Houston Airport System has the authority to increase parking rates, without further approval from City Council, up to specified amounts. Whereas the airline agreements generally allow for the Houston Airport System to set rates payable by airlines only to recover costs allocable to airline facilities, the Houston Airport System is generally able to set parking rates and concession and other business terms on a commercial basis. The Houston Airport System generates these non-airline revenues in order to (1) cover that portion of system operating and capital costs not paid by the airlines; (2) produce an annual surplus for deposit to the Airports Improvement Fund to meet current or anticipated needs of the Houston Airport System; and (3) comply with the Rate Covenant.

PFC Revenues

The City is authorized by the FAA to impose and use PFC Revenues for certain Houston Airport System improvements. PFCs are being collected at the rate of \$4.50 (\$4.39 net of \$0.11 airline collections fee permitted by federal regulation) per eligible enplaned passenger at both Intercontinental and Hobby. In Fiscal Year 2024, PFC revenues received by the Houston Airport System indicated that approximately 80.5% of enplaned passengers were subject to the PFC. The City has authority to impose and use \$2.8 billion of PFCs collected at Intercontinental through May 1, 2039 (pursuant to two FAA approvals) and the authority to impose and use \$736 million of PFCs collected at Hobby through September 1, 2038.

As further described under “CAPITAL IMPROVEMENT PROGRAM – PFC Revenues,” the City is authorized to use PFC revenues to pay debt service on bonds issued for certain capital improvement projects, reimburse the City for capital improvement projects funded from Houston Airport System resources, and provide pay-as-you-go funding for certain capital projects.

For purposes of the Master Ordinance, PFC Revenues are not Gross Revenues and are not pledged as security for any Airport Obligations, including the Series 2025 Bonds. See “SECURITY FOR THE SERIES 2025 BONDS.” However, as set forth in “– Schedule 5: Selected Financial Information” below, the City has historically committed PFC Revenues to reduce Debt Service Requirements on the Subordinate Lien Bonds and plans to continue to periodically commit PFC Revenues to reduce Debt Service Requirements on the Subordinate Lien Bonds.

For purposes of the Houston Airport System’s annual comprehensive financial statements, PFC Revenues are recognized as non-operating revenues. See APPENDIX B attached hereto. See also “INVESTMENT CONSIDERATIONS – Passenger Facility Charges” and “CAPITAL IMPROVEMENT PROGRAM – PFC Revenues” and “–Schedule A: PFC Collections”.

Selected Financial Information

Schedule 5 sets forth, for the Fiscal Years (and the ten month period ended April 30, 2025, with a comparison to the ten month period ended April 30, 2024) indicated, (1) the Gross Revenues, Operation and Maintenance Expenses and Net Revenues (each computed as defined in the Ordinance) of the Houston Airport System, (2) the total Debt Service Requirement (computed as defined in the Ordinance) on then Outstanding Airport Obligations, which include all obligations payable from Net Revenues and (3) the coverage of Debt Service Requirement by Net Revenues. All amounts in “–Schedule 5: Selected Financial Information” for Fiscal Years 2020 through 2024 are derived from the audited financial statements of the Houston Airport System Fund, or from the supplementary information and the statistical section included in the City Controller’s

Annual Comprehensive Financial Report of the City of Houston, Texas, for each respective Fiscal Year. The schedule should be read in conjunction with the complete audited financial statements of the City of Houston, Texas Airport System Fund included in the Annual Comprehensive Financial Report and the notes thereto set forth in APPENDIX B.

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Schedule 5: Selected Financial Information (in thousands)

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	10 Months Ended 4/30/2024	10 Months Ended 4/30/2025
Operating Revenues							
Landing fees:							
Landing fees	\$91,270	\$65,560	\$88,757	\$87,329	\$93,727	\$84,389	\$76,693
Aviation fuel	1,249	1,302	1,705	1,593	1,534	1,302	1,214
Aircraft parking	3,343	3,726	3,791	3,679	3,295	2,826	2,754
Subtotal	\$95,862	\$70,578	\$94,253	\$92,601	\$98,556	\$88,517	\$80,661
Building and ground area revenues:							
Terminal space rentals	\$194,056	\$129,527	\$166,444	\$208,854	\$221,614	\$189,545	\$199,905
Cargo building rentals	2,378	2,164	2,078	2,009	2,015	1,676	1,710
Other rentals	9,361	6,256	6,332	5,901	5,240	4,403	5,251
Hangar rental	6,822	6,339	5,921	5,879	6,445	5,332	5,666
Ground rental	10,684	11,312	11,254	12,108	15,039	12,186	15,416
Subtotal	\$223,301	\$155,598	\$192,029	\$234,751	\$250,353	\$213,142	\$227,948
Parking, concession and other revenues:							
Retail concessions	\$32,146	\$14,584	\$39,570	\$48,962	\$51,984	\$42,584	\$45,226
Auto parking	81,173	43,815	98,417	117,460	122,588	98,023	107,780
Auto rental concession	23,400	20,695	34,056	37,301	38,849	31,376	32,688
Ground transportation	10,072	6,913	15,192	21,428	25,332	20,528	22,227
Other operating revenues	5,958	6,471	7,657	7,744	7,901	6,293	9,016
Subtotal	\$152,749	\$92,379	\$194,892	\$232,895	246,654	\$198,804	\$216,936
Total operating revenue	\$471,912	\$318,555	\$481,174	\$560,247	\$595,563	\$500,462	\$525,545
Nonoperating revenues⁽¹⁾							
Interest on investments ⁽¹⁾	\$19,503	10,403	7,556	21,820	\$38,756	30,412	34,511
Other revenues - revenue fund	122	152	77	165	424	340	343
Subtotal	\$19,625	\$10,555	\$7,633	\$21,985	\$39,180	\$30,752	\$34,854
Total gross revenues	\$491,537	\$329,110	\$488,807	\$582,232	\$634,743	\$531,214	\$560,400
Operation and Maintenance Expenses⁽²⁾							
Personnel and other current expenses	\$313,927	\$251,642	\$254,969	\$315,072	\$344,346	\$286,231	\$306,080
Interest on pension bonds and note ⁽³⁾	107	106	106	106	106	89	89
Other interest	-	82	302	309	285	239	219
Total operation and maintenance expenses	\$314,034	\$251,830	\$255,377	\$315,487	\$344,737	\$286,559	\$306,388
Net revenue	\$177,503	\$77,280	\$233,430	\$266,745	\$290,006	\$244,655	\$254,012
Total Debt Service Requirements	\$180,731	\$145,349	\$163,503	\$208,151	229,085	\$179,032	\$186,404
PFC revenue available for debt service	-55,040	-56,365	-59,819	-68,744	-73,926	(59,013)	(68,699)
Grant revenue available for debt service	-14,169	-88,984	-103,684	-50,000	-46,736	(46,736)	--
Net debt service requirement⁽⁴⁾	\$111,522	N/A ⁽⁵⁾	N/A ⁽⁵⁾	\$89,407	108,423		
Coverage of debt service	1.59	N/A ⁽⁵⁾	N/A ⁽⁵⁾	2.98	2.68	\$73,283	\$117,705

* Totals may not total exactly due to rounding.

(1) The figures shown have been adjusted for miscellaneous revenues not defined as Gross Revenues or Net Revenues in the Ordinance. Excludes PFC Revenues and interest revenue earned in restricted bond funds.

(2) Does not include depreciation expenses.

(3) Represents a portion of the pension debt issued in 2005 allocable to the Houston Airport System. No revenues of the Houston Airport System are pledged to such debt.

(4) Does not include debt service for which interest was capitalized from bond proceeds. Interest earned in reserve funds and used for debt service reduces the Debt Service Requirement. See definition of "Debt Service Requirements" in APPENDIX C-1 – GLOSSARY OF TERMS AND EXCERPTS OF THE MASTER ORDINANCE.

(5) Pursuant to the Ordinance, the application and use of federal relief grant funds and PFC Revenues for Fiscal Year 2021 and Fiscal Year 2022 to pay debt service reduced Debt Service Requirements to zero.

Source: Houston Airport System

Schedule 6: Summary of Certain Fees and Charges

Schedule 6 shows the budgeted rates and charges for Fiscal Year 2023 and Fiscal Year 2024 for both Intercontinental and Hobby. These rates and charges are established according to the terms of the use and lease agreements for each airport and are subject to annual fiscal year-end adjustments once actual airport-related expenses are finalized. See “– Sources of Revenues”.

	Intercontinental		Hobby	
	FY 2023	FY 2024	FY 2023	FY 2024
Landing Fee Rates ⁽¹⁾	\$2.56	\$2.56	\$2.68	\$2.96
Terminal Space Rentals ⁽²⁾	20.16 - 76.05	20.93 – 79.00	63.10 – 80.83	72.75 – 92.37
Apron ⁽²⁾	2.08 – 2.25	2.39 - 2.51	2.618	3.01
Aircraft Parking (per day)	100.00-400.00	100.00-400.00	100.00-400.00	100.00-400.00
Cargo (per day)	200.00-600.00	200.00-600.00	200.00-600.00	200.00-600.00
Parking Rates (maximum per day)				
Economy				
(Ecopark) Uncovered	7.00	8.00	n/a	n/a
(Ecopark) Covered	9.00	10.00	n/a	n/a
(Ecopark2) Covered	8.00	9.00	n/a	n/a
(Ecopark2)	n/a	n/a	10.00	10.00
Structured	25.00	25.00	24.00	24.00
Valet	30.00	30.00	28.000	28.00

(1) Per 1,000 pounds of landed weight. Rates shown are original budgeted rates.

(2) Range per square foot.

Source: Houston Airport System

Shown below are average airline payments per enplaned passenger for the most recent five fiscal years and budget for Fiscal Year 2025. This average does not include payments by United for Special Facilities Bond debt service or terminal operations and maintenance in net-leased terminals, nor is it reflective of concession revenues retained by United in these terminals.

Houston Airport System Total Cost Per Enplanement (\$ per enplanement)

	FY 2020	FY 2021 ⁽¹⁾	FY 2022	FY 2023	FY 2024	FY 2025 ⁽²⁾
Intercontinental	13.64	13.61	10.47	10.71	10.36	11.25
Hobby	9.18	9.65	8.72	8.09	8.38	8.59

(1) Airline costs at Hobby were reduced from \$49 million in the Fiscal Year 2020 budget to \$37 million (-24%) in the Fiscal Year 2021 budget and reduced at Intercontinental from \$236 million in the Fiscal Year 2020 budget to \$153 million (-35%) in the Fiscal Year 2021 budget.

(2) Budget for Fiscal Year 2025.

Source: Houston Airport System

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DEBT SERVICE REQUIREMENTS OF HOUSTON AIRPORT SYSTEM OBLIGATIONS

Schedule 7: Houston Airport System Debt Service Requirements Schedule*

Schedule 7 sets forth the principal and interest payable on all Outstanding Subordinate Lien Bonds, including the Series 2025 Bonds, assuming scheduled mandatory redemption of any term bonds. The table takes into account capitalized interest on the Series 2025 Bonds and does not take into account any reductions to Debt Service Requirements as provided in the Master Ordinance. This schedule excludes the Senior Lien Notes. Currently, there are no Senior Lien Bonds Outstanding. See “PURPOSE AND PLAN OF FINANCING.”

See APPENDIX C-1 – GLOSSARY OF TERMS AND EXCERPTS OF THE MASTER ORDINANCE for further details regarding the calculation of Debt Service Requirements in accordance with the Ordinance.

12 Months Ending	Subordinate Lien Debt Service	The Series 2025 Bonds	Total Houston Airport System Obligations Debt Service
7/1/2026	\$242,373,252	--	\$242,373,252
7/1/2027	243,454,725	\$3,698,133	247,152,858
7/1/2028	236,146,021	29,918,929	266,064,950
7/1/2029	242,116,792	49,186,588	291,303,380
7/1/2030	244,672,291	49,187,588	293,859,878
7/1/2031	242,095,415	49,188,088	291,283,502
7/1/2032	237,049,537	49,186,588	286,236,125
7/1/2033	113,091,575	49,186,588	162,278,163
7/1/2034	113,097,075	49,186,338	162,283,413
7/1/2035	113,095,075	49,189,088	162,284,163
7/1/2036	113,101,575	49,187,838	162,289,413
7/1/2037	113,091,425	49,187,988	162,279,413
7/1/2038	113,093,425	49,185,888	162,279,313
7/1/2039	113,104,625	49,189,175	162,293,800
7/1/2040	84,062,213	49,189,963	133,252,175
7/1/2041	84,065,763	49,190,625	133,256,388
7/1/2042	74,381,788	49,188,275	123,570,063
7/1/2043	74,383,975	49,190,025	123,574,000
7/1/2044	74,386,275	49,186,150	123,572,425
7/1/2045	74,384,138	49,188,300	123,572,438
7/1/2046	74,388,075	49,187,075	123,575,150
7/1/2047	74,377,325	49,188,350	123,565,675
7/1/2048	64,566,863	49,187,450	113,754,313
7/1/2049	40,132,663	49,189,700	89,322,363
7/1/2050	40,137,325	49,189,875	89,327,200
7/1/2051	40,135,575	49,187,750	89,323,325
7/1/2052	40,138,475	49,187,825	89,326,300
7/1/2053	40,131,350	49,189,050	89,320,400
7/1/2054	--	49,190,100	49,190,100
7/1/2055	--	49,189,375	49,189,375
	<u>\$3,359,254,611</u>	<u>\$1,361,698,699</u>	<u>\$4,943,270,113</u>

Source: Houston Airport System

*Numbers may not total exactly due to rounding

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Schedule 8: Houston Airport System Outstanding Debt

Schedule 8 summarizes Houston Airport System debt outstanding as of May 31, 2025, adjusted to take into account the issuance of the Series 2025 Bonds and the refunding of a portion of the Senior Lien Notes. As of the date hereof, there are \$71 million of Senior Lien Notes outstanding, a portion of which, in the amount of \$34.2 million, will be refunded with the proceeds of the Series 2025A Bonds. Schedule 8 also includes the outstanding principal amount of obligations that are not secured by a pledge of Net Revenues of the Houston Airport System, but are included in the Houston Airport System's financial statements, including private placement loans, pension obligations, and special facilities bonds. See APPENDIX B, Note 5 – Long-Term Liabilities – *Special Facility Bonds*, *Pension Obligation Bonds*, and *Private Placement Loans*, and APPENDIX B, Note 10 – Conduit Debt Obligations.

	Outstanding Principal Amount (dollars in thousands)
Senior Lien Bonds	\$ -
Senior Lien Notes ⁽¹⁾	36,800
Subordinate Lien Bonds	3,070,250
Inferior Lien Obligations	-
Private Placement Loans	12,341
Rental Car Special Facilities Revenue Bonds ⁽²⁾	34,015
Pension Obligations ⁽³⁾	<u>2,006</u>
Total Outstanding Principal	<u>\$3,155,412</u>
Special Facilities Bonds ⁽⁴⁾	\$2,135,015

Source: Houston Airport System

- (1) As of the date hereof, there are \$71 million of Senior Lien Notes outstanding, a portion of which, in the amount of \$34.2 million, will be refunded with the proceeds of the Series 2025A Bonds.
- (2) Not secured by a pledge of Net Revenues. Represents the dollar amount of Special Facilities Bonds that the City issued related to the consolidated rental car facility, the payment of which is solely paid from customer facility charges.
- (3) Not secured by a pledge of Net Revenues. Represents the Houston Airport System's allocation of the City's pension obligation bonds issued in 2005, which are not direct obligations of the Houston Airport System. In December 2017, the City issued \$1.005 billion of pension obligation bonds; however, the Houston Airport System has no financial obligation with respect to those bonds.
- (4) Not secured by a pledge of Net Revenues. Represents the dollar amount of Special Facilities Bonds that the City has issued on behalf of third parties, the repayment of which is solely the obligation of such third parties. THESE SPECIAL FACILITIES BONDS ARE SECURED SOLELY BY LEASE PAYMENTS OF THIRD PARTIES, AND NO REVENUES OF THE HOUSTON AIRPORT SYSTEM ARE PLEDGED TO PAY SUCH BONDS. These bonds were issued to support certain United airport projects. See "HOUSTON AIRPORT SYSTEM SIGNIFICANT CONTRACTUAL AGREEMENTS – Airport Use and Lease Agreements and Special Facilities Lease Agreements" for a more detailed description of these bonds.

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Schedule 8A: Cash and Liquidity

Schedule 8A shows the cash position of the Houston Airport System and a calculation of days of available cash on hand for the most recent five fiscal years. A portion of the Houston Airport System cash is restricted to certain uses and some of the cash is unrestricted. The Ordinance requires the Houston Airport System to maintain two months of Operation and Maintenance Expenses in the Operation and Maintenance Reserve Fund. The Houston Airport System's policy has been to reserve greater than the minimum two-month requirement in the Operation and Maintenance Reserve Fund to accommodate fluctuations in revenues and enplanements. See APPENDIX C-1 – GLOSSARY OF TERMS AND EXCERPTS OF THE MASTER ORDINANCE.

	Houston Airport System Cash and Investments (dollars in thousands)				
	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>
Restricted and Unrestricted Airport System Cash and Current Investments	\$424,636	\$476,276	\$486,056	\$458,886	\$489,291
Days of Available Cash on Hand	495	690	695	531	520

Source: Houston Airport System

HOUSTON AIRPORT SYSTEM SIGNIFICANT CONTRACTUAL AGREEMENTS

Airport Use and Lease Agreements and Special Facilities Lease Agreements

General

At both Intercontinental and Hobby, the vast majority of landing fees and terminal rentals are paid by the airlines pursuant to use and lease agreements and/or Special Facilities Leases. Those agreements generally require the airlines to pay landing fees, terminal building rentals and certain other charges to enable the Houston Airport System to recover costs allocable to facilities occupied by the airlines. These costs include, among others, Operation and Maintenance Expenses, amortization charges associated with the Houston Airport System's investment in airport capital improvements and interest on the Houston Airport System's investment in land. Airlines that do not operate under use and lease agreements operate either under agreements on a month-to-month basis or under City ordinance.

While the Houston Airport System maintains different use agreements for Intercontinental, each terminal at Intercontinental, and Hobby, airline rentals and use fees are generally calculated using the same "compensatory" cost allocation and rate-making principles. Under these principles, the Houston Airport System creates cost centers for each terminal or major facility (e.g., Terminals A, B, C, D and E; the Central FIS Facility; the Skyway; and the Airfield at Intercontinental; and the Central Terminal, West Terminal, and Airfield at Hobby) and calculates a rate base requirement as the total of all allocable direct, indirect and system (e.g., the Subway and the central utility plant) operating and capital costs of the facility. Capital costs are calculated as the level annual amortization charge allocable to each investment. Terminal costs are further allocated between airline, non-airline, and apron areas, with terminal building and apron rental rates set to recover the rate base requirement, and the Houston Airport System bears risk for costs allocable to vacant space. Costs associated with non-airline (e.g., public and concession) areas of the terminals are the responsibility of the Houston Airport System and are recovered through concession revenues (including parking, rental car and ground transportation revenues) and other eligible non-airline revenues. Landing fee rates are calculated on a cost-center residual basis to recover in full the costs of the airfield area, net of certain non-airline cost center revenues (principally general aviation fuel flowage fees).

In calculating airline fees, rentals and any other charges at Intercontinental, the total costs of all support facilities such as the Subway and the chilled and hot water plant are allocated among the various areas that benefit from such facilities, including airline areas of the terminal buildings. In addition, the Houston Airport System charges apron fees that are calculated to recover costs allocable to the aprons. Finally, landing fees are calculated according to a formula through which the airlines are required to pay their pro-rata share of all costs allocable to the airfield cost center after first deducting airfield revenues derived from general aviation (principally fuel flowage fees, if any).

At Intercontinental, United leases certain terminals (Terminals B, C and E) under long-term "net lease" agreement provisions by which United leases in full airline and non-airline premises so that the Houston Airport System does not bear the risk of vacant space, and capital investment is generally the responsibility of United. The amount of space that is leased

by United in Terminals B, C and E comprises 53% of the total usable terminal space at Intercontinental, which is approximately 4.6 million square feet. In consideration of this mitigated risk, the Houston Airport System confers upon United the right to control, and retain revenues generated by, terminal concessions, such as food and beverage, gifts and news.

The following sections summarize the major provisions of the Houston Airport System's use and lease agreements, Special Facilities Leases and license agreements.

Intercontinental Terminal A Airlines Use and Lease Agreement

The Terminal A Use and Lease Agreement expired on June 30, 2005 and is currently being held over on a month-to-month basis with Air Canada, American, Delta, Frontier, Spirit and United. In addition to allowing for the lease of preferential terminal building space, the agreement provides for the use of certain premises such as holdroom and apron on a common-use basis, with equivalent per-use charges in lieu of rentals.

Intercontinental Terminal B Transformation Program and Special Facilities Lease Agreement

In November 2011, the Houston Airport System and Continental (now United) entered into a Second Amended and Restated Special Facilities Lease (the "Terminal B Special Facilities Lease") with a term of thirty years, subject to certain early termination and extension provisions, to provide for the redevelopment of Terminal B in three phases (the "Terminal B Transformation Program"). Pursuant to the Terminal B Special Facilities Lease, United leases all airline premises in Terminal B and, as facilities are redeveloped, all airline and non-airline premises in the terminal under "net lease" provisions. Also pursuant to the Terminal B Special Facilities Lease, the Houston Airport System leases to United certain Special Facilities located in Terminal B and Terminal C that were financed with proceeds of the Terminal B Special Facilities Bonds (as defined below).

The Terminal B Transformation Program is being accomplished in phases. In the first phase, completed in 2013, United built a new Terminal B South Concourse for regional jet aircraft. In the second phase, completed in May 2017, United built Terminal C North, a new mainline concourse between the original north concourses of Terminals B and C. United has commenced construction of Phase III (the third and final phase). Phase III will include (i) replacement of the original circular flight stations on the north side of Terminal B with twenty-two (22) narrow-body aircraft equivalent gates (ii) construction of an expanded curbside concessions space, (iii) replacement of the Terminal B baggage handling system and construction of a new baggage handling system make-up building, and (iv) reconfiguration of the Terminal B South concourse to accommodate eighteen (18) large regional jet gates and add jet bridges. The redevelopment, with the exception of the projects to be funded by the City, as detailed below, is to be undertaken by United at its sole expense, with the City agreeing to issue additional Special Facilities Bonds on behalf of United secured by the Terminal B Special Facilities Lease.

To support the Terminal B Transformation Program, the Houston Airport System has agreed to undertake certain enabling projects to be completed concurrently with United's capital projects at Terminal B. The Houston Airport System's enabling projects include ramp and apron replacement and roadway, signage, the Subway, utility, environmental and fuel system relocation or improvements. The first phase of the Houston Airport System's enabling projects for Terminal B cost approximately \$53 million. The second phase cost approximately \$91.5 million. Phases one and two are complete. It is anticipated that the City's portion of enabling projects for Phase III will cost less than the negotiated cap on those projects of \$624.0 million. Phase III has recently commenced. The Houston Airport System's capital program for Terminal B was and will be financed largely with AIF cash balances, PFC Revenues, grants, and airport revenue bond proceeds, including the proceeds of the Series 2025 Bonds. See "CAPITAL IMPROVEMENT PROGRAM – CIP Projects" and "– CIP Project Funding" herein.

As security for the Houston Airport System Special Facilities Revenue Bonds (Continental Airlines, Inc. Terminal Improvement Projects), Series 2011 (AMT), the Houston Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Terminal Improvement Projects), Series 2015B-1 (AMT), the Houston Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Terminal Improvement Projects), Series 2020B-2 (AMT), the Houston Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Terminal Improvement Projects), Series 2021B-1 (AMT), and the Houston Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Terminal Improvement Projects), Series 2024B (AMT) (collectively, the "Terminal B Special Facilities Bonds"), the Terminal B Special Facilities Lease obligates United to pay rent, directly to the trustee, equal to the debt service on such Special Facilities Bonds. In addition, following substantial completion of each phase or segment of the Terminal B Transformation Program, United will pay the Houston Airport System rentals calculated under "net lease" provisions.

Intercontinental Terminal C Use and Lease Agreements

United's Airport Use and Lease Agreement, as it relates to Terminal C, was amended in 2015 and expires on December 31, 2037 (subject to certain extension rights and early termination provisions). The Terminal C Use and Lease Agreement gives United the preferential right to use all of the apron area and exclusive right to use of all of the holdrooms and other airline space in Terminal C for the duration of the lease term.

The amended Airport Use and Lease Agreement converted Terminal C to a net lease similar to Terminal E's (described below), in which United is responsible for all maintenance, janitorial and all-around upkeep and United retains all revenues from inside concessions.

Intercontinental Terminal D International Facilities Agreement

Foreign-flag airlines, United and other airlines providing international service at Terminal D, share the Central FIS Facility with Terminal E. They previously operated under the terms of an International Facilities Agreement (IFA), which expired December 31, 2021. The City negotiated a new International Facilities Agreement with the Terminal D Carriers and was approved by City Council in May 2023. The new agreement is cancellable by either the Houston Airport System or the signatory airlines with 30 days' notice. Use fee rates are calculated for Terminal D sub-cost centers by function (e.g., arrivals, departure, and ticketing and baggage make-up), with costs allocated using compensatory rate-making principles. See "CAPITAL IMPROVEMENT PROGRAM – CIP Projects – *Intercontinental Capital Improvement Program*." In November 2023, the IFA was amended to allow participating airlines with private clubs to accept passengers using third-party membership club passes in exchange for a percentage fee paid to the Houston Airport System.

Intercontinental Terminal E Lease and Special Facilities Lease Agreement

The term of the Terminal E Lease and Special Facilities Lease Agreement (the "Terminal E Special Facilities Lease") relating to the central ticketing facility, Terminal E baggage system improvements, Terminal C-East garage, ATO facility, Terminal E apron area and fuel systems and ancillary facilities, commenced August 29, 2001 and is scheduled to terminate on January 31, 2030, subject to certain extension provisions. United may extend the term until the earlier to occur of (i) the latest date allowed by law, (ii) the latest date that the Terminal E Special Facilities Lease may expire and remain in compliance with applicable federal tax law, or (iii) January 2045. United net leased the facilities on an exclusive basis, with the exception of the Terminal E apron area and fuel systems, which are leased on a preferential basis.

As security for the Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Terminal E Project), Series 2014 (AMT), Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Terminal E Project), Series 2020A (AMT) and Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Terminal E Project), Series 2021A (AMT) (collectively, the "Terminal E Special Facilities Bonds"), the Terminal E Special Facilities Lease obligates United to pay rent, directly to the trustee, equal to debt service on such Special Facilities Bonds. In addition, United must pay the Houston Airport System ground rentals for the special facility areas and "city charges" for the portions of the facilities financed by the Houston Airport System as well as certain allocated costs relating to capital project amortization, maintenance, and operations costs, replenishment of the renewal and extension fund for system costs, and airport and departmental administrative costs. In consideration of United's net leasing of the entire Terminal E, United is entitled to the revenues from all "inside concessions" at Terminal E, such as revenues from concession agreements for food and beverage, gift/news, telephone and advertising.

Other United Lease Agreements at Intercontinental

United and the City also have entered into two separate Special Facilities Leases related to non-terminal improvements at Intercontinental.

Non-Terminal Special Facilities Lease. The construction and improvement of certain United non-terminal facilities at Intercontinental were partially financed by Special Facilities Bonds issued in 1997 and 1998. Such bonds were subsequently refinanced in 2015 with the City's Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2015C (AMT) (the "2015C Bonds"). The Series 2015C Bonds were refinanced with the City's Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2020C (AMT) (the "2020C Bonds"). The improvement, renovation, expansion and repair of certain other non-terminal facilities at Intercontinental were financed by the City's Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2018C (AMT) (the "2018C Bonds"). The Series 2018C Bonds and Series 2020C Bonds are secured on a parity by a Special Facilities Lease of non-terminal improvements used by United at Intercontinental (the "Non-Terminal Special Facilities Lease") and are not secured by Net Revenues or other revenues of the Houston Airport

System. United has a continuing obligation to pay debt service on such bonds that may become due and payable after expiration of the Special Facilities Lease term, which extends until the end of 2037.

UTOC Special Facilities Lease. In 2018, the City issued its Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Technical Operations Center Project), Series 2018 (AMT) (the “UTOC Bonds”) to finance a new technical operations center and provide certain improvements to related facilities at Intercontinental (“UTOC”) and, in connection with the UTOC Bonds, the City and United entered into a Special Facilities Lease, whereby United agreed, among other things, to pay debt service on the UTOC Bonds. The term of the Special Facilities Lease relating to UTOC expires in 2053.

Ecopark Parking. United leases approximately 4,300 parking spaces principally near the Ecopark economy parking lot at Intercontinental. The spaces are primarily for employee use. The lease expires August 31, 2027.

Ground Support Equipment (GSE) Facility. In November 2022, United licensed approximately 462,399 square feet of land and improvements located west of Intercontinental at 17795 John F. Kennedy Blvd for the use of a Ground Support Equipment Maintenance Facility. The agreement expired and is currently being held over on a month-to-month basis. United and the City are currently negotiating lease terms for United to commence construction of a new ground support equipment maintenance facility. In May 2025 the City adopted an ordinance declaring intent to issue special facilities revenue bonds for the Ground Support Equipment Maintenance Facility in an amount not to exceed \$180 million.

Catering Operations Facility. Since February 2023, United has secured a license for approximately 189,326 square feet of undeveloped wooded land north of Intercontinental to conduct due diligence in preparation for the construction of a catering operations facility. Currently, United and the City are in the process of negotiating lease terms to facilitate the commencement of construction of a catering facility. In May 2025 the City adopted an ordinance declaring intent to issue special facilities revenue bonds for the catering facility in an amount not to exceed \$220 million.

Hobby Use and Lease Agreements

The use and lease agreements for the airlines operating at Hobby are similar in form and substance to the agreements at Intercontinental, but with certain differences in rate-making methodology. The agreements do not divide cost centers into “airline” and “non-airline,” as is the practice at Intercontinental but, like at Intercontinental, the airlines have financial responsibility only for the premises they lease. Under the Hobby use and lease agreements, landing fees are calculated using the same formula as is used at Intercontinental. The Hobby agreements also include a cost containment provision with respect to the Terminal Building, the Central Concourse and associated Apron and Airfield cost centers. This provision uses the Fiscal Year 2012 airline cost per enplanement as a base but allows increases based on the Consumer Price Index for the Houston area both annually and cumulatively, with no adjustments if the actual cost per enplanement for ensuing fiscal years does not exceed the adjusted rate. If the adjusted rate were calculated to exceed the calculated containment cost per enplanement, the Houston Airport System must reduce the allocation of costs to airline cost centers so as not to exceed the adjusted rate. The lease also provides for an Inside Concession Revenue-sharing program for those airlines signing a 25-year lease term. Currently, only Southwest has entered into such a lease. The revenue-sharing program calls for inside concession revenue (food and beverage, retail) to be shared at the average net inside concession revenue rate per enplaned passenger for each fiscal year in which there is incremental enplanement growth over the base of Fiscal Year 2012, up to a maximum of \$4 million annually.

In February 2013, the Houston Airport System entered into a new agreement with Southwest, which expires on June 30, 2040. Delta and American both originally entered into five-year agreements in 2015 that automatically renewed in 2020 for another five-year term when neither airline elected to exercise their option to cancel the lease after its initial five-year term. Delta and American are currently operating under month to month agreements, pending negotiation of extended agreements. In October 2015, international operations began at Hobby.

In December 2016, the City and Southwest entered into an MOA to develop a maintenance hangar for Southwest. The City leased approximately 44 acres at Hobby exclusively to Southwest for this development. The hangar was completed in January 2020 and includes both Southwest project components and City project components. Southwest expended \$125 million to design and construct the project. The City’s component cost approximately \$14 million. The complex is approximately 240,000 square feet and can hold up to six 737 narrowbody aircraft.

In August of 2023, the Houston Airport System and Southwest entered into an agreement to develop an International Terminal West Concourse 7 Gate Expansion. The expansion will include additional gates that can accommodate domestic and international flights; an expanded and renovated baggage handling system and baggage claim area; and an overhead canopy along the departures curb that will protect against inclement weather and connect the parking garage to the terminal. The total project is expected to cost \$470 million, funded by the Houston Airport System in three tranches. An initial \$20

million was appropriated in March of 2022 for the planning and design of the project. In August of 2023 an additional \$250 million was approved by the City to move forward with construction. The Houston Airport System appropriated \$200 million in Fiscal Year 2025 to bring total to \$470 million. The Houston Airport System's capital program for the project, was and will be financed largely with AIF cash balances, PFC Revenues, grants, and airport revenue bond proceeds. The total rent rate for the expansion will include amortization of the capital improvements and expenses allocable to the expansion as outlined in the Amendment No. 2 to the Airport Use and Lease Agreement between Southwest and the City of Houston. See "CAPITAL IMPROVEMENT PROGRAM – CIP Projects – *Hobby Capital Improvement Program*".

Other Significant Airport Agreements

Rental Car Facilities at Intercontinental

As mentioned above, the consolidated rental car facility at Intercontinental was financed in March 2001 with proceeds of Special Facilities Bonds secured by and payable from a separate customer facility charge ("CFC") assessed on rental car customers at Intercontinental, which is currently \$4.00 per transaction day. Under the terms of the Master Special Facilities Lease, the rental car companies are responsible for all operation and maintenance costs associated with the facility and the associated busing operation. Such lease is scheduled to expire on June 30, 2027.

The Houston Airport System has concession agreements with eight rental car operators at Intercontinental (which represent 11 brands) that expire June 30, 2027.

Rental Car Facilities at Hobby

At Hobby, there are nine rental car operators, four of which lease facilities from the Houston Airport System on month-to-month leases. The concession agreements with the rental car operators at Hobby went to a month-to-month basis on January 1, 2021.

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Concessions, Cargo and Service Agreements

Shown below is a summary of other significant non-airline agreements for the Houston Airport System.

Houston Airport System Significant Non-Airline Agreements

Vendor	Expiration Date	Extension or Termination Options	Service Provided	Airport
JC Decaux	February 28, 2027; July 31, 2027	N/A	Advertising	Intercontinental; Hobby
International Shoppes Shekinah Group IAH, LLC	August 18, 2029	N/A	Duty Free	Intercontinental
Paradies-HOU 2014, LLC	December 31, 2028	N/A	News, gift and specialty	Hobby
WDFG	December 31, 2028	N/A	News, gift and specialty	Hobby
Host International, Inc	December 31, 2028	N/A	Food	Intercontinental
WDFG North America, LLC	December 31, 2028	N/A	News, gift and specialty	Intercontinental
Paradies-IAH 2014, LLC	December 31, 2028	N/A	News, gift and specialty	Intercontinental
SSP America Texas, Inc	December 31, 2028	N/A	Food	Intercontinental
Latrelle's Galley, L.P.	December 31, 2028	N/A	Food	Intercontinental
Host International, Inc.	December 31, 2028	N/A	Food	Intercontinental
Houston Airport Hotel Owner's, L.P.	October 31, 2053	N/A	Marriott	Intercontinental
Areas	July 2035	N/A	Food	Hobby
Federal Express	May 30, 2027	N/A	Freight, Mail	Intercontinental
UPS	December 31, 2032	1 ten-year optional extension	Freight, Mail	Intercontinental
Aero Houston Central	December 31, 2027	2-year optional extension	Central Cargo	Intercontinental
Aero Houston East, LLC	February 25, 2043	Option to terminate after 30 years	East Cargo	Intercontinental
Aero Houston East II, L.P.	February 28, 2043	Option to terminate after 30 years	East Cargo	Intercontinental
Trammel Crow Company IAH International Air Cargo II, L.P	August 31, 2049	Option to terminate after 30 years	Perishables Cargo	Intercontinental
Prologis	February 28, 2043	Option to terminate after 30 years	East Cargo, Warehouse	Intercontinental
SP+/Global/IMS (Formerly: New South Parking -Texas)	June 30, 2031	N/A	Parking management	Intercontinental; Hobby

Source: Houston Airport System

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THE AIRLINE INDUSTRY FINANCIAL INFORMATION

Certain of the certificated major domestic airlines (or their respective parent corporations) are subject to the information reporting requirements of the U.S. Securities Exchange Act of 1934, as amended, and thus must file reports and other information with the U.S. Securities and Exchange Commission (the “Commission”). Certain information, including financial information, as of particular dates, concerning the certificated major domestic airlines (or their respective parent corporations) is disclosed in such reports and statements filed with the Commission. Such reports and statements can be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission’s regional offices, including the Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, IL 60661-2511 and 5670 Wilshire Boulevard, 11th Floor, Los Angeles, California 90036. Copies of such reports and statements can be obtained from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. The Commission also maintains a website at <http://www.sec.gov> containing reports, proxy and information statements and other information regarding registrants that file electronically with the Commission. The Commission undertakes no responsibility for and makes no representations (and the City, the City’s Co-Financial Advisors and the Underwriters disclaim any responsibility) as to the accuracy or completeness of the content of such material contained on the website described in the preceding sentence, including but not limited to, updates of such information or links to other websites accessed through the aforementioned website. In addition, all major and certain other airlines are required to file periodic reports of financial and operating statistics with the United States Department of Transportation. Such reports can be inspected in the Office of Airline Statistics, Research and Special Programs Administration, United States Department of Transportation, 400 Seventh Street, S.W., Washington, D.C. 20590, and copies of such reports can be obtained from the U.S. Department of Transportation at prescribed rates.

Airlines owned by foreign governments or foreign corporations operating airlines (other than foreign airlines that have American Depositary Receipts registered on a national exchange) are not required to file information with the Commission. Airlines owned by foreign governments, or foreign corporations operating airlines, file limited information only with the U.S. Department of Transportation.

INVESTMENT CONSIDERATIONS

Factors Affecting Finances or Operations

The City cannot predict the outcome that certain factors could have on its finances or operations, including, but not limited to: (a) the extent of outbreaks of disease, public health issues or pandemics; (b) what effect any related restrictions or warnings may have on air travel; (c) the extent to which the another pandemic may result in changes in demand for air travel, including long-term changes in consumer behavior and the operations of other businesses, or may have an impact on the airline and travel industry, generally; or (d) whether any of the foregoing may have a material adverse effect on the finances and operations of the Houston Airport System. Future outbreaks, pandemics or events outside the Houston Airport System’s control may further reduce demand for air travel, which in turn could cause a decrease in passenger activity and result in a decline in revenues.

Economic and Political Conditions

Historically, U.S. airline passenger traffic has correlated closely with the state of the U.S. economy and levels of real discretionary income. Recessions in the U.S. economy in 2001, 2008-2009 and 2020 and associated high unemployment reduced discretionary income and coincided with reduced airline travel in those years. With the globalization of business and the increased importance of international trade and tourism, the U.S. economy is more closely tied to worldwide economic, political and social conditions. As a result, international economics, trade balances, currency exchange rates, political relationships and hostilities all influence passenger traffic at major U.S. airports. Sustained future increases in passenger traffic at the Houston Airport System airports depend on stable international conditions as well as national and global economic growth.

Industry Workforce Shortages

Pilot shortage has been an industry-wide issue, especially for smaller regional airlines. There are several causes for the pilot shortage that have affected all airlines. Congress changed duty time rules in 2010 to mitigate pilot fatigue, which required airlines to increase pilot staff. Beginning in 2013, first officers flying for commercial airlines were required to have at least 1,500 hours of flight time, instead of the 250 hours previously required. Other factors include an aging pilot workforce and fewer new pilots. As a result of the COVID-19 pandemic, many airlines offered buyouts, early retirement, and severance packages to reduce staffing costs to mitigate the effects of reduced passenger traffic. As passenger demand recovers, major

air carriers need additional pilots and have hired pilots away from regional airlines. As a result, small regional airlines have experienced difficulties in hiring qualified new pilots, despite increased incentives, resulting in reduced service to some smaller U.S. markets.

In addition to the pilot shortage, over the next decade there could be a shortage of qualified mechanics to maintain the airlines' fleet of planes. This potential shortage is a result of an aging pool of mechanics, a large portion of which are expected to retire in the next decade, and relatively fewer new mechanics entering the labor market. A shortage of mechanics could raise the cost of maintenance, require airlines to maintain more spare planes and/or result in increased flight cancellations and delays.

General labor shortages, including pilots, mechanics and air traffic controllers, have been impacting, and may continue to impact, the airline industry and the Houston Airport System. Several major airlines have announced reduced schedules and have cancelled flights as a result of reported labor shortages and staffing challenges.

For a discussion of the shortage of air traffic control staff, see "INVESTMENT CONSIDERATIONS - Capacity of National Air Traffic Control and Airport Systems" herein.

Oil and Gas Industry

The Houston metropolitan area has the world's largest concentration of petro-chemical manufacturing, so the regional economy has been particularly susceptible to adverse conditions in the oil and gas industry. Concerns related to the COVID-19 pandemic, among other factors, have led to recent declines in crude oil prices in the U.S., at times to the lowest levels in three decades. These price declines have led to reduced revenues, declines in capital and operating expenditures, business failures and layoffs of workers in the oil and gas industry. The continuation of adverse conditions in the oil and gas industry and their spillover effects on other industries in the Houston region could adversely affect the Houston region's economy and the demand for air travel at Intercontinental and Hobby. See "THE HOUSTON AIRPORT SYSTEM – Airport Service Region – *Top 10 Greater Houston Private Employers*" and "INVESTMENT CONSIDERATIONS – Economic and Political Conditions"

Financial Condition of the Airlines

The ability of the Houston Airport System to generate revenues depends, in part, upon the financial health of the aviation industry in general. The economic condition of the aviation industry is volatile. Periodically the industry undergoes significant changes, including mergers, acquisitions, bankruptcies and closures. Further, the aviation industry is sensitive to a variety of factors, including (i) the cost and availability of financing, labor, fuel, aircraft and insurance, (ii) regional, national and international economic conditions, (iii) international trade, (iv) currency values, (v) competitive considerations, including the effects of airline ticket pricing, (vi) traffic and airport capacity constraints of the Houston Airport System and competing airports, (vii) governmental regulation, including security regulations and taxes imposed on airlines and passengers, and maintenance and environmental requirements, (viii) passenger demand for air travel and (ix) disruption caused by airline accidents, criminal incidents, acts of war or terrorism, such as the events of September 11, 2001, and (x) public health emergencies, such as the COVID-19 pandemic. The aviation industry is also vulnerable to employee strikes and other labor-related disruptions. The number of passengers at the Houston Airport System airports depends partly on the profitability of the U.S. airline industry and the associated ability of the industry and individual airlines, particularly United and Southwest, to make the necessary investments to provide service.

Airline Service and Routes

Intercontinental and Hobby accommodate travel demand to and from the Houston region and serve as connecting hubs. The number of origin and destination passengers at the two airports depends on the intrinsic attractiveness of the Houston region as a business and leisure destination, the propensity of its residents to travel, and airline fares and service. The number of connecting passengers, on the other hand, depends entirely on airline fares and service provided at the airports.

Intercontinental serves as a primary connecting hub and international gateway for United and Hobby serves as a connecting airport and Latin American gateway for Southwest. As a result, much of the connecting passenger traffic at the two airports results from the route networks and flight schedules of United and, to a lesser extent, Southwest, rather than the economy of the Houston region. If United reduced connecting service at Intercontinental, or Southwest reduced connecting service at Hobby, such service would not necessarily be replaced by other airlines.

Airline Competition and Airfares

Airline fares have an important effect on passenger demand, particularly for relatively short trips, for which automobile and other surface travel modes are potential alternatives, and for price-sensitive discretionary travel. The price elasticity of demand for airline travel increases in weak economic conditions when the disposable income of potential airline travelers is reduced. Airfares are influenced by airline capacity and yield management, passenger demand, airline market presence, labor, fuel and other airline operating costs, taxes, fees and other charges assessed by governmental and airport agencies, and competitive factors. Future passenger numbers, both nationwide and at the Houston Airport System airports, will depend, in part, on the level of airfares.

Structural Changes in the Travel Market

Many factors have combined to alter consumer travel patterns. Consumers have become more price-sensitive. Efforts of airlines to stimulate traffic by heavily discounting fares have changed consumer expectations regarding airfares. In addition, the availability of fully transparent price information on the Internet now allows quick and easy comparison shopping, which has changed consumer purchasing habits. This has made pricing and marketing even more competitive in the U.S. airline industry. Smaller corporate travel budgets, combined with the higher time costs of travel, have made business customers more amenable to communications substitutes such as tele- and video-conferencing, which services have grown significantly since the onset of the COVID-19 pandemic. Further, increased adoption of videoconferencing technologies during the COVID-19 pandemic and increased acceptance of these methods of communicating could reduce the demand for business travel, though the impact of such technologies on the demand for business travel is not known at this time.

Airline Concentration; Effect of Airline Industry Consolidation

Further airline consolidation remains possible. Although the Houston Airport System believes that merger activity has had little impact on the respective combined airlines' market shares at Intercontinental or Hobby, future mergers or alliances among airlines operating at the Houston Airport System's facilities may result in fewer flights or decreases in gate utilization as airlines reduce capacity at Houston Airport System airports. Such decreases could result in reduced Net Revenues, reduced PFC Revenue collections and increased costs for the other airlines using the Houston Airport System. However, historically, when airlines have reduced or ceased operations at the Houston Airport System, other airlines have absorbed the traffic with no significant adverse impact on the Houston Airport System revenues.

United and Southwest account for a significant portion of the Houston Airport System's operating revenues. For more information, see Note 10 of the Notes to the Financial Statements as set forth in APPENDIX B. See also "HOUSTON AIRPORT SYSTEM OPERATING STATISTICS – Schedule 2: Airline Market Shares." If either airline was to significantly reduce service, it could have a material impact on revenues, including concession revenues and PFC Revenue collections, and on the resulting cost per enplanement charged at each airport.

Passenger Facility Charges

General

Pursuant to 49 U.S.C. §40117 and the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (the "PFC Act"), the FAA has approved the City's application to require the airlines to collect and remit to the City a \$4.50 PFC on each enplaning revenue passenger at Intercontinental and Hobby, as further discussed in "HOUSTON AIRPORT SYSTEM FINANCIAL INFORMATION – Sources of Revenues – *PFC Revenues*" and "CAPITAL IMPROVEMENT PROGRAM – PFC Revenues."

The PFC Act provides that PFC Revenues collected by the airlines constitute a trust fund held for the beneficial interest of the eligible agency (i.e., the City for the benefit of the Houston Airport System) imposing the PFCs, except for any handling fee or retention of interest collected on unremitted proceeds. In addition, federal regulations require airlines to account for PFC Revenue collections separately and to disclose the existence and amount of funds regarded as trust funds for financial statements. However, the airlines are permitted to commingle PFC Revenue collections with other revenues and are also entitled to retain interest earned on PFC Revenue collections until such collections are remitted. In the event of a bankruptcy, the PFC Act, as amended in December 2003, provides that (1) PFCs are and remain trust funds, (2) the airline in bankruptcy may not grant to any third party any security or other interest in PFC Revenues and (3) the airline in bankruptcy must segregate in a separate account PFC Revenues equal to its average monthly PFC liability as well as post-petition actual PFC Revenues. Despite these enhanced statutory protections, it is unclear whether the City would be able to recover the full amount of PFC trust funds collected or accrued by an airline in the event of its liquidation or cessation of business. The City also cannot predict whether an airline operating at Intercontinental or Hobby that files for bankruptcy would have properly

accounted for PFC Revenues owed to the City or whether the bankruptcy estate would have sufficient moneys to pay the City in full for PFC Revenues owed by such airline. Although the City expects to pay a portion of the debt service on its Subordinate Lien Bonds from PFC Revenues, PFC Revenues are not pledged to the payment of any Subordinate Lien Bonds, including the Series 2025 Bonds. See “SECURITY FOR THE SERIES 2025 BONDS – General.” For a discussion of the treatment of PFC Revenues under the Ordinance, see APPENDIX C-1 – GLOSSARY OF TERMS AND EXCERPTS OF THE MASTER ORDINANCE.

FAA Reauthorization

The FAA Reauthorization Act of 2024, which extended FAA’s federal funding and authorities through Fiscal Year 2028. The failure of Congress to reauthorize the FAA’s operating authority beyond Fiscal Year 2028, or adverse changes in the conditions placed on such authority, could have an adverse impact on Houston Airport System operations over the long run because grants awarded under the FAA’s Airport Improvement Program have been a significant source of financing for the Houston Airport System.

Availability of PFCs

The Houston Airport System currently uses PFC collections to pay a portion of its debt service and to fund certain pay-as-you-go projects. The collection of PFCs is subject to several risks. The amount of PFCs received by the Houston Airport System depends on the actual number of eligible passenger enplanements at Intercontinental and Hobby. As eligible passenger enplanements decline, PFC collections will also decline. Further, the PFC authorizations for Intercontinental and Hobby expire in May 2039 and September 2038, respectively. Finally, the Houston Airport System’s authority to impose PFCs could be terminated if it violates Department of Transportation regulations regarding their use. A shortfall in PFC collections would require the Houston Airport System to pay these debt service costs from existing cash balances or from Net Revenues, or to seek approval to increase PFC rates at one or both airports and could impact the ability to comply with the Rate Covenant (see “COVENANTS AND TERMS OF THE ORDINANCE – Rate Covenant”). The PFC rate is currently \$4.50 per enplaned passenger at both Intercontinental and Hobby. See “CAPITAL IMPROVEMENT PROGRAM – Schedule A: PFC Collections”.

Airport Security and Safety

Concerns about the safety of airline travel and the effectiveness of security and health safety precautions influence passenger travel behavior and airline travel demand. Anxieties about the safety of flying and the inconveniences and delays associated with security and health screening procedures could lead to both the avoidance of travel and the switch from air to surface modes of transportation for short trips.

Historically, airline travel demand has recovered after temporary declines stemming from terrorist attacks or threats, hijackings, aircraft crashes, public health and safety concerns, and international hostilities. If precautions by government agencies, airlines and airport operators maintain confidence in the safety of commercial aviation without imposing unacceptable inconveniences for airline travelers, it can be expected that future demand for airline travel at the Houston Airport System airports will depend primarily on economic, not safety or security, factors.

In addition, the Pandemic has caused a substantial decline in passenger traffic at both Intercontinental and Hobby. Despite the widespread availability of COVID-19 vaccines in the United States, a reduced level of passenger traffic, as compared to the years before the Pandemic, may continue.

Cybersecurity Initiatives of the City

The Houston Airport System relies on computer technology for its operations, and faces cybersecurity threats including, but not limited to, hacking, phishing, viruses, malware, digital theft, and other attacks on its digital networks and systems. As a recipient and provider of personal, private, or sensitive information, the Houston Airport System may be the target of cybersecurity incidents that could adversely affect the Houston Airport System’s operations.

The federal government regulates various aspects of airport operations and the FAA and the Transportation Security Administration (“TSA”) both impose various regulations and security directives that affect the design, policies and procedures of the information technology and physical access security of Houston Airport System. In 2023, the TSA issued a TSA Joint Emergency Amendment on Cybersecurity-Performance-Based Measures which include a series of time-based deliverables. Houston Airport System is currently in compliance with the emergency amendment and continues to work with the TSA accordingly.

Houston Airport System Information Technology department has yearly initiatives that minimize the risk to airport operations such as upgrades to servers, computers, network devices, security related hardware and software, security assessments, audits, reviews, and policies and procedures. Major investments have also been made to increase the posture to Houston Airport System cybersecurity-related initiatives in order to minimize risk. In addition, the Houston Airport System is committed to replacing the current electronic badging system with the next generation access and identity system that will greatly reduce and minimize the threats of a physical compromise to airport security access.

Over the past five years, the City has taken several steps to enhance and protect information systems and information of the City. To help protect the City against claims and expenses due to a cybersecurity incident, the City is self-insured.

In 2013 and 2014, the City implemented Executive Order (EO) 1-44 (2013) and Executive Order 1-48 (2014) (the “Executive Orders”) respectively authorizing the Chief Information Officer (CIO) to manage city-wide IT risk and develop a city-wide information security program. The CIO designated a Chief Information Security Officer (CISO) responsible for carrying out the CIO's information security responsibilities. Specific objectives of the Executive Orders include: (i) protecting all City information and information systems in a manner that is commensurate with the security classification level, sensitivity, value, and critical nature of information; (ii) protecting information from unauthorized access, disclosure, destruction, disruption, or modification while the information is being collected, processed, transmitted, stored, or disseminated; (iii) managing all information technology that is acquired, developed, or used in support of City programs, projects, and department requirements by use of a process that covers the complete system lifecycle; (iv) managing all information systems in a cost-effective manner, guided by the application of sound risk management processes that ensure an appropriate level of integrity, confidentiality, and availability of information in each phase of the system lifecycle; (v) conducting periodic audits of all City information systems that process, store, or transmit City data; (vi) investigating information security incidents for incident management, forensic investigations, and reports; and (vii) ensuring all basic information security policy requirements, audits, and forensic investigations are implemented across all City departments.

Among other initiatives, the CISO is in the process of implementing the second iteration of a comprehensive, multi-year cybersecurity master plan. The second iteration of the plan is designed to enhance the ability to identify, protect, detect, respond and recover from cyber events and incidents from nation state actors, organized criminals, hacktivist groups and insider threats.

In addition to direct risks to the Houston Airport System’s digital systems, FAA digital systems and individual airline systems are subject to the same kinds of risks as the Houston Airport System, and attacks on those systems could substantially affect Houston Airport System operations and revenues.

Capacity of National Air Traffic Control and Airport Systems

Demands on the national air traffic control system have, in the past, caused delays and operational restrictions affecting airline schedules and passenger traffic. In addition, the Transportation Secretary recently announced that air traffic control is understaffed by approximately 3,000 people. The FAA is gradually implementing its Next Generation Air Transportation System (NextGen) air traffic management programs to modernize and automate the guidance and communications equipment of the air traffic control system and enhance the use of airspace and runways through improved air navigation aids and procedures.

Hurricane Activity and Weather Events Affecting Houston

The Houston region is prone to seasonal hurricane activity; major hurricanes or other dangerous storms may develop. A hurricane of great severity could significantly damage Houston Airport System properties. The Houston Airport System maintains hurricane insurance jointly and severally with the City and its other enterprise departments, but the policy covers only part of the total property value of the Houston Airport System. Deductibles and any costs in excess of insured amounts or reimbursements received from FEMA would be borne by the City or the airlines.

Shortly after Hurricane Harvey in 2017, the Houston Airport System established a “Disaster Recovery O&M Fund” in its accounts to serve as an appropriation source for disaster-related expenses pending insurance payments and reimbursement by FEMA.

Future weather events could have an adverse impact on the region’s economy, including an impact on business activity and development in the region. The City cannot predict what impact future weather events in the region will have on the City or the Houston Airport System.

Unmanned Aerial Vehicles

With the proliferation of inexpensive, commercially available, unmanned aerial vehicles (“UAVs”), or drones, the threat that unauthorized and unsafe UAV operations near airports could adversely affect the safety or security of U.S. airports and arriving or departing aircraft has increased significantly in recent years. Recent incursions of airport airspace by UAVs have disrupted airport operations by causing flights to be halted or diverted. London’s Gatwick Airport was closed for 27 hours, impacting some 140,000 passengers and causing roughly 1,000 flights to be delayed or canceled between December 19 and 21, 2018 due to drone incursions. An unauthorized UAV incursion at Intercontinental or Hobby could result in the temporary delay or cancellation of flights to or from such airport as well as harm the Houston Airport System’s brand, reputation and its relationships with its customers, airlines and government partners. Although UAVs are regulated by the FAA and federal law prohibits the Houston Airport System from disrupting UAV operations or undertaking UAV countermeasures, the Houston Airport System is working closely with the FAA to develop measures to prevent unauthorized UAV activity from adversely affecting the Houston Airport System. There can be no assurance, however, that in the future, unauthorized UAV activity will not adversely affect operations at Intercontinental or Hobby.

Cost and Completion Schedule of Houston Airport System Capital Improvement Program

The costs and completion timeframe of capital projects included in the Houston Airport System’s CIP are subject to a number of uncertainties. The ability of the Houston Airport System to complete the CIP could be adversely affected by various factors including: (i) estimating errors, (ii) design and engineering errors, (iii) changes to the scope of the projects, (iv) delays in contract awards, (v) material, and/or labor shortages, (vi) unforeseen site conditions, (vii) adverse weather conditions, (viii) contractor defaults, (ix) labor disputes, (x) unanticipated levels of inflation, (xi) environmental issues, including environmental approvals that the Houston Airport System has not obtained at this time, (xii) additional security improvements and associated costs mandated by the federal government and (xiii) lack of adequate funding, including inability to access the capital markets or loss of grants or PFC Revenues.

A delay in the completion of certain projects under the CIP could delay the collection of revenues for such projects, increase project costs, or cause the rescheduling of other projects. There can be no assurance that the cost of construction of the Fiscal Year 2026-2030 CIP projects will not exceed the currently estimated dollar amount or that the completion of the projects will not be delayed beyond the currently projected completion dates. Any schedule delays or cost increases could result in the need to issue additional Airport Obligations and may result in increased costs per enplaned passenger to the airlines, which could place the Houston Airport System at a competitive disadvantage with other airports. Further, changes in the mix of the projects that comprise the Houston Airport System’s CIP could negatively impact the long-term revenue base of the Houston Airport System. This could occur if there were a substantial shift to the capital projects that the Houston Airport System is required to fund out of non-airline revenues versus those that become part of the airline rate base and for which the Houston Airport System receives airline revenues through landing fees and terminal rentals. In such case, the Houston Airport System would seek to alter its rate-making methodology or find additional revenue sources. See “CAPITAL IMPROVEMENT PROGRAM”.

Airport System Capital Markets Access

Airport operators such as the Houston Airport System have also historically required access to third-party capital, primarily through the municipal bond market, to finance significant portions of their capital needs and to effectively manage their cost per enplanement or debt coverage ratios. If the capital markets were to become inaccessible by the Houston Airport System or interest rates were to rise, it could significantly impact the Houston Airport System’s ability to meet its prospective coverage ratios or to meet its future spending needs or to achieve a competitive cost per enplanement.

Effect of Airline Bankruptcies

Prior bankruptcies by airlines using the Houston Airport System have resulted in reductions of service levels by particular airlines, even in cases where such airlines continued to operate in bankruptcy. Bankruptcies, liquidations or major restructurings of other airlines could occur. The bankruptcy of an airline with significant operations at the Houston Airport System, such as United or Southwest, could have a material adverse effect on operations at the Houston Airport System, revenues and the cost to the other airlines operating at the Houston Airport System. Regardless of any specific adverse determinations in an airline bankruptcy proceeding, the existence of an airline bankruptcy proceeding could have an adverse effect on the liquidity and value of the Series 2025 Bonds.

In the event of bankruptcy proceedings involving one or more of the airlines operating at the Houston Airport System, the debtor or its bankruptcy trustee must determine within a time period determined by the court whether to assume

or reject the applicable airline's use and lease agreement or other lease agreements. If assumed, the debtor would be required to cure any prior defaults and to provide adequate assurance of future performance under the relevant agreements. Rejection of a lease or executory contract by an airline would give the City an unsecured claim for damages, the amount of which in the case of a lease is limited by the Bankruptcy Code.

Airport Management Consultant Report and Financial Projections

The financial projections in the Report regarding the Airport are based generally upon certain assumptions, as well as economic, demographic and development trends. See APPENDIX A – Section 6.7 – “Projection of Financial Performance and Debt Service Coverage” and Section 6.8 – “Assumptions Underlying the Financial Projections”. Inevitably, some of the assumptions and other data used to develop the projections will not be realized, and unanticipated events and circumstances may occur. Therefore, the actual financial results achieved during the projection periods will vary from the financial projections, and such differences may be material.

THE CITY AND CITY FINANCIAL INFORMATION

Governmental Structure

The City has a mayor-council form of government in which the Mayor and the sixteen-member City Council serve as the legislative body. Eleven council members are elected by district and five council members are elected at-large. The Mayor, all members of the City Council and the City Controller are elected for four-year terms. The present term of office for all elected officials expires at various times. The City Charter limits the terms of office for all elected City officials to two, four-year terms.

The Mayor is the City's chief executive officer. The Mayor exercises administrative control over the City's government; presides over City Council meetings; establishes the City Council agenda; and appoints the heads of the various departments of the City, subject to confirmation by the City Council. The Mayor also is responsible for preparing and submitting the City's annual budget proposals to the City Council for adoption.

The City Controller is the City's chief financial officer. The Office of the City Controller superintends, supervises, manages and conducts the fiscal affairs of the City; maintains the books of accounts; prepares financial statements; conducts the sales of City obligations; certifies the availability of funds before the City incurs any financial obligation; and, along with the Mayor, countersigns all warrants, contracts or orders for payment of any money by the City.

Home-Rule Charter

The City operates under a home-rule charter pursuant to the Texas Constitution. The City Charter may be amended not more than once every two years at an election held for that purpose, which may be called by the City Council or upon petition of 20,000 of the City's registered voters. The last City Charter amendments were adopted on November 6, 2018. See “– Governmental Structure.” In addition, the City Charter allows the City's voters to exercise the powers of initiative and referendum. To compel enactment of an ordinance by initiative, a petition signed by voters equal in number to at least 15% of the largest total number of votes cast for Mayor in any general election in the preceding three (3) years must be submitted to the City. Thereafter, the City Council may enact the ordinance or call an election on the question of its adoption. To compel a referendum on an ordinance, a petition signed by voters equal in number to at least 10% of the largest total number of votes cast for Mayor in any general election in the preceding three (3) years must be submitted to the City. Thereafter, the City Council may repeal the ordinance that is the subject of the referendum petition or call an election on the question of its repeal. See “– City Charter Tax and Revenue Propositions.”

City Interest Rate Swap Policy

The City currently has no outstanding Swaps (as defined below) with respect to any Outstanding Airport Obligations.

The City follows a master swap policy, as amended from time to time (the “Swap Policy”), to provide guidance for the City in its use of swaps, caps, floors, collars, options and other derivative financial products (collectively, “Swaps”) in conjunction with the City's management of its assets and liabilities. The Swap Policy describes the circumstances and methods by which Swaps will be used, the guidelines to be employed when Swaps are used, and the City official responsible for carrying out these policies. The City may enter into Swaps as authorized by the City Council and approved by the Attorney General of the State in connection with the issuance or payment of certain debt obligations, before, concurrently with, or after the actual issuance of the debt.

As a general rule, the City will enter into Swap transactions only with counterparties whose obligations are rated in the double-A category or better from at least one nationally recognized rating agency. In addition, if a counterparty's credit rating is downgraded below the double-A rating category, the City may require that its exposure to the counterparty be collateralized or may exercise its right to terminate the Swap transaction prior to its scheduled termination date. In order to limit the City's counterparty risk, the City will seek to avoid excessive concentration of exposure to a single counterparty or guarantor.

The Swap Policy provides that the City may choose counterparties for entering into Swap contracts on either a negotiated or competitive basis. To provide safeguards on negotiated transactions, the Swap Policy provides that the City should generally secure outside professional advice to assist in the process of structuring, documenting and pricing the transaction, and to verify that a fair price was obtained. In any negotiated transaction, the counterparty will be required to disclose all payments to third parties (including lobbyists, consultants and attorneys) who had any involvement in assisting the counterparty in doing business with the City.

The City tracks and regularly reports on the financial implications of its Swaps. A quarterly report is prepared for the City Council, and includes: (i) a summary of key terms of the agreements, including notional amounts, interest rates, maturities and methods of procurement, including any changes to Swap agreements since the last reporting period; (ii) the mark-to-market value (termination value) of its Swaps, as measured by the economic cost or benefit of terminating outstanding contracts at specified intervals; (iii) the amount of the City's exposure to each specific counterparty, as measured by aggregate mark-to-market values, netted for offsetting transactions; (iv) the credit ratings of each counterparty (or guarantor, if applicable) and any changes in credit ratings since the last reporting period; and (v) any collateral posting as a result of Swap agreement requirements. In addition, the City performs such monitoring and reporting as is required by the rating agencies or for compliance with GASB requirements.

Financial Policies

The City operates under financial policies (the "Financial Policies") that have been adopted by City Council. Under the Financial Policies, the Mayor is required to review the Financial Policies at least once every two years. The Financial Policies were initially approved in 2003 and have been amended and updated from time to time to include, among other things, provisions regarding pay-as-you-go funding, the issuance of debt and the disclosure of financial information pursuant to State and federal securities laws. The City implemented the policies related to disclosure of financial information in 2016 and amended such policies on August 30, 2023.

Under the heading of Operating Budget Policies – Revenues and Expenditures, the Financial Policies state that the City will adopt a budget annually in which current revenues and other sources will be sufficient to support current expenditures. All retirement and employee benefit systems will be financed in a manner to fully and systematically fund liabilities (with the City making all necessary payments in compliance with contractual obligations and statutory requirements and in a manner that results in full amortization of liabilities over a closed 30-year period). See the sections captioned "– Health Care Benefits for Retired Employees," "– Employee Pension Funds" and Schedules 9, 9A, 9B and 9C for more detailed information relating to the funding of the City's Pension Systems.

Each enterprise fund maintains revenues that support the full (direct and indirect) cost of the service provided. A review of all fees and rates will be conducted at least every five years except for impact fees, which will be reviewed at least every ten years, to determine the extent to which the full costs of associated services are being recovered by revenues. Fees may be adjusted in the interim period by ordinance; however, based on an analysis conducted whenever there have been significant changes in the method, level or cost of service delivery. The General Fund unassigned fund balance will be maintained to provide for temporary financing of unforeseen needs of an emergency, disaster and economic instability. The Financial Policies also provide that the level of the General Fund unassigned fund balance will be a minimum of 7.5% of General Fund expenditures, less debt service and transfers for pay-as-you-go capital expenditures. To the extent that the General Fund unassigned fund balance exceeds 7.5% of total expenditures less debt service and transfers for pay-as-you-go capital expenditures, the excess funds are available for appropriation by City Council for non-recurring expenditures.

Under the heading "Special Revenue Fund Reserve Policy," the Financial Policies state that the proposed and adopted operating budgets for each year must include the budgets of all special revenue funds that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. Each special revenue fund is required to have an appropriate methodology for determining minimum and maximum cash reserves. The Financial Policies also state that any fiscal year-end fund balance that exceeds the established maximum cash reserve of a special revenue fund may be transferred to the General Fund, subject to City Council approval.

Under the heading of “Debt Management Policies,” the Financial Policies provide that any capital project financed through the issuance of bonds be financed for a period not to exceed the average expected life of the assets. Average (weighted) general obligation bond maturities will be maintained at or below 12 years. To reduce the General Fund transfer for debt service while remaining in compliance with all relevant bond or other debt covenants and indentures, the maximum annual General Fund transfer for debt service is to be maintained at 20% of General Fund revenues (excluding state and federal grants) until Fiscal Year 2019. Beginning in Fiscal Year 2019 and in each subsequent fiscal year, the maximum annual General Fund transfer for debt service is to be reduced by 0.5% annually until it reaches 12% of General Fund revenues (excluding state and federal grants), at which point the maximum is to be held constant at 12%.

The City’s Financial Policies require that an annual audit be performed by an independent public accounting firm in accordance with generally accepted accounting principles. The June 30, 2024 City Controller’s audited Annual Comprehensive Financial Report of the City and additional financial information are available for public inspection, or copies may be obtained by written request, to the extent permitted by law, addressed to the Office of the City Controller.

Additionally, the Financial Policies require the Finance Department to annually prepare a five-year General Fund forecast that includes identification of requirements for achieving a “structural balanced budget” in the upcoming fiscal year and the subsequent fiscal year, including a list of options for eliminating any funding shortfalls preventing achievement of a structural balanced budget. If a structural balanced budget was adopted by the City Council, it is expected that the level of expenditure reductions would be materially and significantly higher than currently anticipated.

City Investment Policy

The City maintains an investment strategy that emphasizes, in order of priority, safety, liquidity and return on investment, as embodied in its investment policy (the “Investment Policy”). The Investment Policy provides, among other things, that (1) the Investment Manager(s) (as defined in the Investment Policy) shall submit quarterly investment reports to City Council and (2) the Investment Policy shall be reviewed annually by City Council. On December 11, 2024, the City Council approved and readopted the Investment Policy with one change. The amended Investment Policy increases the total maximum holding limit of commercial paper from 20% to 25% of the total Pool. The Investment Policy aims to further protect City assets by identifying investment objectives, addressing the issues of investment risks versus rewards, and providing the framework for the establishment of controls, limitations and responsibilities of City employees in the performance of their fiduciary responsibilities.

Fitch Ratings, Inc. has assigned a “AAA” credit quality rating to the City’s General Investment Portfolio. The ratings reflect the view of Fitch Ratings, Inc., from whom an explanation of the significance of such ratings may be obtained.

The Ordinance provides that all interest and income derived from the deposit and investment of amounts held in all Funds will be transferred or credited monthly to the Revenue Fund and shall constitute Gross Revenues of the Houston Airport System (unless specifically excluded from the definition of Gross Revenues), except as follows: (1) all interest and income derived from deposits and investments credited to the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Reserve Fund and the Operation and Maintenance Reserve Fund will remain in such funds to the extent necessary to accumulate the Reserve Fund Requirements or other required balance therein; and (2) all interest and income derived from deposits and investments held in any construction fund, including amounts held therein as capitalized interest, created by any ordinance authorizing the issuance of Airport Obligations will remain in such construction fund for disposition in the manner provided in the applicable ordinance. Notwithstanding anything to the contrary contained in the Ordinance, any interest and income derived from deposits and investments of any amounts credited to any fund or account may be paid to the federal government if in the opinion of nationally recognized bond counsel such payment is required in order to prevent interest on any Airport Obligations from being includable within the gross income of the owners thereof for federal income tax purposes.

Health Care Benefits for Retired Employees

The City provides certain health care benefits for its retired employees, their spouses and survivors. Employees on long-term disability and their spouses can also qualify for retiree health care benefits. Currently, substantially all of the City’s employees who qualify for pension benefits while working for the City will become eligible for such benefits.

Effective January 1, 2021, the City provides three (3) Medicare plans with two (2) different vendors and has made these plans mandatory for all retirees over age 65 who are eligible for Medicare. The medical plans are supported by contributions from the City and subscribers. In addition to the medical plan and in an effort to mitigate costs and maximize benefits to the City and Medicare eligible retirees, the City offers Medicare Advantage plans from two insurance providers. Effective January 1, 2021, the City awarded a three-year contract with two (2) one-year renewal options to Aetna (Premier

ESA PPO and Basic PPO Plans) and Kelsey (HMO Plan). These Medicare Advantage Plans provide retirees with alternative managed healthcare plans. The Medicare Advantage Plans are to be fully insured products and offer retirees the choice of several different plans. The City requires all Medicare-eligible retirees to enroll in a Medicare Advantage Plan.

Funding of Other Post-Employment Benefits

The City currently pays Other Postemployment Benefits (“OPEB”) on an annual pay-as-you-go basis, which are accounted for as a current operating expense in the City’s financial statements in the Fiscal Year in which the benefit is paid. See the table captioned “Statement of Revenues, Expenditures and Changes in Fund Balances in Governmental Funds” in the City’s Basic Financial Statements for Fiscal Year 2024. The City has taken steps to assess the current and future financial impact of its unfunded OPEB liabilities and continues to review the appropriate policies to address and manage any such liabilities. The City has included in the Fiscal Year 2026 budget a City contribution of \$10 million to fund an OPEB trust.

To comply with the Government Accounting Standards Board Statement No. 45 (“GASB 45”), *Accounting by Employers for Other Postemployment Benefits*, the City reports an actuarially determined cost of OPEBs, other than pensions, such as health and life insurance for current and future retirees. Under GASB 45, the City recognizes such cost over the working lifetime of employees to the extent they were not pre-funded and reported such cost as a financial statement liability. In June 2015, the Government Accounting Standards Board issued Statement 74, “Financial Reporting for Postemployment Benefit Plans Other than Pension Plans,” and Statement 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.” Under these statements, state and local government entities that provide OPEBs are required to report the cost of these benefits on their financial statements. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017 (Fiscal Year end 2018 for the City). Beginning with Fiscal Year 2018, the City is required by GASB 75 to recognize its full OPEB liability on its balance sheet. The financial impact of implementing GASB 75 in Fiscal Year 2018 was an increase in OPEB liability and a decrease in total net position. The decrease in net position is primarily due to the increase in unfunded OPEB liability from previous year. Together with other changes, the City’s total net position decreased from \$1.86 billion to \$792 million in the fiscal year ended June 30, 2019. The City’s total net position was \$7.59 billion and is \$8.88 billion as reported in the City’s Annual Comprehensive Financial Report for Fiscal Year ended June 30, 2023 and Fiscal Year ended June 30, 2024 respectively.

The City’s most recent actuarial study indicated that, as of June 30, 2024, the City’s net OPEB liability is \$1.95 billion, and the reported Actuarial Determined Contribution (ADC) is \$172.2 million, calculated using a discount rate of 3.65%. The City expects the actuarial report for the June 30, 2025 reporting date to be completed and received in Fiscal Year 2026. The City’s costs for retiree claim payments and health insurance premiums from the Airport System were approximately \$6.1 million in Fiscal Year 2024 and approximately \$3.6 million as of December 31, 2024 for Fiscal Year 2025. Including non-system fund sources, payments were approximately \$66.5 million at Fiscal Year end 2024 and approximately \$28.5 million as of December 31, 2024 for Fiscal Year 2025.

Options available to an issuer such as the City to offset or reduce the future OPEB liability that will be reported under GASB 75 include the following:

- Reduction of benefits for new hires, active employees and/or retirees;
- Increase of required contributions from new hires, active employees and/or retirees; and
- Contributing assets or pre-funding with real property, a dedicated revenue stream or other taxes or City assets not yet identified.

See also Note 11 – Other Employee Benefits, of the City’s Basic Financial Statements for Fiscal Year 2024, which includes information relating to retiree health care premiums paid by the City in Fiscal Year 2024, as well as information relating to health and long-term disability benefits.

Bargaining with Other Municipal Employees

Chapter 146 of the Texas Local Government Code (“Chapter 146”), extends to municipal employees of the City, other than department heads, firefighters and police officers, the right to appoint bargaining agents to “meet and confer” with representatives of the City or any agency, board, commission or political subdivision that is required to establish wages, salaries, rates of pay, hours, working conditions or other terms and conditions of employment regarding such issues. Chapter 146 prohibits municipal employees from engaging in strikes and specifically prohibits the bargaining agent and the City from entering into agreements regarding pension-related matters governed by Article 6243g, Vernon’s Texas Civil Statutes, or a successor statute (now Article 6243h, Vernon’s Texas Civil Statutes). See “- Employee Pension Funds.” However, any

agreement affecting the salaries of municipal employees will likely have a negative effect on the City's pension liabilities. See also "- Health Care Benefits for Retired Employees."

Pursuant to the provisions of Chapter 146, the City recognized the Houston Organization of Public Employees ("HOPE") as the exclusive bargaining agent for all covered employees, which generally consist of municipal employees, but not elected officials, directors, or classified firefighters and police officers. On October 23, 2024, City Council enacted an ordinance approving a new "meet and confer" agreement between HOPE and the City (the "2024 HOPE Agreement"). The 2024 HOPE Agreement provides as follows: in November 2024, bargaining unit members received \$116.00 bi-weekly across the board increases, in July 2025, a 3.5% across the board increase, and in July 2026, a 3.5% across the board increase. In addition, the minimum base pay rate increased to \$16.75/hour in November 2024 and will increase to \$17.25/hour in July 2025 and \$18.00/hour in July 2026.

Employee Pension Funds

Prospective investors are advised that any projections or forecasts in the section below, including projections of the amount of the Unfunded Actuarially Accrued Liability ("UAAL") and other calculations of unfunded pension liability and the amounts of actuarially calculated contributions by the City, constitute forward-looking information that reflects the judgment of the City, the boards of the Pension Systems (as defined below) and their respective actuaries as to the funding required to pay future benefits to retirees. Such forward looking information is based upon a variety of assumptions concerning future events and circumstances. Future actuarial studies may differ significantly from current estimates due to factors such as: retirements, terminations, deaths, disabilities, salary growth and investment returns, changes in contributions or investment portfolios, changes in actuarial or accounting standards, and changes in plan provisions, the Pension Statutes (as defined below) or applicable laws. See "- Pension Reform Legislation" below. The assumptions underlying the projections are material to the development of the projections, and changes in one or more of the assumptions may produce substantially different results. In addition to these projections, the City's financial statements as set forth at www.houstontx.gov/controller/financials.html also report Net Pension Liability as required by GASB 68. The Net Pension Liability, as reported in the financial statements, is higher than the UAAL reported in the various actuarial reports of the Pension Systems and has materially changed the City's financial statements relating to the Pension Systems. Such differences reflect, in part, the different methods of valuation employed by accountants and actuaries. Prospective investors are strongly encouraged to review the entirety of Note 10 to the City's Financial Statements at www.houstontx.gov/controller/financials.html for additional information.

Statutory Authority, Governance and Management

Texas statutes authorize three separate pension systems (collectively, the "Pension Systems") for full-time firefighters ("HFRRF" or the "Firefighter Fund"), police ("HPOPS" or the "Police System"), and municipal employees ("HMEPS" or the "Municipal System"). Detailed information regarding the funding of each Pension System is discussed under "- Municipal System," "- Police System," and "- Firefighter Fund" below and in Note 10 to the City's Basic Financial Statements. Each Pension System is a defined benefits plan, which guarantees retiree benefits based on years of service and salary. The City bears the primary financial risk of such plans. Therefore, the City must fund the Pension Systems to pay a retiree's defined benefit regardless of why the Pension System is underfunded.

Statutory Authority. The statutes governing the Pension Systems are as follows:

- (i) HMEPS: Article 6243h, Vernon's Texas Civil Statutes, as amended (the "HMEPS Statute");
- (ii) HPOPS: Article 6243g-4, Vernon's Texas Civil Statutes, as amended (the "HPOPS Statute"); and
- (iii) HFRRF: Article 6243e.2(1), Vernon's Texas Civil Statutes, as amended (the "HFRRF Statute" and, collectively with the HMEPS Statute and the HPOPS Statute, the "Pension Statutes").

In 2017, the Texas Legislature amended the Pension Statutes (the "Pension Reform Legislation") by establishing risk-sharing corridors that determine minimum and maximum annual City contribution rates, reducing the existing unfunded pension liabilities with lower pension benefits and increased employee contributions, mandating the management and pay off of existing unfunded liabilities (the "Legacy Liability") over a 30-year amortization period ending in 2047, reducing both anticipated earnings and the discount rate used to calculate the City's future payments to 7.00%, and by generally increasing the governance of additional aspects of future Pension System funding and City contributions through the Pension Statutes rather than by negotiated agreements. To further reduce the Legacy Liability attributable to HMEPS and HPOPs, the City also issued pension obligation bonds in the aggregate principal amount of \$1,005,145,000 (the "Series 2017 POBs") in 2017.

Prior to the Pension Reform Legislation, negotiated “meet and confer” agreements had a more significant role in determining benefits and City contributions for HMEPS and HPOPS (but not for HFRRF). The Pension Statutes currently allow negotiated “meet and confer” agreements between HMEPS, HPOPS, and HFRRF under limited circumstances, but to the extent there is any conflict between the Pension Statutes and any separate “meet and confer” agreements between HMEPS and the City, or HPOPS and the City, the Pension Statutes control. Thus, any such agreements may not affect the calculation or payment of City obligations or benefit structures unless they conform to the limitations and scope set forth in the Pension Statutes.

Below is a description of Pension System governance, the funding of the Pension Systems prior to pension reform, the Pension Reform Legislation and status of funding requirements.

Governance

Each Pension System is separately governed by a board of trustees that acts independently of the City. The Mayor appoints a designee to serve on the board of each Pension System, and the Director of Finance of the City appoints a member to the HFRRF Board and the HPOPS Board, while the City Controller appoints a member to the HMEPS Board. However, a majority of the trustees serving on each Pension System board are either full-time employees or retirees elected by participants in the respective Pension System and are themselves participants. These trustees have a personal interest in the plan administered by the board of the Pension System on which they serve. All trustees of a Pension System board take an oath to “diligently and honestly administer” such Pension System, and each trustee is counseled and trained on their fiduciary responsibilities. Trustees appointed by the City are counseled that their fiduciary duties to the Pension System take precedence over the interests of the City and the official that appointed them. No legal challenges have arisen as a result of potential conflicts of interest.

The Pension Systems’ boards are generally imbued with broad powers to interpret, construe and supplement omissions in their governing statutes and to determine questions related to eligibility for membership, services and benefits. The grant of such powers to the Pension System boards affects the City’s ability to unilaterally manage its Pension Obligations through mechanisms such as reducing the number of City full-time employees by outsourcing certain City functions. The Pension Systems are funded from City contributions, employee contributions, and investment earnings, and the amount of funding required is related to the benefits projected to be paid to retirees.

Risk Sharing and Future Costs

Risk Sharing. Under the Pension Statutes, the City and each Pension System are required to share information and cooperate to evaluate the performance of the Pension System. The City and each Pension System are required to conduct an annual risk sharing valuation study (the “RSVS”), which is subject to review by the Texas Pension Review Board. The RSVS process sets the City’s projected future contribution rates and the corridor midpoints, as a percentage of projected pensionable payroll for each Pension System. The corridor midpoint system was made part of the Pension Statutes under the Pension Reform Legislation in an effort to share the risk of large unexpected future contribution costs.

The initial RSVS process following the passage of the Pension Reform Legislation set the City’s corridor midpoints for each of the Pension Systems, as a percentage of projected pensionable payroll for the following 31 years. For years one through 30, the corridor midpoint for HMEPS ranges from 8.17% in Fiscal Year 2018 to 8.81% in Fiscal Year 2047. Similarly, for HPOPS the corridor midpoint ranges between 31.77% in Fiscal Year 2018 to 32.13% in Fiscal Year 2047, while the corridor midpoint for HFRRF is constant at 31.89% for the 30-year period. The City bears the risk of pension contribution costs increasing up to 5% of pensionable payroll above the corridor midpoint. If the increase in the pension contribution cost is greater than 5% of the pensionable payroll, then steps must be taken, including the reduction of benefits or increase of Pension System member contributions, to reduce the City’s cost. Conversely, if costs are 5% of pensionable payroll less than projected for any plan, steps must be taken to maintain the City’s contribution at the minimum level. If on or after July 1, 2023, the funded ratio of HPOPS or HFRRF is less than 65% as determined in an RSVS, then the City and the Pension System are required to establish a cash balance retirement plan for any new participants in HPOPS or HFRRF, as applicable. If on or after July 1, 2027, the funded ratio of HMEPS is less than 60% as determined in an RSVS, then the City and the Pension System are required to establish a cash balance retirement plan for any new participants in HMEPS.

The projected contribution rates and the annual contribution rates for HPOPS and HFRRF include the amortization of the Legacy Liability. The annual cost of amortization of the Legacy Liability for HMEPS is excluded from the calculation of projected and annual contribution rates; however, the HMEPS Legacy Liability is paid on a fixed-dollar schedule rather than based on a percentage of pensionable payroll. Because pensionable payroll for each Pension System is projected to increase, the actual dollar amounts required to be paid based on the projected corridor midpoints and contribution rates are

also projected to increase. The City's contribution rates for future Fiscal Years will be calculated by each subsequent year's RSVS.

Future Costs. Costs of the Pension Systems are required to be calculated each Fiscal Year by actuarial valuations separately carried out by the respective Pension Systems and the City. The annual actuarial valuations establish the City's required payments to meet Pension System costs, based on pension system normal costs and unfunded accrued liabilities. New liability losses, excluding the Legacy Liability being amortized through 2047, will be amortized over a new 30-year period.

Investment Considerations Relating to the Risk Sharing Valuation Studies

The City has identified the following investment considerations, but any potential investor should consult his or her own advisor.

Conduct of the RSVS. The RSVS requires the sharing of information and comparison of results by the City and each Pension System. Although the Pension Statutes require the City and each Pension System to conduct the RSVS and to share information, failure to do so by the City or a Pension System could result in litigation or other enforcement efforts which could delay the RSVS in any year. If a Pension System fails to provide information, the City may conduct its RSVS based on estimates, but the estimated payments could carry a greater risk of under- or over-payments by the City.

Status of Funding of the Pension Systems

The following information is based on reports prepared reflecting the current system of funding and benefits under the Pension Statutes. The Airport System is only directly responsible for the costs of funding the portion of the Municipal System associated with employees of the Airport System.

Changes in pension accounting rules resulted in significant changes to the presentation of the City's liabilities for each Pension System in its financial statements beginning in Fiscal Year 2015. For a comparison of the liabilities, see "– *Net Pension Liability Under GASB 67 and 68*" below as well as Note 10 to the Financial Statements attached hereto as APPENDIX A. GASB 67 and 68 do not affect the City's pension contributions or contribution rates.

The City has historically funded the Pension Systems in amounts agreed upon by the City and the respective boards of the Pension Systems either (i) as part of jointly-sponsored changes in State law or (ii) in negotiations with the Municipal System's and Police System's respective boards through the "meet and confer" process. The City funds the Pension Systems consistent with State law. As stated in the Fiscal Year 2025 adopted budget, the total amount of the City's contribution to the three Pension Systems for Fiscal Year 2025 will be approximately \$479 million, which represents an approximate \$37 million increase from the Fiscal Year 2024 actual payments.

The annual contribution to the Pension Systems is sufficient to fund the annual cost of amortizing the Legacy Liability and the normal and administrative costs of the Pension Systems.

Net Pension Liability (Asset) Under GASB 67 and 68. As reflected in the schedule below, the financial statements now reflect a calculation of the City's Net Pension Liability to describe the City's funding obligation to the Pension Systems. The "Net Pension Liability" is the difference between the City's "Total Pension Liability" and the "Fiduciary Net Position" of each respective Pension System's plan. The Total Pension Liability is the present value of pension benefits that are allocated to current members due to past service by the entry age normal actuarial cost method. It includes benefits related to projected salary and service, and automatic cost of living adjustments. In addition, ad hoc cost of living adjustments are also included in the Total Pension Liability to the extent they are substantially automatic. Fiduciary Net Position is determined on the same basis used by the respective Pension System. The City's Net Pension Liability was measured as of June 30, 2024. For a more detailed break-out of Net Pension Liability for each Pension System, see Note 10.

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NET PENSION LIABILITY AS OF JUNE 30, 2024
(in thousands)

	HFRRF	HMEPS	HPOPS
Total Pension Liability	\$5,378,306	\$5,812,828	\$8,153,811
Fiduciary Net Position	(5,378,729)	(4,360,172)	(7,779,525)
Net Pension Liability	\$ (423)	\$1,452,656	\$374,286

The calculation of Net Pension Liability under GASB 67 and 68 as reported in the City’s financial statements for Fiscal Year 2024 factors in the reforms enacted by the Pension Reform Legislation. See “Note 10 – B. Net Pension Liability” to the City’s Basic Financial Statements.

Schedule 9: Actuarially Determined Contribution Amounts and Changes in Pension Plan Assets

Each part of the following tables should be read in context with the sections that follow describing in more detail the Pension Systems individually. Part 1 sets forth for each of the Fiscal Years 2020 through 2024 the amount of the annual pension cost to the City and the percentage contribution made by the City to each of the Pension Systems. Contribution amounts are established by the Pension Statutes.

Part 2 sets forth for each of the Fiscal Years 2020 through 2024 actuarially determined amounts and actual City pension contribution amounts as a percentage of payroll. Part 3 sets forth certain information from the City’s financial statements for Fiscal Year 2024. The schedules reflect annual pension costs and contributions after the Reform Effective Date. See “– Pension Reform Legislation.”

Part 1: Annual Pension Costs and Contributions Made^(a)
(in millions)

Fiscal Year	Municipal System			Police System			Firefighter Fund		
	Annual Pension Cost	City Contrib.	Percent Contrib.	Annual Pension Cost	City Contrib.	Percent Contrib.	Annual Pension Cost	City Contrib. ^(b)	Percent Contrib.
2020	\$382.9	\$176.4	46%	\$297.2	\$149.1	53%	\$232.4	\$83.8	36%
2021	64.4	184.8	35	(87.6)	151.1	58	(65.5)	77.5	85
2022	38.8	197.3	20	86.5	152.4	57	(72.5)	81.4	89
2023	69.2	204.9	34	25.2	159.9	16	(4.6)	72.5	6
2024	53.8	213.0	25	(40.5)	163.0	25	(6.3)	76.4	8

^(a) For further details, see the City’s Financial Statements for Fiscal Year 2024, particularly Note 10 and the section captioned “Required Supplementary Information.”

^(b) Contribution amounts are determined by the applicable Pension Statute.

Part 2: Actuarially Determined Contribution Amount and Actual City Contribution as a Percentage of Payroll^{(a)(b)}

Fiscal Year	Municipal System		Police System		Firefighter Fund	
	Actuarial	Actual	Actuarial	Actual	Actuarial	Actual
2020	29.6%	28.2%	31.8%	32.1%	32.3%	32.3%
2021	29.5	28.7	31.8	31.9	31.9	31.9
2022	29.5	29.0	31.9	32.0	31.9	31.9
2023	29.8	28.8	31.9	32.0	26.9	26.9
2024	29.4	28.5	32.0	32.0	26.9	26.9
2025	29.0	TBD	32.1	TBD	26.9	TBD

^(a) For further details, see the City’s Financial Statements for Fiscal Year 2024 presented in APPENDIX A, particularly Note 10 and the section captioned “Required Pension System Supplementary Information.” Actuarial numbers from the funding valuations prepared by the Pension Systems may be different from the GASB 68 accounting valuations used to prepare the City’s financial statements.

^(b) Sources: Actuarial contributions are per the applicable adopted HMEPS Risk Sharing Valuation Studies, HPOPS Risk Sharing Valuation Studies, and HFRRF Joint Addendum to Final Risk Sharing Valuation Studies. Actual Contributions are per the City’s annual financial statements. See “—Municipal System,” “—Police System” and “—Firefighter Fund.”

Part 3: Changes in Pension Plan Assets^(a)
(in millions)

Fiscal Year 2024	Municipal	Police	Fire	Total
Additions ^(b)	\$ 652.1	\$ 993.9	\$ 580.9	\$ 2,226.9
(Deductions) ^(c)	(364.3)	(422.9)	(311.3)	(1,098.5)
Net Increase	\$ 287.8	\$ 571.1	\$ 269.6	\$ 1,128.5
City's Total Contribution	\$ 213.0	\$ 163.0	\$ 76.4	\$ 452.4

(a) Source: Pension Systems Financial Statements for Fiscal Year 2024.

(b) Includes contributions by the employees and the City, net increase (decrease) in the fair value of investments, income from investments, and other income.

(c) Includes benefits paid to members, refunds to members, and other costs, including professional services and administrative expenses.

Houston Airport System's Contributions to the Municipal System

The Fiscal Year 2026 Adopted Budget provides that the Airport System will be responsible for approximately \$25.2 million of the City's \$215.9 million contribution to the Municipal System. In Fiscal Year 2024, the Airport System was responsible for approximately \$23.6 million of the City's \$203.1 million contribution to the Municipal System.

In addition to the cash contributions made by the City, the City has issued \$448 million in Pension Obligations for the benefit of HMEPS. Although these bonds are secured by a pledge of ad valorem tax revenues, the Houston Airport System is responsible for repaying its pro-rata share of debt service on \$2.0 million of pension obligation bonds issued by the City in 2005. Interest expense on these bonds is \$106,500 per year. Principal payments will begin in Fiscal Year 2029. In January 2009, the City refunded its \$300 million 2004 Collateralized Pension Note (the "Pension Note"). The Houston Airport System did not financially participate in the transaction, but instead paid \$34.8 million as a cash contribution. In Fiscal Year 2018, the Houston Airport System transferred to the City \$27.61 million for its pro-rata share of the principal payable on the 2017 POBs on March 1, 2019. The Houston Airport System also paid its share of interest in Fiscal Year 2019, totaling approximately \$608,248 and now has no continuing obligation on such 2017 POBs.

Municipal System

The Municipal System is a contributory defined benefits pension program that provides benefits to most municipal employees (other than classified police officers and firefighters) pursuant to three different programs. Employees hired prior to January 1, 1999 had a choice to enroll in either a contributory defined benefit program ("Group A") or a non-contributory plan ("Group B"). Employees hired between January 1, 1999 and January 1, 2008 are provided benefits pursuant to the Group A program. Employees hired after January 1, 2008 are covered by a defined benefit plan ("Group D"). The HMEPS Risk Sharing Valuation Studies after July 1, 2019 do not provide classification of active employees by their Groups. Group A employees contribute 8% of their salary, Group B employees contribute 4% of their salary, and Group D employees contribute 2% of salary, plus 1% of salary placed in a notional cash balance plan account.

The City's annual contributions for Fiscal Year 2024 to the Municipal System was 8.48% of payroll plus \$146.0 million, equating to roughly 29.4% of payroll. The Fiscal Year 2026 Adopted Budget includes annual contributions to the Municipal System of 8.54% of payroll plus \$154.0 million, equating to roughly 28.4% of payroll.

Municipal System Fiscal Year Funding. The City budgets its contributions by allocating the cost between its General Fund and Enterprise Funds based upon the nature of the employment of the covered employees. Fiscal Year 2024 provides that the General Fund was responsible for approximately \$63.7 million of the City's approximately \$213.0 million contribution to the Municipal System (approximately 8.48% of payroll plus \$146.0 million); the Fiscal Year 2026 adopted budget provides that the General Fund is responsible for approximately \$62.1 million of the City's estimated \$215.9 million contribution to the Municipal System (approximately 8.54% of payroll plus \$154.0 million).

The table below reflects actuarial accrued liability, actuarial value of plan assets, unfunded actuarial accrued liability or surplus and funded ratio for each of the years 2020-2024. For 2020 through 2024, the values are based on the HMEPS Risk Sharing Valuation Study as of July 1, 2020 through July 1, 2024.

Schedule 9A: Municipal System Pension Plan Assets, Liabilities and Unfunded Actuarial Accrued Liability^(a)
(in millions)

	As of July 1,				
	2020	2021	2022	2023	2024
Actuarial Accrued Liability	\$5,196	\$5,290	\$5,428.6	\$5,557.8	\$5,684.8
Actuarial Value of Plan Assets	3,074	3,323	3,573.4	3,836.1	4,130.1
Unfunded Actuarial Accrued Liability ^(b)	\$2,122	\$1,967	\$1,855.2	\$1,721.7	\$1,554.8
Funded Ratio.....	59.2%	62.8%	65.8%	69.0%	72.7%

^(a) Source: Municipal System Actuarial Valuation Reports. This information is no longer presented in the City's financial statements.

^(b) The actuarial value of plan assets is determined by the actuary for HMEPS. Such value was calculated using a generally accepted method of recognizing market gains and losses (relative to the assumed discount rate) over a five-year period.

Police System

The Police System is a contributory defined benefits pension program that provides benefits to the City's classified police officers.

Police System Fiscal Year Funding. The General Fund covers substantially all of the City's contributions to the Police System. The Fiscal Year 2024 contribution to HPOPS was approximately \$162.5 million. The Fiscal Year 2026 Adopted Budget sets the contribution to HPOPS at approximately \$149.6 million as determined by the applicable Pension Statute.

The table below reflects actuarial accrued liability, actuarial value of plan assets, unfunded actuarial accrued liability or surplus and funded ratio for each of the years 2020-2024. The information contained therein is derived from the HPOPS actuarial valuation reports from July 1 in each of the respective years.

Schedule 9B: Police System Pension Plan Assets, Liabilities and Unfunded Actuarial Accrued Liability^(a)
(in millions)

	2020	2021	2022	2023	2024
Actuarial Accrued Liability.....	\$6,835	\$7,121	\$7,381	\$7,699	\$7,991
Actuarial Value of Plan Assets.....	5,631	6,082	6,459	6,877	7,355
Unfunded Actuarial Accrued Liability	\$1,204	\$1,039	\$922	\$823	\$635
Funded Ratio.....	82.4%	85.4%	87.5%	89.3%	92.0%

The actuarial value of plan assets is determined by the actuary for the Police System. Such value was calculated using a generally accepted method of recognizing market gains and losses (relative to the assumed discount rate) over a five-year period.

Firefighter Fund

The Firefighter Fund provides benefits to the City's classified firefighters and is structured as a contributory defined benefits pension program. Firefighters must contribute 10.5% of the member's pensionable pay. The City contribution is now determined by the RSVS process.

Firefighter Fund Fiscal Year Funding. The General Fund covers substantially all of the City's contributions to HFRRF. The Fiscal Year 2024 contribution to HFRRF was approximately \$76.6 million. The Fiscal Year 2026 Adopted Budget sets the contribution at approximately \$90.4 million as determined by the applicable Pension Statute.

The schedule below reflects actuarial accrued liability, actuarial value of plan assets, unfunded actuarial accrued liability or surplus and funded ratio for 2020 to 2024. The information contained therein is derived from the HFRRF Actuarial Valuations from July 1 in each of the respective years.

Schedule 9C: Firefighter Fund Pension Plan Assets, Liabilities and Unfunded Actuarial Accrued Liability^(a)
(in millions)

	As of July 1,				
	2020	2021	2022	2023	2024
Actuarial Accrued Liability	\$4,932	\$4,882	\$5,076	\$5,278	\$5,686
Actuarial Value of Plan Assets	4,252	4,550	4,844	5,065	5,306
Unfunded Actuarial Accrued Liability ^(b)	\$680	\$332	\$232	\$213	\$380
Funded Ratio.....	86.2%	93.2%	95.4%	96.0%	93.3%

^(a) Source: Firefighter Fund Actuarial Valuation Reports. This information is no longer presented in the City's financial statements.

^(b) The actuarial value of the plan assets is determined by the actuary for the HFRRF. Such value was calculated using a generally accepted method of recognizing market gains and losses (relative to the assumed discount rate) over a five-year period.

City Charter Tax and Revenue Propositions

General

In addition to certain constitutional and statutory limitations described herein, the City may limit, increase or change the revenue resources available during a given Fiscal Year, either by voter authorization as provided by the City Charter or by amending the City Charter itself. The City Charter may not be amended more frequently than once every two years. Voters of the City have limited increases in ad valorem tax revenues and other revenues in Proposition 1 (codified in Article III, Sec. 1 and Article IX, Sec. 20 of the City Charter) and Proposition 2 (codified in Article VI-a, Sec. 7 of the City Charter, but not effective). Voters also have increased available revenue sources in Proposition G (codified in Article IX, Sec. 21 of the City Charter) and Proposition H, which did not amend the City Charter. Notwithstanding any limitations on revenue described below, the City Charter provides that, in preparing the City's budget, provision shall first be made for the payment of debt service on the City's outstanding tax obligations, with the remaining revenues to be apportioned among the City's respective departments. In future Fiscal Years, the amount of the tax levy allocated to debt service may need to be increased, reducing the amount allocable for the delivery of essential governmental services if there is no corresponding increase in the overall tax levy or other revenues.

Proposition 1 and Proposition 2 (2004)

In 2004, voters approved Proposition 1 (now codified as Article III, Sec. 1 and Article IX, Sec. 20, City Charter) in order to limit increases in (i) the City's ad valorem tax revenues by requiring voter approval for increases in ad valorem taxes in future years above a limit equal to the lesser of the actual revenues in the preceding Fiscal Year, plus 4.5%, or a formula that is based upon the actual revenues received in Fiscal Year 2005 adjusted for the cumulative combined rates of inflation and the City's population growth; and (ii) water and sewer rates (i.e., the City's Combined Utility System) by limiting rate increases to the combined increases in the rates of inflation and population growth, excluding rate increases required by certain bond covenants and rates established by contract, unless approved by the voters. At the same election, the voters also approved Proposition 2 (Article VI-a, Sec. 7, City Charter), which proposed to limit increases in the City's "combined revenues," including revenues of the General Fund, Special Funds and Enterprise Funds. Based on the specific language of Proposition 1 and Proposition 2, the number of votes for each proposition, and the language of the City Charter, the City declared that Proposition 2 was not effective. However, see "Proposition 2 Litigation," below, for information on the Texas Supreme Court ruling remanding the matter to the trial court.

Proposition 2 Litigation

Supporters of Proposition 2 filed a lawsuit to declare Proposition 2 effective. After protracted litigation, on August 26, 2011, the Texas Supreme Court vacated the judgment of the trial court (for lack of ripeness) without reference to the merits and dismissed the case for want of jurisdiction. In April 2014, the suit was refiled. The court granted the City defendants' Motion for Summary Judgment on September 16, 2019 and denied plaintiffs' Motion for Summary Judgment. On October 4, 2019, the trial court held a bench trial on the remaining issues. On October 29, 2019, the trial court held for the City defendants, ordering that the plaintiffs take nothing. The parties cross appealed and on October 12, 2021, the court of appeals issued a 2-1 decision affirming the trial court's ruling. The remaining plaintiff filed a petition for review in the Texas Supreme Court. On April 21, 2023, the Texas Supreme Court reversed the judgment of the court of appeals, in part, and affirmed the trial court's judgment ruling that the City has complied with Proposition 1. On September 1, 2023, the Texas Supreme Court denied the City's motion for rehearing and thus, the case was ordered to return to the trial court on remand. The case was set for trial on April 22, 2024 and subsequently moved to the trial docket for April 29, 2024. Upon recusal of

the presiding judge, the case has been transferred to the 133rd Civil District Court for further proceedings. On July 15, 2024, the judge in the 133rd Civil District Court denied both the Plaintiffs' and City's competing motions for summary judgment and stated that she would leave the matter to her successor in January, as she was retiring. The new judge of the 133rd Civil District Court held a summary judgment hearing on the City's amended motion on March 24, 2025. The ruling on the motion is pending and the case is set for trial in August, 2025.

Propositions G and H

In response to Proposition 1 and Proposition 2, the City held an election on November 7, 2006, at which the voters approved Proposition G and Proposition H, both of which are currently effective. Proposition G amended the City Charter to exclude revenues of the City's enterprise systems (i.e., Combined Utility System, Houston Airport System and the Convention and Entertainment Facilities Department) from the types of revenues limited under the City Charter. Voter approval of Proposition G removed the enterprise systems from the revenue limitations of Proposition 2, although the limitation on water and sewer rate increases included in Proposition 1 remains in effect. Consequently, the Houston Airport System revenues are exempted from the revenue limitations imposed on the City by Propositions 1 and 2. Proposition H allows the City to collect and spend up to \$90 million of revenue, over and above any Proposition 2 limitations, for increased police, fire and emergency medical services and related matters. The amount collected and spent in each year becomes part of the base revenue calculations for the following year. Propositions G and H are incorporated into the City's Financial Policies (defined below), and the City has collected revenues and made expenditures for public safety purposes in compliance with Proposition H.

LITIGATION AND REGULATION

Houston Airport System Claims and Litigation

The City is aware of various pending claims and lawsuits associated with the operation of the Houston Airport System. These include, but are not limited to, certain personal injury claims, claims involving rents and charges and property disputes. The City intends to defend itself vigorously against these claims and lawsuits; however, no prediction of the City's liability with respect to the claims, or the final outcome of the lawsuits, can be made at this time. In the opinion of management of the Houston Airport System, it is improbable that such claims and lawsuits now outstanding against the City that are associated with the operation of the Houston Airport System could become final in a time and manner so as to have a material adverse financial impact upon the operations of the City or the Houston Airport System.

Other Claims and Litigation Affecting the City

The City is a 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. That litigation includes lawsuits claiming damages that allege that the City caused personal injuries and wrongful deaths; class actions and other lawsuits and claims alleging discriminatory hiring and promotion practices and certain civil rights violations arising under the Federal Voting Rights Act; various claims from contractors for additional amounts under construction contracts; claims involving property tax assessments; suits over the validity of City ordinances and over their enforcement; suits alleging non-compliance with certain federal and state environmental statutes; and various other liability claims. The status of such litigation ranges from an early discovery stage to various levels of appeal of judgments both for and against the City. The amount of damages is limited in certain cases under the Texas Tort Claims Act and is subject to appeal. The City intends to defend itself vigorously against the suits; however, no prediction can be made, as of the date hereof, with respect to the liability of the City for such claims or the final outcome of such suits.

The City is also aware that various claims for inverse condemnation have been and may be asserted against the City in connection with the City's operations, the aggregate amounts of which are unknown. The City intends to defend itself vigorously against all such inverse condemnation claims; however, the City's liability with respect to these claims cannot be predicted.

State Legislation

Although the City is a home-rule city under the Texas Constitution, it may not adopt ordinances or charter provisions inconsistent with Texas law. The Texas Legislature may enact legislation that (i) materially increases the costs and expenditures of the City or (ii) reduces the ability of the City to collect ad valorem taxes or other revenues described herein.

Under the Texas and United States Constitutions, the Texas Legislature may not, however, enact legislation that impairs the City's ability to pay principal of and interest on its indebtedness.

The Texas Legislature meets in regular session in odd numbered years for 140 days. The 89th Texas Legislature commenced on January 14, 2025 and ended on June 2, 2025, *sine die*. On July 9, 2025, the Governor issued a proclamation to convene a Special Session of the 89th Legislature, commencing on July 21, 2025 to consider and act upon certain legislation.

During the 2025 Regular Legislative Session, the Texas Legislature approved HB 2688, which is pending the Governor's signature. If signed by the Governor, HB 2688 would amend the statutes governing the HFRRF and HPOPS. With respect to HFRRF, HB 2688 would expand retirement eligibility to all members who attain 20 years of service and allow all members to participate in the HFRRF Deferred Retirement Option Program. With respect to HPOPS, HB 2688 would expand retirement eligibility to all members who attain 20 years of service or the age at which a member first attains at least 60 years of age and at least 10 years of service and allow all members to participate in the HPOPS Deferred Retirement Option Program. The City expects these legislative changes, if effective, will not increase the City's contributions to the HFRRF or HPOPS.

During the 2023 Regular Legislative Session, the Texas Legislature approved numerous bills, new laws and changes to various State statutes, including the changes to the Texas Agriculture Code, the Texas Business and Commerce Code, the Texas Finance Code, the Texas Insurance Code, the Texas Labor Code, the Texas Local Government Code, the Texas Natural Resources Code, the Texas Occupations Code and the Texas Property Code (each an "Affected Code," and collectively, the "Affected Codes") contained in House Bill 2127 ("HB 2127"), described below.

Upon its effective date of September 1, 2023, municipalities, including the City, are precluded from adopting or enforcing an ordinance, order, rule, or policy (each, a "Municipal Action") in a field "occupied by" a provision of an Affected Code unless explicitly authorized otherwise by State statute. Under the statute, a Municipal Action that violates this provision will be void and unenforceable. Any person (as defined by HB 2127), including a taxpayer, adversely affected by a Municipal Action or a trade association representing the person will have standing to sue the municipality for a declaratory or injunctive relief, costs and reasonable attorney's fees. HB 2127 waives governmental immunity from suit and liability to the extent that liability is created by HB 2127. The City is currently conducting a review of its existing Municipal Actions to determine which, if any, are in a field occupied by provisions of the Affected Codes and expects that some existing Municipal Actions will need to be rescinded, revoked or amended in order to not violate HB 2127. However, the City does not expect that any such actions will have a material adverse effect on the imposition and collection of Net Revenues pledged to the payment of Bonds or other the obligations of the Houston Airport System.

On July 3, 2023, the City filed suit in Travis County District Court challenging the constitutionality of HB 2127. San Antonio and El Paso have intervened in the lawsuit. On August 30, 2023, the District Court for Travis County granted the City's motion for summary judgment and held that absent a severability clause, the statute is unconstitutional on its face and as applied to Houston and local laws that are not already preempted. On September 1, 2023, the Texas Attorney General issued a press release confirming that, despite the ruling of the Travis County District Court, HB 2127 went into effect on September 1, 2023 and filed a notice of appeal. The case is fully briefed in the Third Court of Appeals and oral argument was held on April 24, 2025. The City can make no representations or predictions concerning the substance or effect of any legislation that may be proposed and that ultimately may be passed during the regular session or any special session that may convene after the end of the regular session, or how any such legislation would affect the financial condition of the City or its operations.

The Governor may call one or more special sessions, each of which may last no more than thirty (30) days and for which the Governor sets the agenda. In a special session, the Texas Legislature may consider additional bills that could have a direct impact on the City, the Houston Airport System, their operations or the administrative agencies that oversee the City and the Houston Airport System. At this time, the City can make no representations or predictions concerning the substance or the effect of HB 2127, or any other legislation that may be passed in the future, legislative topics that may be included in the call for future special sessions, or how any such legislation could affect the City or the Houston Airport System. Changes in the scope and standards for public agencies, such as the Houston Airport System, may lead to increasingly stringent operating requirements and the imposition of administrative orders issued by State regulators. Future compliance with such requirements and orders may impose substantial additional costs on the Houston Airport System. In addition, claims against the Houston Airport System for failure to comply with applicable laws and regulations could be significant. Such claims are payable from assets of the Houston Airport System or from other legally available sources. No assurance can be given that the cost of compliance with such existing or future laws, regulations and orders would not adversely affect the ability of the Houston Airport System to generate revenues sufficient to pay debt service on the Series 2025 Bonds.

Environmental Regulation

The City is subject to State and federal environmental laws and regulations. These laws and regulations are subject to change, and the City may be required to expend substantial funds to meet the requirements of such regulatory authorities, such as requirements relating to quality of the City's water supply or wastewater discharges or to the handling and disposal of wastes. Failure to comply with these laws and regulations may result in the imposition of administrative, civil and criminal penalties, or the imposition of an injunction requiring the City to take or refrain from taking certain actions. In addition, the City may be required to remediate contamination as a result of City operations or on properties owned by others.

Other Environmental Measures

Air quality control measures required by the United States Environmental Protection Agency (the "EPA") and the Texas Commission on Environmental Quality ("TCEQ") may adversely affect new industrial, commercial and residential development in the Houston and adjacent areas. Under the Clean Air Act ("CAA") Amendments of 1990, the eight county Houston Galveston-Brazoria Area (the "HGB Area") has been designated by the EPA as a nonattainment area under the EPA's three separate federal ozone standards: the one-hour (124 parts per billion ("ppb")) and eight-hour (84 ppb) standards promulgated by the EPA in 1997 (the "1997 Ozone Standards"); the more rigorous, eight-hour ozone standard of 75 ppb promulgated by the EPA in 2008 (the "2008 Ozone Standard"), and the EPA's most-recent promulgation of an even lower, 70 ppb eight-hour ozone standard in 2015 (the "2015 Ozone Standard"). While the State has been able to demonstrate steady progress and improvements in air quality in the HGB Area, the HGB Area remained subject to CAA nonattainment requirements.

In a final rule that became effective on March 16, 2020, the EPA determined that the HGB Area had met the CAA criteria for redesignation to attainment status under the 1997 Ozone Standards and EPA terminated the obligations that had applied in the HGB Area under the 1997 Ozone Standards. However, the HGB Area remains designated as a nonattainment area under the 2008 and 2015 Ozone Standards, and the TCEQ remains obligated to demonstrate attainment with the more-stringent 2008 and 2015 Ozone Standards under the CAA.

The HGB Area is currently designated as a "severe" nonattainment area under the 2008 Ozone Standard with an attainment deadline of July 20, 2027. EPA issued a final rule determining that the HGB Area failed to meet the July 20, 2021 attainment deadline under its prior "serious" classification and reclassifying the HGB area to "severe" effective November 7, 2022. The HGB Area could be subject to more stringent controls on emissions from the industrial sector. In addition, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects if it finds that an area fails to demonstrate progress in reducing ozone levels. For purposes of the 2008 Ozone Standard, the HGB Area consists of eight counties: Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty, Montgomery, and Waller Counties.

On October 12, 2023, Texas Governor Greg Abbot submitted a letter to EPA to voluntarily reclassify HGB from moderate to serious nonattainment under the 2015 Ozone Standard. On June 20, 2024, the EPA formally reclassified the HGB Area from moderate to serious nonattainment under the 2015 Ozone Standard, effective July 22, 2024, with an attainment deadline of August 3, 2027. EPA issued a final rule determining that the HGB Area failed to meet the August 3, 2021, attainment deadline under its prior "marginal" classification, and reclassified the HGB area to "moderate" effective November 7, 2022. For purposes of the 2015 Ozone Standard, the HGB Area consists of six counties: Brazoria, Chambers, Fort Bend, Galveston, Harris, and Montgomery Counties.

In order to demonstrate progress toward attainment of the EPA's ozone standards, the TCEQ has established a State Implementation Plan ("SIP") for the HGB Area that sets emission control requirements, some of which regulate the inspection and use of automobiles. These types of measures could impact how people travel, what distances people are willing to travel, where people choose to live and work, and what jobs are available in the HGB Area. These SIP requirements can impact new and expanded industrial activity due to the additional permitting/regulatory constraints that accompany this designation. It is possible that additional controls will be necessary to allow the HGB Area to attain the ozone standards by the EPA's attainment deadlines. These additional controls could create impediments and costs for new industrial development in the HGB Area.

Other constraints on economic growth and development include lawsuits filed under the Clean Air Act by plaintiffs seeking to require emission reduction measures that are even more stringent than those adopted by TCEQ and approved by EPA. From time to time, various plaintiff environmental organizations have filed lawsuits against TCEQ and EPA seeking to compel the early adoption of additional emission reduction measures, many of which could make it more difficult for businesses to construct or expand industrial facilities or which could result in travel restrictions or other limitations on the

actions of businesses, governmental entities and private citizens. Any successful court challenge to the currently effective air emissions control plan could result in the imposition of even more stringent air emission controls that could threaten continued growth and development in the HGB Area.

RATINGS

The rating services of Standard and Poor's Global Ratings ("S&P") and Kroll Bond Rating Agency LLC ("KBRA") have assigned ratings of "A+" and "AA-", respectively. Ratings reflect only the views of the rating agencies, from whom an explanation of the significance of such ratings may be obtained. There is no assurance that ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal could have an adverse effect on the market price of the Series 2025 Bonds. The City and the Co-Financial Advisors will undertake no responsibility to oppose any revision or withdrawal of such ratings.

Due to changes in rating criteria and the current economic conditions of the United States, obligations issued by state and local governments, such as the Series 2025 Bonds, could be subject to a rating downgrade. Additionally, if a significant financial crisis or budgetary reductions should occur in the affairs of the U.S. Government or of any of its agencies or political subdivisions, then such an event could adversely affect the market for and ratings, liquidity and market value of outstanding debt obligations, including the Series 2025 Bonds.

TAX MATTERS

The following discussion of certain federal income tax considerations is for general information only and is not tax advice. Each prospective purchaser of the Series 2025 Bonds should consult its own tax advisor as to the tax consequences of the acquisition, ownership and disposition of the Series 2025 Bonds.

Tax Exemption

In the opinion of Bracewell LLP, in its capacity as Tax Counsel (in such capacity, "Tax Counsel"), under existing law, interest on the Series 2025A Bonds (i) is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), except with respect to interest on any Series 2025A Bond for any period during which such Series 2025A Bond is held by a person who is a "substantial user" of the facilities financed or refinanced with the proceeds of the Series 2025A Bonds or a "related person" of such a "substantial user," each within the meaning of section 147(a) of the Code, and (ii) is an item of tax for purposes of the alternative minimum tax on individuals. Furthermore, under existing law, interest on the Series 2025B Bonds (i) is excludable from gross income for federal income tax purposes under section 103 of the Code and (ii) is not an item of tax preference for purposes of the alternative minimum tax on individuals.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Series 2025 Bonds, to be excludable from gross income for federal income tax purposes. These requirements include, among other things, limitations on the use of the bond financed project, limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the "Service"). The City has covenanted in the Ordinance that it will comply with these requirements.

Tax Counsel's opinion will assume continuing compliance with the covenants of the Ordinance pertaining to those sections of the Code that affect the excludability of interest on the Series 2025 Bonds from gross income for federal income tax purposes and, in addition, will rely on representations by the City and other parties involved with the issuance of the Series 2025 Bonds with respect to matters solely within the knowledge of the City and such parties, which Tax Counsel has not independently verified. If the City fails to comply with the covenants in the Ordinance, or if the foregoing representations are determined to be inaccurate or incomplete, interest on the Series 2025 Bonds could become includable in gross income from the date of delivery of each issue of the Series 2025 Bonds, regardless of the date on which the event causing such inclusion occurs.

The Code imposes an alternative minimum tax on the "alternative minimum taxable income" of an individual, if the amount of such alternative minimum tax is greater than the amount of such individual's regular income tax. Generally, the alternative minimum taxable income of an individual will include items of tax preference under the Code, such as the amount of interest received on "private activity bonds" issued after August 7, 1986. Accordingly, Tax Counsel's opinion will state

that interest on the Series 2025A Bonds is an item of tax preference for purposes of the alternative minimum tax on individuals.

Tax Counsel will express no opinion as to the amount or timing of interest on the Series 2025 Bonds or, except as stated above, any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Series 2025 Bonds. Certain actions may be taken or omitted subject to the terms and conditions set forth in the Ordinance upon the advice or with the approving opinion of Bond Counsel. Bond Counsel will express no opinion with respect to Bond Counsel's ability to render an opinion that such actions, if taken or omitted, will not adversely affect the excludability of interest of the Series 2025 Bonds from gross income for federal income tax purposes.

Tax Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Tax Counsel's knowledge of facts as of the date thereof. Tax Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Tax Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Tax Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Tax Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Series 2025 Bonds. If an audit is commenced, in accordance with its current published procedures, the Service is likely to treat the City as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of any issue of the Series 2025 Bonds could adversely affect the value and liquidity of the Series 2025 Bonds regardless of the ultimate outcome of the audit.

Additional Federal Income Tax Considerations

Collateral Tax Consequences

Prospective purchasers of the Series 2025 Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences, including but not limited to those noted below. Therefore, prospective purchasers of the Series 2025 Bonds should consult their own tax advisors as to the tax consequences of the acquisition, ownership and disposition of the Series 2025 Bonds.

An "applicable corporation" (as defined in section 59(k) of the Code) may be subject to a 15% alternative minimum tax imposed under section 55 of the Code on its "adjusted financial statement income" (as defined in section 56A of the Code) for such taxable year. Because interest on tax-exempt obligations, such as the Series 2025 Bonds, is included in a corporation's "adjusted financial statement income," ownership of the Series 2025 Bonds could subject certain corporations to alternative minimum tax consequences.

Ownership of tax-exempt obligations also may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Series 2025 Bonds.

Prospective purchasers of the Series 2025 Bonds should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Series 2025 Bonds, received or accrued during the year.

Tax Accounting Treatment of Original Issue Premium

If the issue price of a maturity of the Series 2025 Bonds exceeds the stated redemption price payable at maturity of such Series 2025 Bonds, such Series 2025 Bonds ("Premium Bonds") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis

resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Premium Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Bond and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Bonds.

Tax Legislative Changes

Current law may change so as to directly or indirectly reduce or eliminate the benefit of the excludability of interest on the Series 2025 Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Series 2025 Bonds. Prospective purchasers of the Series 2025 Bonds should consult with their own tax advisors with respect to any recently-enacted proposed, pending or future legislation.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under State law, the Series 2025 Bonds are legal and authorized investments for insurance companies, fiduciaries, trustees and sinking funds of municipalities or other political subdivisions or public agencies of the State. The Series 2025 Bonds are eligible to secure deposits of public funds of the State, its agencies or any political subdivision thereof to the extent of their market value. For political subdivisions or public agencies of Texas that have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended), the Series 2025 Bonds must be assigned a rating of not less than “A” or its equivalent as to investment quality by a nationally recognized rating agency in order to be eligible investments for such entity. See “RATINGS” herein. In addition, under State law, the Series 2025 Bonds are legal investments of state banks, savings banks, trust companies, and savings and loan associations.

The City has not reviewed the laws in other states to determine whether the Series 2025 Bonds are legal investments for various institutions in those states. The City has not made any investigation of any other laws, rules, regulations or investment criteria that affect the suitability of the Series 2025 Bonds for any of the above purposes or limit the authority of any of the above persons or entities to purchase or invest in the Series 2025 Bonds.

CONTINUING DISCLOSURE

General

In the Ordinance, the City has made certain agreements regarding the continuing disclosure of information for the benefit of the holders and Beneficial Owners of the Series 2025 Bonds. The City is required to observe such agreements for so long as it remains obligated to advance funds to pay the Series 2025 Bonds. Under the agreements, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, whether or not material, to the information repository described below.

Annual Reports

The City will provide certain updated financial information and operating data to the Municipal Securities Rulemaking Board (the “MSRB”) annually. The information to be updated includes the Annual Comprehensive Financial Report for the Airport System Fund and, if not included in the Annual Comprehensive Financial Report for the Airport System Fund, the quantitative financial information and operating data with respect to the City’s Airport System set forth in the schedules listed in APPENDIX E. The City will update and provide this information within six months after the end of each fiscal year. See APPENDIX E relating to the City’s limited obligations to update Schedules 9, 9A, 9B and 9C, which contain actuarial information related to the pension plans.

The City may provide updated information in full text or in such other form consistent with the Ordinance, or may incorporate by reference certain other publicly available documents, as permitted by Securities and Exchange Commission Rule 15c2-12 (the “Rule”). The updated information will include audited financial statements if the City commissions an audit and it is completed by the required time. If audited financial statements are not provided by that time, the City will

provide audited financial statements when and if they become available, but if such audited financial statements are unavailable, the City will provide such financial statements on an unaudited basis within the required time. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

The City's current Fiscal Year end is June 30. Accordingly, it must provide updated information by December 31 in each year, unless the City changes its Fiscal Year. If the City changes its Fiscal Year, it will notify the MSRB of the change.

Notices of Certain Events

The City will also provide timely notice of certain events to the MSRB, not in excess of ten (10) Business Days after the occurrence of the event. Specifically, the City will provide notice of any of the following events with respect to the Series 2025 Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2025 Bonds, or other material events affecting the tax status of the Series 2025 Bonds; (7) modifications to rights of holders of the Series 2025 Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2025 Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) the appointment of a successor or additional trustee or the change in the name of the trustee, if material; (15) incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties. In addition, the City will provide to the MSRB, in a timely manner, notice of any failure by the City to provide the required annual financial information described above under "Annual Reports" and any notices of events specified in this section.

For these purposes, (A) any event described in clause (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City, and (B) the City intends the words used in clauses (15) and (16) in the immediately preceding paragraph and the definition of Financial Obligation to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.

Availability of Information

The City has agreed to provide the foregoing information only to the MSRB. The information is expected to be available to holders of the Series 2025 Bonds from the MSRB through the EMMA website at www.emma.msrb.org; however, the City makes no representation regarding the availability of such information from the MSRB.

Limitations and Amendments

The City has agreed to provide annual reports and notices of certain events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell the Series 2025 Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its agreement to provide annual reports or notices of certain events or from any statement made pursuant to its agreement, although holders of the Series 2025 Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status or type of operations of the City, if the agreement, as amended, would have permitted an underwriter to purchase or sell the Series 2025 Bonds in the offering made hereby in compliance with the Rule and either the holders of a majority in aggregate principal amount of the Outstanding Series 2025 Bonds consent or any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the Beneficial Owners of the Series 2025 Bonds. The City may also amend or repeal the agreement if the Commission amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid, and the City may amend the agreement in its discretion in any other circumstance or manner, but in either case only to the extent that its right to do so would not prevent an Underwriter from purchasing the Series 2025 Bonds in the offering described herein in compliance with the Rule. If the City amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

See APPENDIX E relating to the City’s limited obligation to update Schedules 9, 9A, 9B, and 9C, which contain actuarial information related to the Municipal System Pension Plan.

Compliance with Prior Undertakings

On June 12, 2023, the City filed disclosures (the “Summarized Update”) describing its compliance with its continuing disclosure undertakings during the previous five years, including certain filings with respect to the Houston Airport System bonds, which disclosures are available by accessing the following link (<https://emma.msrb.org/P21713881-P21317661-P21750297.pdf>). The content of the Summarized Update is incorporated herein by reference.

No Continuing Disclosure Undertakings by Airlines

No airline has made any agreement regarding the continuing disclosure of information for the benefit of the holders and Beneficial Owners of the Series 2025 Bonds. However, certain of the certificated major domestic airlines (or their respective parent corporations) are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, and thus must file reports and other information with the Commission. See “THE AIRLINE INDUSTRY FINANCIAL INFORMATION.” In addition, pursuant to the Rule, certain airlines may have agreed to continuing disclosure undertakings in connection with the issuance and sale of obligations other than the Series 2025 Bonds. In those instances, the airlines would have undertaken, in a written agreement or contract for the benefit of the holders of such obligations, to provide to various information repositories certain annual financial information and operating data, including audited financial statements, and to provide notice to such repositories and the MSRB of certain specified material events. Such information is available to securities brokers and others who subscribe to receive the information from such repositories.

LEGAL PROCEEDINGS

The delivery of the Series 2025 Bonds is subject to the approving opinions of the Attorney General of the State and the opinions of Co-Bond Counsel, Bracewell LLP, Houston, Texas, and West & Associates, L.L.P., Houston, Texas, as to the validity of the issuance of the Series 2025 Bonds under the Constitution and laws of the State and the opinion of Tax Counsel, Bracewell LLP, Houston, Texas, as to federal income tax matters. The opinions of Co-Bond Counsel and Tax Counsel will be based upon an examination of a transcript of certain certified proceedings relating to the issuance and authorization of the Series 2025 Bonds. Copies of the proposed opinions of Co-Bond Counsel and Tax Counsel to be delivered in connection with the issuance of the Series 2025 Bonds are attached to this Official Statement as APPENDIX D.

Co-Bond Counsel has reviewed the statements and information contained in the Official Statement under the captions and sub-captions “PURPOSE AND PLAN OF FINANCING – The Refunded Notes,” “THE SERIES 2025 BONDS,” “SECURITY FOR THE SERIES 2025 BONDS” (except for information under the sub-caption “Bondholders’ Remedies” as to which no opinion is expressed), “COVENANTS AND TERMS OF THE ORDINANCE” (except for the information under the sub-caption “Rate Covenant – Other Factors affecting Rate Covenant” as to which no opinion is expressed), “CONTINUING DISCLOSURE” (except for the information under the sub-captions “Compliance with Prior Undertakings” and “No Continuing Disclosure Undertakings by Airlines” as to which no opinion is expressed), and APPENDICES C-1 and C-2, solely to determine that such statements and information fairly and accurately describe the Series 2025 Bonds and the Ordinance; further, Co-Bond Counsel has reviewed the statements and information under the caption “LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS” solely to determine whether such information fairly and accurately summarizes the law referred to therein. Tax Counsel has reviewed the statements and information under the caption “TAX MATTERS” solely to determine whether such information fairly and accurately

summarizes the law referred to therein and Tax Counsel is of the opinion that the statements and information contained therein are correct as to matters of law.

Such firms have not, however, independently verified any of the factual information contained in this Official Statement nor have they conducted an investigation of the affairs of the City or the Houston Airport System for the purpose of passing upon the fairness, accuracy or completeness of this Official Statement. No person is entitled to rely upon such firms' limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the fairness, accuracy or completeness of any of the information contained herein.

Certain matters will be passed on for the City by its Special Disclosure Co-Counsel, Greenberg Traurig, LLP, Houston, Texas, and Cantu Harden Montoya LLP, Houston, Texas. Certain other legal matters will be passed on for the Underwriters by their Co-Counsel, Holland & Knight LLP, Houston, Texas and Bratton & Associates, PLLC.

The fees of Co-Bond Counsel, Tax Counsel, Special Disclosure Co-Counsel and Underwriters' Counsel for their services with respect to the Series 2025 Bonds are contingent upon the sale and delivery of the Series 2025 Bonds.

Bracewell LLP, West & Associates, L.L.P., Greenberg Traurig, LLP, and Cantu Harden Montoya LLP represent the Underwriters from time to time in matters unrelated to the issuance of the Series 2025 Bonds. Holland & Knight LLP and Bratton & Associates, PLLC represent the City from time to time in matters unrelated to the issuance of the Series 2025 Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Series 2025 Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

CO-FINANCIAL ADVISORS

Masterson Advisors LLC and Knight & Day Group, LLC (the "Co-Financial Advisors"), are retained by the City as its independent financial advisors in connection with the issuance of the Series 2025 Bonds and, in such capacity, have assisted the City in the preparation of documents. The Co-Financial Advisors' fee for services rendered with respect to the sale of the Series 2025 Bonds is not contingent upon the issuance and delivery of the Series 2025 Bonds.

Although the Co-Financial Advisors have read and participated in the preparation of this Official Statement, they have not independently verified any of the information set forth herein. The information contained in this Official Statement has been obtained primarily from the City's records and from other sources that are believed to be reliable, including financial records of the City and other entities that may be subject to interpretation. No guarantee is made as to the accuracy or completeness of any such information. No person, therefore, is entitled to rely upon the participation of the Co-Financial Advisors as an implicit or explicit expression of opinion as to the completeness and accuracy of the information contained in this Official Statement.

INDEPENDENT AUDITORS

The financial statements of the Houston Airport System Fund, as of and for the Fiscal Years ended June 30, 2024 and June 30, 2023, included in this Official Statement as APPENDIX A, have been audited by McConnell & Jones CPAs & Banks, Finley, White & Co., independent auditors, as stated in their report (which includes a reference to other auditors) appearing herein.

UNDERWRITING

Wells Fargo Bank, National Association, on behalf of itself and the other underwriters listed on the cover page of this Official Statement, has agreed to purchase the Series 2025 Bonds, subject to certain conditions, and has agreed to pay therefor a price of \$721,208,204.93 (reflecting the par amount of the Series 2025 Bonds, plus premium of \$23,707,828.10 and less an underwriting discount of \$2,354,623.17).

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Certain of the

Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the City, for which they received or will receive customary fees and expenses. In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the City. The Underwriters and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Bank, NA Municipal Finance Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

Wells Fargo Bank, National Association, acting through its Municipal Finance Group ("WFBNA"), one of the underwriters of the Series 2025 Bonds, has entered into an agreement (the "WFA Distribution Agreement") with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name "Wells Fargo Advisors") ("WFA"), for the distribution of certain municipal securities offerings, including the Series 2025 Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Series 2025 Bonds with WFA. WFBNA has also entered into an agreement (the "WFSLLC Distribution Agreement") with its affiliate Wells Fargo Securities, LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the Series 2025 Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

One of the Underwriters is BOK Financial Securities, Inc., which is not a bank. The Series 2025 Bonds are not deposits of any bank and are not insured by the Federal Deposit Insurance Corporation.

FORWARD LOOKING STATEMENTS

The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. It is important to note that the City's actual results could differ materially from those in such forward-looking statements.

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

GENERAL INFORMATION

All of the summaries of the statutes, ordinances and other related reports set forth herein are made subject to all of the provisions of such documents. The descriptions of the Series 2025 Bonds and the Ordinance herein do not purport to be complete and all such descriptions or references thereto contained in this Official Statement are qualified in their entirety by reference to the complete forms of the Series 2025 Bonds and of the Ordinance. Statements made herein involving estimates or projections, whether or not expressly identified as such, should not be construed to be statements of fact or as representations that such estimates or projections will ever be attained or will even approximate actual results.

This Official Statement is not to be construed as a contract with the Underwriters or the holders of any of the Series 2025 Bonds.

Copies of the June 30, 2024 Annual Comprehensive Financial Report of the City of Houston, Texas are available to each of the prospective purchasers of the Series 2025 Bonds upon written request addressed to the office of the City Controller, P.O. Box 1562, Houston, Texas 77251. THE SERIES 2025 BONDS ARE, HOWEVER, PAYABLE SOLELY FROM NET REVENUES OF THE HOUSTON AIRPORT SYSTEM AND CERTAIN RESERVES ESTABLISHED PURSUANT TO THE ORDINANCE, AND NO IMPLICATION IS MADE THAT ANY OTHER REVENUES OR MONEY OF THE CITY ARE TO BE AVAILABLE FOR THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2025 BONDS. Copies of the Ordinance are available to each of the prospective purchasers of the Series 2025 Bonds upon written request to the Office of the City Attorney, 900 Bagby, 4th Floor, Houston, Texas 77002. This document was approved by the City Council of the City.

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SCHEDULE I

SCHEDULE OF REFUNDED NOTES

\$34,200,000 City of Houston, Texas Airport System Senior Lien Commercial Paper Notes (AMT)

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APPENDIX A

AIRPORT CONSULTANT 2025 LETTER, INCLUDING SERIES 2023 REPORT OF AIRPORT MANAGEMENT CONSULTANT

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July 17, 2025

Mr. Jim Szczesniak
Director of Aviation, City of Houston
Houston Airport System
PO Box 60106
Houston, Texas, 77205

RE: Report of the Airport Management Consultant
City of Houston, Texas
Airport System Subordinate Lien Revenue Bonds, Series 2025 A&B

Dear Mr. Szczesniak:

This Letter of the Airport Management Consultant (2025 Letter) serves to reaffirm the findings from Ricondo & Associates, Inc.'s (Ricondo's) Report of the Airport Management Consultant, dated June 12, 2023 (2023 Report), with consideration of new information and developments since the 2023 Report. The 2023 Report was prepared in connection with the issuance of the City of Houston, Texas Airport System Subordinate Lien Revenue and Refunding Bonds, Series 2023A (AMT) and Airport System Subordinate Lien Revenue and Refunding Bonds, Series 2023B (Non-AMT) (collectively the 2023 Bonds).

This 2025 Letter is for inclusion as Appendix A in the Preliminary Official Statement for the City of Houston, Texas Airport System Subordinate Lien Revenue and Refunding Bonds, Series 2025A (AMT) (the Series 2025A Bonds) and the Airport System Subordinate Lien Revenue Bonds, Series 2025B (Non-AMT) (the Series 2025B Bonds, and together with the Series 2025A Bonds, the "2025 Bonds").

The 2023 Report described findings, assumptions, forecasts, and projections related to the air traffic and financial analyses developed by Ricondo in conjunction with the issuance of the 2023 Bonds by the City of Houston (the City), which owns George Bush Intercontinental Airport (IAH), William P. Hobby Airport (HOU), and Ellington Airport (EFD)¹ and operates through the Houston Airport System (HAS or Airport System), an enterprise system of the City. Collectively, the three Airports managed by HAS are referred to within this 2025 Letter as the Airport System or Airports. This 2025 Letter, based on the findings of the 2023 Report and the updated information in connection with the City's planned issuance of the 2025 Bonds contained herein serves to reaffirm the overall conclusions Ricondo made in the 2023 Report regarding the City's ability to comply with the Rate Covenant established in the Master Ordinance, as defined in the 2023 Report, and the reasonableness of the resulting projected airline costs. Unless specifically defined in this 2025 Letter or the 2023 Report, all capitalized terms in this 2025 Letter have the meanings assigned to such terms in the Bond Ordinance, the Official Statement for the 2025 Bonds, or the airline use and lease agreements authorized by the City.

¹ The City also operates the Houston Spaceport, a Federal Aviation Administration-licensed commercial spaceport, situated on approximately 400 acres on the southeast side of EFD.

Mr. Jim Szczesniak
City of Houston, Houston Airport System
July 17, 2025

The 2025 Bonds

The 2025 Bonds will be issued pursuant to the Master Ordinance adopted by the City in November 2016 (the Master Ordinance) and the supplemental ordinance authorizing the issuance of the 2025 Bonds (the Supplemental Ordinance). Since 2016, additional parity bonds have been issued pursuant to the Master Ordinance and separate supplemental ordinances. The Master Ordinance, the Supplemental Ordinance, and all prior supplemental ordinances are collectively referred to as the Bond Ordinance for purposes of this 2025 Letter.

The City is expected to use the proceeds from the sale of the 2025 Bonds, together with other available funds, to:

- i. fund portions of the HAS Capital Improvement Program (CIP),
- ii. fund capitalized interest,
- iii. fund the Subordinate Lien Bond Reserve Fund, and
- iv. pay costs of issuance incurred in connection with the 2025 Bonds.

The Master Ordinance debt service coverage covenants, flow of funds, and additional bond requirements remain as summarized in Section 1.2 of the 2023 Report.

Table 1 presents the estimated sources and uses for the 2025 Bonds.

TABLE 1 ESTIMATED SUMMARY OF THE 2025 BONDS

	2025 BONDS ¹
Sources	
Par Amount of Bonds	\$743,245,000
Total Sources of Funds at Closing	\$743,245,000
Uses	
Deposit to Project Fund	\$586,522,000
Deposit to Subordinate Lien Bond Reserve Fund	\$53,480,500
Cost of Capitalized Interest	\$97,294,858
Costs of Issuance and Other Uses ²	\$5,947,642
Total Uses of Funds at Closing	\$743,245,000

NOTES:

Numbers may not sum due to rounding.

1 Numbers are preliminary and assume an interest rate of 5.50% and are subject to change.

2 The costs of issuance and other uses includes the underwriter's discount and additional proceeds.

SOURCE: Masterson Advisors LLC, July 2025.

For purposes of the financial analysis in this 2025 Letter, the City's Financial Advisor made certain assumptions for the 2025 Bonds, including an interest rate of 5.50 percent, 30-year, level debt amortization, capitalized interest for all funded projects in consideration of project completion, and average life of 19.14 years. The 2025 Bonds are assumed to be issued as AMT bonds, although a portion may qualify as non-AMT.

Mr. Jim Szczesniak
City of Houston, Houston Airport System
July 17, 2025

Purpose of the 2025 Letter of the Airport Management Consultant

This 2025 Letter provides a summary of relevant information and developments that have become available since the 2023 Report was prepared, including information regarding the 2025 Bonds. This 2025 Letter also includes updated data related to the Airports regarding ongoing and future capital projects, the economic base for air transportation, air traffic, and financial operations (including actual debt service on the Series 2023 Bonds and anticipated debt service on the 2025 Bonds and future bonds).

Ricondo prepared the 2023 Report and this 2025 Letter for the stated purposes as expressly set forth therein and for the sole use by the City and its intended recipients. The 2023 Report and this 2025 Letter should be read in their entirety for an understanding of the analysis, assumptions, and opinions presented. The 2023 Report was included as Appendix A in the Official Statement for the issuance of the 2023 Bonds and is attached to this 2025 Letter for reference as **Attachment 2**.² The 2023 Report incorporated debt service projections associated with the 2023 Bonds, as well as future bonds assumed to be issued during the Projection Period (through FY 2032).

On the basis of the updated analysis set forth in this 2025 Letter, Ricondo reaffirms its opinion that the Net Revenues generated each year of the Projection Period are expected to be sufficient to comply with the Rate Covenant established in the Master Ordinance and that the resulting projected airline costs should remain reasonable.

Table 2 summarizes key updates and findings by subject matter since the 2023 Report that support Ricondo's conclusion. The approach and assumptions used in preparing this 2025 Letter are consistent with industry practices for similar reports prepared in connection with the sale of airport revenue bonds. While Ricondo believes that the approach and assumptions are reasonable, some assumptions regarding future trends and events set forth in this 2025 Letter, including enplaned passenger forecasts, may not materialize. Achievement of the forecasts presented in this 2025 Letter, therefore, is dependent on the occurrence of future events, which cannot be assured, and the variations may be material. The analysis presented is based on conditions known as of the date of this 2025 Letter. Ricondo has no obligation to update this 2025 Letter on an ongoing basis.

Furthermore, current forecasts do not account for potential economic changes associated with US or other government economic policy, trade initiatives, and geopolitical issues, or potential impacts on air travel. At the time of this 2025 Letter, US federal policies and actions related to these subjects are under development and impacts are uncertain. Future economic conditions and affected forecasts are subject to change in both the near-term and the long-term.

² **Attachment 1**, provided directly following the Updated Financial Analysis in this 2025 Letter, consists of updated financial projection tables consistent with Appendix A of the 2023 Report.

Mr. Jim Szczesniak
City of Houston, Houston Airport System
July 17, 2025

TABLE 2 SUMMARY OF KEY CHANGES SINCE PREPARATION OF 2023 REPORT

(Fiscal Years Ending June 30)

FINANCIAL ANALYSIS VARIABLES		
	CHANGE(S) SINCE 2023 REPORT	ESTIMATED IMPACT OF CHANGE(S) TO OVERALL/KEY FINANCIAL RESULTS
Airport Capital Improvement Program	Changed from a FY 2024-FY 2030 CIP to a FY 2026-FY 2032 CIP, with total program costs increasing from approximately \$3.3 billion to approximately \$3.6 billion. The FY 2026-FY 2032 program includes \$474 million in enabling projects for the Terminal B Transformation Program and \$61.4 million for IAH taxiway rehabilitation, which were not assumed in the 2023 Report, partially offset by an anticipated \$80 million reduction in Skyway project costs and completion of the ITRP.	The financial analysis reflects the updated capital program and related impacts.
Economic Base for Air Transportation	Moderate economic growth is expected to continue nationwide, although at a slightly lower rate than estimated at the time the 2023 Report was prepared. National and local unemployment rates have increased, but current short-term (1-3 years) unemployment rate projections are lower than the projections in the 2023 Report. Current short-term projections of gross domestic product growth rates are slightly higher.	No material impact. The air traffic forecast updated to reflect changes in economic and demographic forecasts.
Air Traffic Projections	Slight adjustments were made to reflect the current short-term IAH and HOU flight schedules and updated economic and demographic forecasts. Increased activity at IAH may occur relative to the current base and 2023 Report air traffic forecasts due to the IAH Terminal B Redevelopment Program estimated in an alternative forecast but not included in the baseline.	No material impact with the exception of the potential improvement in financial results associated with an alternative higher IAH air traffic forecast.
Operation and Maintenance Expenses	Projections are based on the budgeted FY 2025 O&M Expenses rather than the budgeted FY 2023 O&M Expenses. Additional increases account for potential impacts of the IAH Terminal B Redevelopment Program. Projection methodology remains unchanged.	Increase in budgeted O&M Expenses in FY 2025 of approximately 27.8 percent over FY 2023 budget, and 19.8 percent over the projected FY 2025 O&M Expenses from the 2023 Report due to additional administrative and facility maintenance costs and a shift in the treatment of certain expenses (not actual cost increases).
Non-Airline Revenues	Projections are based on the budgeted FY 2025 non-airline revenues rather than the budgeted FY 2023 non-airline revenues. Additional increases in terminal concessions revenue for HAS are expected to begin in FY 2030 upon expiration of the United Airlines Terminal E lease. Projection methodology remains unchanged.	No material impact. Increase in total non-airline revenues in budget FY 2025 of approximately 28.8 percent over FY 2023 budget, and 2.0 percent over projected FY 2025 non-airline revenues from the 2023 Report.
Debt Service	Debt service includes existing and future debt anticipated during the Projection Period to fund the HAS CIP. Total annual debt service is lower in each year compared to the 2023 Report due to an increased use of grant funds, the Airport Improvement Funds, and refinancing of the Series 2002B Bonds and a portion of the Series 2020C Bonds by the Series 2023 Bonds.	Decrease in annual debt service ranging from approximately \$1.8 million in FY 2026 to approximately \$60.5 million in FY 2031 compared to the 2023 Report, primarily due to an increase in anticipated grant funding of approximately \$261 million for certain projects, including airfield improvements at each HAS airport.
Projected Cost-Per-Enplanement	Compared with the 2023 Report, the CPE for IAH is similar and the CPE for HOU is slightly higher through the Projection Period, reflecting updates described in this table.	The CPE remains reasonable during the Projection Period.
Projected Debt Service Coverage Ratio	Debt service coverage ratios from FY 2026-FY 2032 fall within a similar range compared with the 2023 Report, which reflects the updates described in this table.	Debt service coverage ratios exceed the minimum requirements during each year of the Projection Period. Increases in O&M Expenses contribute to generally lower debt service coverage through the Projection Period compared to the 2023 Report, which is partially offset by an overall reduction in debt service.

NOTES:

CPE – Cost Per Enplaned Passenger; CIP – Capital Improvement Program; FY– Fiscal Year; HAS – Houston Airport System; HOU – William P. Hobby Airport; IAH – George Bush Intercontinental Airport; ITRP – IAH Terminal Redevelopment Program; O&M – Operations and Maintenance

SOURCE: Ricondo & Associates, Inc., July 2025.

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Airports Capital Program Update

As described in Chapter 3 of the 2023 Report, the largest development components of the HAS Capital Improvement Program (CIP) Fiscal Year (FY)³ 2024 – FY 2030 were related to terminal projects, including the completion of the IAH Terminal Redevelopment Program (ITRP) and Domestic Redevelopment Program (DRP) at IAH, and the West Concourse Expansion at HOU. The current CIP includes a project cost estimate of approximately \$3.6 billion for FY 2026 – FY 2032, as compared to approximately \$3.3 billion from FY 2024 – FY 2030 in the 2023 Report. Key differences between the CIP in the 2023 Report and the FY 2026 - FY 2032 CIP include the following:

- Significant portions of the ITRP project (\$485.1 million in the 2023 Report) have been or are currently being implemented, with no remaining funding needs identified in the CIP.
- In the 2023 Report, the Skyway Train Replacement project was estimated to be complete by FY 2031 at a cost of \$350 million. The project remains in the CIP at a lower estimate of \$270 million, with completion estimated by FY 2031. It is anticipated that the project will be completed in phases to minimize operational downtime for passengers.
- The Terminal B Transformation Program was announced in November 2023. This project includes approximately \$1.9 billion of direct investment by United Airlines (United)⁴ and HAS-funded enabling projects of an amount not to exceed \$624 million. The project is currently estimated to be less than \$500 million and approximately \$426.6 million of bond proceeds are assumed as funding in the financial analysis, including \$300 million from the 2025 Bonds. In addition, approximately \$47.4 million of PFC Revenue (Pay-Go) is assumed. If additional HAS funding is determined necessary (up to \$624 million maximum), such funding may require use of additional bond proceeds within the Projection Period. The total Terminal B Transformation Program is anticipated to comprise a new North Concourse housing 22 narrowbody gates, as well as redevelopment of the South Concourse yielding 30 large regional jet gates. The project also includes a new processor for ticketing, security, and baggage claim. Construction began in the fourth quarter of 2024. Terminal B North is expected to be complete in 2026, and Terminal B South is expected to be complete in the first calendar quarter of 2028.
- The Taxiways SA/SB Rehabilitation project at IAH (\$61.4 million) was added to the City's FY 2025 – FY 2029 CIP after issuance of the 2023 Bonds and is anticipated to be completed within the Projection Period of this 2025 Letter.

All other elements remain generally consistent with the HAS CIP in the 2023 Report in terms of projects, costs, and schedule. Tables S-1 and S-2 in the 2023 Report summarize the projects included in the HAS CIP. **Table 3** presents the FY 2026–FY 2032 CIP sources and uses, similar to Table 3-1 of the 2023 Report. Additional details regarding the HAS CIP can be found in Chapter 3 of the 2023 Report.

³ The City's fiscal year ends June 30.

⁴ United issued \$1.1 billion in Airport System Special Facilities Revenue Bonds in November 2024 and may request additional Special Facilities Revenue Bonds within the Projection Period.

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TABLE 3 HOUSTON AIRPORT SYSTEM CAPITAL IMPROVEMENT PROGRAM COST AND FUNDING SOURCES (FISCAL YEAR 2026 – FISCAL YEAR 2032, DOLLARS IN THOUSANDS)

	PROJECT COSTS (FY 2026–2032)	GRANTS	PFC PAY-GO	AIF FUNDS	2025 BONDS	FUTURE AIRPORT OBLIGATIONS
George Bush Intercontinental Airport (IAH)						
IAH Terminal Redevelopment Program	\$0	\$0	\$0	\$0	\$0	\$0
Domestic Redevelopment Program	\$933,500	\$90,000	\$108,000	\$168,500	\$0	\$567,000
Skyway Train Replacement	\$270,000	\$27,000	\$27,000	\$0	\$0	\$216,000
Terminal B Enabling Projects	\$474,000	\$0	\$47,400	\$0	\$300,000	\$126,600
Central Utility Plant Improvements	\$125,333	\$0	\$6,267	\$0	\$66,400	\$52,666
Taxiways SA/SB Rehabilitation ¹	\$61,444	\$41,322	\$0	\$0	\$20,122	
IAH Consolidated Employee Parking Lot	\$57,200	\$0	\$0	\$57,200	\$0	\$0
IAH Airfield Improvements	\$210,838	\$73,191	\$0	\$137,647	\$0	\$0
Additional IAH Improvements	\$252,465	\$72,770	\$0	\$179,695	\$0	\$0
Total IAH	\$2,384,780	\$304,283	\$188,667	\$543,042	\$386,522	\$962,266
William P. Hobby Airport (HOU)						
West Concourse Expansion	\$430,000	\$0	\$51,600	\$43,000	\$200,000	\$135,400
HOU Airfield Improvements	\$375,800	\$265,175	\$0	\$110,625	\$0	\$0
Additional HOU Improvements	\$237,983	\$65,115	\$0	\$172,868	\$0	\$0
Total HOU	\$1,043,783	\$330,290	\$51,600	\$326,493	\$200,000	\$135,400
Ellington Airport (EFD)						
Airfield Improvements	\$29,984	\$23,932	\$0	\$6,052	\$0	\$0
Additional EFD Improvements	\$18,650	\$1,238	\$0	\$17,412	\$0	\$0
Total EFD	\$48,634	\$25,170	\$0	\$23,464	\$0	\$0
System Support	\$126,805	\$0	\$0	\$126,805	\$0	\$0
Total	\$3,604,002	\$659,742	\$240,267	\$1,019,805	\$586,522	\$1,097,666

NOTES:

AIF – Airport Improvement Fund; FY – Fiscal Year; PAY-GO – Pay as You Go; PFC – Passenger Facility Charge

The City adopts a 5-year Capital Improvement Program (CIP). This table represents the adopted FY 2026-FY 2030 CIP, with adjustments reflecting anticipated project expenditures and estimates for FY 2031 and FY 2032, for purposes of the financial analysis included with this 2025 Letter.

Totals may not sum due to rounding.

1 The Taxiways SA/SB Rehabilitation project at IAH was included in the City's approved FY 2025 – FY 2029 CIP and is anticipated to be completed within the Projection Period and is therefore included for purposes of the updated financial analysis.

SOURCE: Houston Airport System, July 2025.

Proceeds from the 2025 Bonds are anticipated to fund the following projects:

- **IAH Terminal B Enabling Projects (2025 Bonds proceeds: \$300.0 million)** – Pursuant to a Memorandum of Agreement approved on November 15, 2023, the City and United have agreed that certain enabling projects must be undertaken to support and enable the Terminal B Transformation Program. These enabling projects will be undertaken and managed by United, with costs reimbursed to United by the City, up to a maximum of \$624 million, and subsequently recovered by the City through rates and charges assessed to United. These enabling projects include certain improvements to the IAH aircraft fueling system, new aircraft apron and taxiway pavement surrounding the concourses, certain

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improvements and expansions of stormwater detention facilities, and certain improvements to and extensions of existing utilities, as necessary. Other enabling projects include various airfield improvements, reconfigured traffic lanes adjacent to Terminal B, and demolition of certain parking garage ramps.

- **IAH Central Utility Plant (CUP) Improvements (2025 Bonds proceeds: \$66.4 million)** – Improvements to the IAH CUP are anticipated to include replacement of various pumps, transformers, air handling units, and other equipment. These improvements are estimated to be completed by FY 2026. Additional detail regarding this project is included in the 2023 Report.
- **IAH Taxiways SA/SB Rehabilitation (2025 Bonds proceeds: \$20.1 million)** – This project will replace distressed pavement along Taxiway SB and reconstruct Taxiway SA to accommodate larger aircraft. Project elements include milling and overlay, pavement replacement, additional fillet pavement, and associated improvements. Construction began in FY 2025 and is anticipated to be completed in FY 2026.
- **HOU West Concourse Expansion (2025 Bonds proceeds: \$200.0 million)** – Design and construction of the West Concourse Expansion project are subject to certain terms and conditions outlined in a Memorandum of Agreement between Southwest Airlines (Southwest) and HAS. The expansion is anticipated to include the addition of seven narrowbody contact gates (six preferential use gates for Southwest and one HAS common use gate). Additional detail regarding this project is included in the 2023 Report. Construction is estimated to begin in FY 2026, with completion in FY 2028.

Updated Information Regarding the Economic Base for Air Transportation

The Consultants reviewed certain socioeconomic information made available since the date of the 2023 Report. The information suggests that no material change in economic conditions has occurred that invalidates the findings of the 2023 Report regarding the economic base for air transportation of the

Airports' Air Trade Area (the Houston–The Woodlands, TX Combined Statistical Area [CSA] or ATA),⁵ and the findings remain valid for this 2025 Letter's Projection Period (through FY 2032). The projected near-term economic performance for the ATA and the United States is slightly more positive than what was projected in the 2023 Report and the projected long-term (through the Projection Period) economic performance for the ATA and the United States are similar to what was reflected in the 2023 Report.

The economic base of the ATA remains capable of supporting increases in demand for air transportation at the Airports during the Projection Period. The following subsections provide an overview of recent economic

⁵ The ATA is made up of the 14 counties of the Houston–The Woodlands, TX CSA: Austin, Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty, Montgomery, Trinity, Walker, Waller, Washington, Wharton, and Matagorda. Since the 2023 Report, the US Office of Management and Budget has revised its delineations of certain CSAs and the Houston–The Woodlands, TX CSA was renamed the Houston–Pasadena, TX CSA. One county (Trinity) in the Houston–The Woodlands, TX CSA was removed and another added (San Jacinto) to make up the new Houston–Pasadena, TX CSA. To be consistent with the 2023 Report, Ricondo defines the ATA in this 2025 Letter as the 14 counties of the previously existing Houston–The Woodlands, TX CSA.

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and demographic data and projections, including near-term (calendar year [CY] 2025 to CY 2029) projections from the Congressional Budget Office (CBO) and International Monetary Fund (IMF) for the United States when available. Comparisons are made between the data and projections available at the time of the 2023 Report and the data and projections available at the time of this 2025 Letter.

Population

The updated Woods & Poole Economics, Inc. (Woods & Poole)⁶ projection of US population growth considered in this 2025 Letter is a compound annual growth rate (CAGR) of 0.6 percent between CY 2022 and CY 2032, whereas the ATA's population growth is projected to be 1.4 percent during the same period. The rate of US population growth between CY 2022 and CY 2032 is equal to the growth rate projected between CY 2020 and CY 2032 in the 2023 Report. However, due to slower actual US population growth in CY 2022 compared to what was projected by Woods & Poole as reported in the 2023 Report, the actual level in the base year for this 2025 Letter (CY 2022) is lower than the level projected in the 2023 Report. As a result, the CY 2032 level of US population in this 2025 Letter is slightly lower than the projected level in the 2023 Report (approximately 355.2 million in this 2025 Letter versus approximately 356.4 million in the 2023 Report). An increased CAGR, for the ATA population, from 1.3 percent in the 2023 Report to 1.4 percent in this 2025 Letter, results in the CY 2032 ATA population being higher than that projected in the 2023 Report (approximately 8.7 million in 2025 Letter versus approximately 8.6 million in 2023 Report).

The Woods & Poole projection of total US population growth indicates a CAGR of 0.6 percent between CY 2025 and CY 2029, which is slightly greater than the CAGRs indicated by the population projections of the CBO⁷ and the same as that of the IMF⁸ during the same period, which are 0.5 percent and 0.6 percent, respectively. It should be noted that the CBO's population projection for 2025 is approximately 349.8 million which is greater than both the Woods & Poole and IMF's projections for that year— approximately 340.1 million and 342.4 million, respectively.

Per Capita Personal Income

The updated Woods & Poole projection of US Per Capita Personal Income (PCPI) growth considered in this 2025 Letter is a CAGR of 1.7 percent between CY 2022 and CY 2032, whereas the ATA's PCPI growth is projected to be 1.6 percent during the same period. The rate of US PCPI growth between CY 2022 and CY 2032 is greater than the growth rate projected between CY 2020 and CY 2032 in the 2023 Report which was 1.4 percent. However, due to slower actual US PCPI growth in CY 2022 compared to what was projected by Woods & Poole as reported in the 2023 Report, the actual level in the base year for this 2025 Letter (CY 2022) is lower than the level projected in the 2023 Report. As a result, the CY 2032 level of US PCPI in this 2025 Letter is slightly lower than the projected level in the 2023 Report (approximately \$63,003 in this 2025 Letter versus approximately \$63,086 in the 2023 Report). A decreased CAGR, for the ATA PCPI, from 1.7

⁶ Woods & Poole is an independent firm specializing in long-term county economic data and demographic data projections.

⁷ Congressional Budget Office, The Demographic Outlook: 2025 to 2035, January 2025.

⁸ International Monetary Fund, World Economic Outlook, April 2025.

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percent in the 2023 Report to 1.6 percent in this 2025 Letter, results in the CY 2032 ATA PCPI being lower than that projected in the 2023 Report (approximately \$64,712 in 2025 Letter versus approximately \$66,063 in the 2023 Report).

Unemployment Rate

In April 2025 (most recent historical data available at time of this 2025 Letter), the unemployment rate for the ATA reported by the US Department of Commerce, Bureau of Labor Statistics (BLS) was 3.9 percent (non-seasonally adjusted), the same as the rate for the nation (3.9 percent, non-seasonally adjusted). The ATA's unemployment rate in April 2025 is 0.5 percent lower than the average rate in 2024 (4.4 percent, non-seasonally adjusted). In comparison, the national unemployment rate decreased by 0.1 percentage points over the same period, from 4.0 percent (non-seasonally adjusted) in 2024 on average to 3.9 percent (non-seasonally adjusted) in April 2025.

The January 2025 CBO economic outlook projects the national annualized (seasonally adjusted) unemployment rate to rise from 4.3 percent in CY 2025 to 4.4 percent in CY 2026 and remain at 4.4 percent through CY 2029.⁹ The February 2023 CBO economic outlook cited in the 2023 Report projected a higher increase of the national annual unemployment rate to 4.9 percent in CY 2024, before a gradual decline to 4.5 percent in CY 2027.

Gross Domestic Product

While the Woods & Poole projections for this 2025 Letter show lower CAGRs for both ATA Gross Regional Product (GRP)¹⁰ and US GDP between CY 2022 and CY 2032 (2.6 percent and 2.2 percent, respectively) compared to the CAGRs for the 2023 Report's CY 2020 through CY 2032 projection period (3.0 percent and 2.3 percent, respectively), both ATA GRP and US GDP are still projected to be at higher levels in CY 2032 (approximately \$650.6 billion and \$25,520.1 billion, respectively) than what were projected in the 2023 Report (approximately \$636.1 billion and \$24,492.8 billion, respectively), due to the faster recovery in CY 2021 and CY 2022 from the adverse economic impact of the COVID-19 pandemic than had been projected at the time of the 2023 Report.

The most current CBO economic outlook released in January 2025 projects a 2.1 percent year-over-year increase in real GDP for CY 2025, an increase of 1.8 percent in CY 2026, and a CAGR between CY 2025 and CY 2029 of 1.8 percent.¹¹ By comparison, the CBO economic outlook available at the time of the 2023 Report, the February 2023 CBO economic outlook, projected an increase in GDP of 2.7 percent in CY 2025, as described in the 2023 Report. The real GDP growth projections by the CBO in January 2025 are similar to recent projections by the IMF. The April 2025 IMF economic outlook projects a 1.8 percent year-over-year

⁹ Congressional Budget Office, The Budget and Economic Outlook: 2025 to 2035, January 2025.

¹⁰ In order to remain consistent with the GRP and GDP data provided in the 2023 Report, all GRP and GDP Woods & Poole data in this 2025 Letter is presented in 2012 dollars.

¹¹ Congressional Budget Office, The Budget and Economic Outlook: 2025 to 2035, January 2025.

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increase in real GDP for CY 2025, an increase of 1.7 percent in CY 2026, and a CAGR between CY 2025 and CY 2029 of 2.0 percent.¹²

Based on the analysis in the 2023 Report, as well as the most recent unemployment data and economic projection information previously described, the Consultants' opinion is unchanged: the ATA's economic base remains strong and will continue to support long-term growth in demand for air transportation services at the Airports. The Consultants' review of the most recent economic data and information suggests that the economic projections presented in the 2023 Report remain valid.

Business and Industry Climate

In 2024, Texas ranked second in the number of US companies listed in the Fortune 500 by state, ahead of New York and behind California, this represents a one-place decline from 2022 ranking in the 2023 Report.¹³ Of the 53 Fortune 500 companies, 26 are headquartered in Texas and located in the ATA, which represents an increase of 5 Fortune 500 companies in the ATA compared to the 2023 report.¹⁴ The Houston Metro Area ranks third among metro areas in the nation by number of Fortune 500 headquarters.¹⁵

According to the Greater Houston Partnership, a combination of the Greater Houston Chamber of Commerce, the Houston Economic Development Council, and the Houston World Trade Association, the ATA continues to foster a business-friendly climate, including favorable state tax laws that facilitate relatively low tax expenses, low corporate rent costs, and access to a young and diverse professional talent pool that attracts both big corporations and small businesses to Texas.¹⁶

¹² International Monetary Fund, *World Economic Outlook*, April 2025.

¹³ Government of California, "California leads the nation — again — with most Fortune 500 companies," [https://www.gov.ca.gov/2025/06/04/california-leads-the-nation-again-with-most-fortune-500-companies/#:~:text=As%20host%20to%2058%20Fortune%20500%20companies%2C,the%20state%20\\$16%20billion%20in%20lost%20revenue](https://www.gov.ca.gov/2025/06/04/california-leads-the-nation-again-with-most-fortune-500-companies/#:~:text=As%20host%20to%2058%20Fortune%20500%20companies%2C,the%20state%20$16%20billion%20in%20lost%20revenue) (accessed June 11, 2025).

¹⁴ Greater Houston Partnership, "Fortune 500 Companies," <https://www.houston.org/houston-data/fortune-500-companies/#:~:text=Corporate%20Headquarters,%23214%20from%20%23229> (accessed June 11, 2025).

¹⁵ *Ibid.*

¹⁶ Greater Houston Partnership, "Cost of Doing Business in Houston," <https://www.houston.org/why-houston/taxes-and-incentives/#:~:text=Taxes%20&%20Incentives-,Taxes%20&%20Incentives,for%20companies%20of%20all%20sizes>. (accessed June 11, 2025).

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As of April 2025, Texas continues to enjoy the designation of Best State for Business for the 21st consecutive year. ¹⁷ Texas is ranked 7th overall in the Tax Foundation's 2025 State Business Tax Climate Index, representing a six-place improvement from its ranking in the 2023 Report. ¹⁸

The Houston Metropolitan Statistical Area (MSA)¹⁹ has trading partnerships with more than 200 countries and territories and the Port of Houston continues to rank as the largest port along the Gulf Coast and in the nation by weight.²⁰ However, Japan is no longer among the Port of Houston's top five trading partners. This shift is underscored by a comparatively slower growth in annual trade value with Japan, which increased from \$7.9 billion in 2021 (per the 2023 Report) to less than \$10.0 billion in 2023. This contrasts with China's trade value, which surged by 40 percent during the same 2021 to 2023 period.

Another notable development in the Houston MSA is the US Army Corps of Engineers' (USACE) expected award of its second Project 11 (deepening and widening of the Houston Ship Channel) contract for the Beltway 8 Dredged Material Placement Area's construction project. Additionally, the final segment located in the Galveston Bay area, connecting Bayport and Barbours Cut, is projected to be fully complete and operational for two-way traffic by mid-2025 allowing larger vessels to navigate more easily and reduce transit times, making the Port of Houston more efficient.²¹

In 2024, the value of the City's exports rose by 3.1 percent from 2023, reaching \$51.3 billion, a 39.6 percent increase in value since 2019. ²² Despite potential vulnerabilities to trade conflicts, the City's global relationships are diverse, evidenced by the nearly 1,000 foreign-owned firms and almost 150 Houston-based firms operating across 111 countries. ²³ The City's low cost of living and highly educated workforce makes it an attractive destination for companies seeking to relocate international operations and manage trade barrier complexities. ²⁴

¹⁷ Office of the Texas Governor, "Texas Ranked Best State For Business 21 Years In A Row," <https://gov.texas.gov/news/post/texas-ranked-best-state-for-business-21-years-in-a-row#:~:text=April%2028%2C%202025%20%7C%20Austin%2C,Chief%20Executive%20began%20the%20ranking> (accessed June 11, 2025).

¹⁸ Tax Foundation, "2025 State Business Tax Competitive Index," <https://taxfoundation.org/research/all/state/2025-state-tax-competitiveness-index/> (accessed June 11, 2025).

¹⁹ The Houston Metropolitan Statistical Area consists of nine counties: Austin, Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty, Montgomery, and Waller.

²⁰ Greater Houston Partnership, "Houston Facts 2024," https://d9.houston.org/sites/default/files/2024-07/Houston%20Facts%202024%20Publication_Final.pdf (accessed June 11, 2025).

²¹ Business Wire, "Houston Ship Channel Ranked #1 U.S. Waterway," <https://www.businesswire.com/news/home/20250505866704/en/Houston-Ship-Channel-Ranked-1-US-Waterway> (accessed June 11, 2025).

²² Greater Houston Partnership, "Global Houston 2025," https://d9.houston.org/sites/default/files/2025-04/Global%20Houston%20Publication_2025_Digital_0.pdf (accessed June 11, 2025).

²³ *Ibid.*

²⁴ *Ibid.*

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Texas Medical Center's (TMC) Helix Park opened its first phase on October 26, 2023²⁵ and has become a significant innovation hub, attracting numerous life sciences companies and fostering collaboration between industry and academia. It hosts prestigious institutions like Baylor College of Medicine and MD Anderson Cancer Center, and venture capital firm Portal Innovations supports startups. Notable developments include Rice University's venture creation studio, RBL LLC, and March Biosciences. MD Anderson is also expanding with a new \$239 million research facility.²⁶

As of June 2025, Nucamp reported that Houston is rapidly emerging as a hub for Artificial Intelligence (AI) and advanced technology. This growth is evidenced by Nvidia's \$500 billion investment in a new AI supercomputer plant, which is projected to create hundreds of thousands of jobs and strengthen domestic AI infrastructure. Rice University, in collaboration with Google, has launched the Rice AI Venture Accelerator to support early-stage startups, while Persona AI successfully raised \$27 million for humanoid robot manufacturing (prototype aims to be complete by late 2026) and deployment, engineered for shipbuilding and industrial manufacturing. The City's progress extends to its regulatory landscape with Texas's House Bill 149 for AI governance, and into diverse applications such as personalized leukemia treatment by Biostate AI. Relatedly, Aurora Innovation's commercial driverless trucking operations between Dallas and Houston started service in April 2025.²⁷

According to the Greater Houston Partnership, the top 20 major employers in the ATA, as identified by employee count in the 2023 Report, have maintained their status among Houston's top employers in 2024.²⁸ Among the top employers, Houston Methodist was recognized by Forbes in 2024 as the best healthcare system and employer in Texas.²⁹

Updated Information Regarding Air Traffic

Overview of Airports' 2023 Activity and Air Service Developments

Table 4 presents the domestic and international enplaned passengers at IAH between FY 2015 and FY 2025 year-to-date (July 2024 through April 2025). United operates a hub at IAH. Inclusive of its regional subsidiaries, United represented approximately 72 percent of total passengers at IAH in FY 2024. In FY 2023 domestic enplaned passengers increased 7.7 percent and international increased 26.2 percent, resulting in

²⁵ Houston Chronicle, "Texas Medical Center's multibillion-dollar research campus opens, ushering in a new era," <https://www.houstonchronicle.com/business/real-estate/article/tmc-helix-park-opens-houston-research-campus-18418394.php> (accessed June 13, 2025).

²⁶ Greater Houston Partnership, "One Year In, TMC's Helix Park Proves to be a Powerful Innovation Hub," <https://www.houston.org/news/one-year-tmcs-helix-park-proves-be-powerful-innovation-hub> (accessed June 11, 2025).

²⁷ Nucamp, "This Month's Latest Tech News in Houston, TX - Saturday May 31st 2025 Edition," <https://www.nucamp.co/blog/this-months-latest-tech-news-in-houston-tx--saturday-may-31st-2025-edition> (accessed June 11, 2025).

²⁸ Greater Houston Partnership, "Houston Facts 2024," https://d9.houston.org/sites/default/files/2024-07/Houston%20Facts%202024%20Publication_Final.pdf (accessed June 12, 2025).

²⁹ Houston Methodist, "Forbes Ranks Houston Methodist as the #1 Employer in Texas for 2024," <https://www.houstonmethodistcareers.org/blog/article/165/> (accessed June 12, 2025).

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a year-over-year increase of 11.6 percent for total enplaned passengers. United represented the largest increase in scheduled seat capacity in FY 2023, with a 3.5 percent increase in scheduled departing seats as United restored nonstop service during FY 2022 and FY 2023 on routes that were suspended during the COVID-19 pandemic. United's load factor increased from 80.3 percent in FY 2022 to 84.7 percent in FY 2023. Spirit Airlines (Spirit) represented the second largest increase in scheduled seat capacity in FY 2023 with the addition of nonstop service to LaGuardia Airport (LGA) and General Mariano Escobedo International Airport in Monterrey, Mexico (MTY) in addition to growth in service on existing routes. Air New Zealand resumed nonstop service to Auckland Airport (AKL) in FY 2023.

TABLE 4 IAH DOMESTIC AND INTERNATIONAL ENPLANED PASSENGERS

YEAR	DOMESTIC		INTERNATIONAL		TOTAL	
	ENPLANED PASSENGERS	ANNUAL GROWTH	ENPLANED PASSENGERS	ANNUAL GROWTH	ENPLANED PASSENGERS	ANNUAL GROWTH
FY 2015	15,962,984	3.8%	4,995,571	5.7%	20,958,555	4.2%
FY 2016	15,992,394	0.2%	5,439,302	8.9%	21,431,696	2.3%
FY 2017	15,399,661	-3.7%	5,330,479	-2.0%	20,730,140	-3.3%
FY 2018	15,553,497	1.0%	5,222,231	-2.0%	20,775,728	0.2%
FY 2019	16,981,447	9.2%	5,497,006	5.3%	22,478,453	8.2%
FY 2020	12,554,409	-26.1%	3,972,819	-27.7%	16,527,228	-26.5%
FY 2021	8,901,097	-29.1%	1,960,251	-50.7%	10,861,348	-34.3%
FY 2022	15,573,463	75.0%	4,238,848	116.2%	19,812,311	82.4%
FY 2023	16,769,699	7.7%	5,350,681	26.2%	22,120,380	11.6%
FY 2024	17,716,657	5.6%	6,001,441	12.2%	23,718,098	7.2%
FY 2025 YTD ¹	14,845,732	2.9%	4,942,668	1.8%	19,788,400	2.6%
Compound Annual Growth Rate						
2015 – 2019	1.6%		2.4%		1.8%	
2015 – 2024	1.2%		2.1%		1.4%	

NOTES:

FY – Fiscal Year IAH – George Bush Intercontinental Airport; YTD – Year-to-Date

1 FY 2025 YTD – July 2024 through April 2025. FY 2025 YTD annual growth represents a comparison to July 2023 through April 2024.

SOURCE: Houston Airport System, June 2025.

In FY 2024, domestic enplaned passengers increased 5.6 percent and international increased 12.2 percent, resulting in a year-over-year increase of 7.2 percent for total enplaned passengers. FY 2024 total enplaned passengers were 5.5 percent higher than FY 2019 total enplaned passengers and represented a new annual record for IAH. United represented the largest increase in scheduled seat capacity in FY 2024, with growth in service to existing destinations and launch of service to Cheddi Jagan International Airport (GEO) in Georgetown, Guyana, Santa Fe Regional Airport (SAF), and Tulum International Airport (TQO). Frontier Airlines (Frontier) represented the second largest increase in scheduled seat capacity in FY 2024 as it increased service from 8 nonstop destinations served in FY 2023 to 14 in FY 2024. For the first 10 months of FY 2025, total enplaned passengers are 2.6 percent higher than the first 10 months of FY 2024. The FY 2025 year-to-date percentage increase is 2.9 percent for domestic enplaned passengers and 1.8 percent for

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international enplaned passengers. Enplaned passenger growth during the first 10 months of FY 2025 was driven in large part by higher passenger load factors as scheduled seat capacity only increased 0.3 percent compared to the first 10 months of FY 2024.

Table 5 presents the domestic and international enplaned passengers at HOU between FY 2015 and FY 2024 and FY 2025 year-to-date (July 2024 through April 2025). Southwest operates a focus city at HOU and represented approximately 94 percent of total HOU passengers in FY 2024. In FY 2023 domestic enplaned passengers increased 8.5 percent and international increased 14.1 percent, resulting in a year-over-year increase of 8.9 percent for total enplaned passengers. Southwest scheduled seat capacity increased 8.9 percent in FY 2023 on growth in departures and average seats per departure on most existing routes. Frontier launched service from HOU in May 2022 and provided nonstop service to four destinations from HOU during FY 2023: Cancun International Airport (CUN), Denver International Airport (DEN), Harry Reid International Airport (LAS) in Las Vegas, and Orlando International Airport (MCO). Southwest capacity increased to all destinations served by Frontier in FY 2023.

TABLE 5 HOU DOMESTIC AND INTERNATIONAL ENPLANED PASSENGERS

YEAR	DOMESTIC		INTERNATIONAL		TOTAL	
	ENPLANED PASSENGERS	ANNUAL GROWTH	ENPLANED PASSENGERS	ANNUAL GROWTH	ENPLANED PASSENGERS	ANNUAL GROWTH
FY 2015	5,943,358	1.8%	2,055		5,945,413	1.9%
FY 2016	6,117,464	2.9%	265,871		6,383,335	7.4%
FY 2017	6,219,751	1.7%	440,506	65.7%	6,660,257	4.3%
FY 2018	6,444,575	3.6%	492,486	11.8%	6,937,061	4.2%
FY 2019	6,833,766	6.0%	495,379	0.6%	7,329,145	5.7%
FY 2020	5,005,616	-26.8%	295,936	-40.3%	5,301,552	-27.7%
FY 2021	3,893,713	-22.2%	214,048	-27.7%	4,107,761	-22.5%
FY 2022	5,840,312	50.0%	427,393	99.7%	6,267,705	52.6%
FY 2023	6,336,608	8.5%	487,601	14.1%	6,824,209	8.9%
FY 2024	6,803,332	7.4%	491,140	0.7%	7,294,472	6.9%
FY 2025 YTD ¹	5,344,515	-3.4%	359,915	-8.4%	5,704,430	-3.7%
Compound Annual Growth Rate						
2015 – 2019	3.6%		294.0%		5.4%	
2015 – 2024	1.5%		83.8%		2.3%	

NOTES:

FY – Fiscal Year; HOU – William P. Hobby Airport; YTD – Year-to-Date

¹ FY 2025 YTD – July 2024 through April 2025. FY 2025 YTD annual growth represents a comparison to July 2023 through April 2024.

SOURCE: Houston Airport System, June 2025.

In FY 2024 domestic enplaned passengers increased 7.4 percent and international increased 0.7 percent, resulting in a year-over-year increase of 6.9 percent for total enplaned passengers. Southwest continued to increase departures and average seats per departure on existing routes, driving a 9.6 percent increase in scheduled seat capacity. Southwest growth in FY 2024 was partially offset by Frontier, which suspended

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service to LAS in May 2023 (later ending all HOU service in April 2025), resulting in a 48.8 percent decrease in Frontier's scheduled seat capacity compared to FY 2023.

Updated Forecast of Passengers, Operations, and Landed Weight

The short-term passenger forecast was based on analysis of qualitative and quantitative factors, including published airline schedules, historical data, and assumptions based on industry trends, to forecast passenger activity for FY 2025. The short-term forecast incorporates reported activity through April 2025 and published airline schedules used to estimate airline departing seats through December 2025. Departing seat capacity was forecast by airline and region by month from January 2026 through June 2026. Estimated load factors, also specific to the airline, region, and month, were applied to the departing seat forecast to derive the enplaned passenger forecast. The assumptions used to develop the short-term forecast were based on recent trends and account for the seasonality of demand as well as ongoing delays in the delivery of new aircraft, which have constrained airlines' capacity to accommodate demand.

Longer-term origin and destination (O&D) passenger activity for the Houston region was forecast using socioeconomic regression analysis techniques similar to the 2023 Report that identified predictive statistical relationships between historical O&D passenger volumes and independent socioeconomic variables (such as GRP, employment, and personal income) over a 20-year period ending in 2019. Domestic and international O&D passengers were independently forecast for the Airport System, inclusive of both IAH and HOU, using US and ATA socioeconomic variables. The connecting passenger forecast was based on updated independent forecasts of total US domestic O&D passengers and total US to international destination O&D passengers, using US socioeconomic variables.

Table 6 presents IAH historical and forecast enplaned passengers. Domestic enplaned passengers are forecast to increase from 17.7 million in FY 2024 to 21.1 million in FY 2032, which represents a CAGR of 2.2 percent. International enplaned passengers are forecast to increase from 6.0 million in FY 2024 to 7.3 million in FY 2032, which represents a CAGR of 2.5 percent. Total enplaned passengers are forecast to increase from 23.7 million in FY 2024 to 28.4 million in FY 2032, which represents a CAGR of 2.3 percent.

Table 7 presents HOU historical and forecast enplaned passengers. Total enplaned passengers are forecast to decrease 4.4 percent in FY 2025 due in large part to Southwest reducing scheduled seat capacity 4.0 percent. Frontier ended service at HOU in April 2025 and consolidated its service to the Houston area at IAH. Enplaned passengers are forecast to increase in FY 2026 and in each of the following years of the Projection Period. International passenger growth is forecast to accelerate in FY 2027 with the expected completion of the West Concourse Expansion, which will add 7 gates that will support growth in international operations. Domestic enplaned passengers are forecast to increase from 6.8 million in FY 2024 to 7.8 million in FY 2032, which represents a CAGR of 1.7 percent. International enplaned passengers are forecast to increase from 0.5 million in FY 2024 to 0.7 million in FY 2032, which represents a CAGR of 4.8 percent. Total enplaned passengers are forecast to increase from 7.3 million in FY 2024 to 8.5 million in FY 2032, which represents a CAGR of 1.9 percent.

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TABLE 6 IAH ENPLANED PASSENGER FORECAST

YEAR	DOMESTIC		INTERNATIONAL		TOTAL	
	ENPLANED PASSENGERS	ANNUAL GROWTH	ENPLANED PASSENGERS	ANNUAL GROWTH	ENPLANED PASSENGERS	ANNUAL GROWTH
Historical						
FY 2024	17,716,657	5.6%	6,001,441	12.2%	23,718,098	7.2%
Forecast						
FY 2025	18,112,529	2.2%	6,119,842	2.0%	24,232,371	2.2%
FY 2026	18,145,938	0.2%	6,124,326	0.1%	24,270,265	0.2%
FY 2027	18,756,757	3.4%	6,305,600	3.0%	25,062,357	3.3%
FY 2028	19,444,931	3.7%	6,532,800	3.6%	25,977,731	3.7%
FY 2029	19,841,781	2.0%	6,722,015	2.9%	26,563,797	2.3%
FY 2030	20,246,472	2.0%	6,923,853	3.0%	27,170,325	2.3%
FY 2031	20,655,008	2.0%	7,127,584	2.9%	27,782,592	2.3%
FY 2032	21,068,136	2.0%	7,333,518	2.9%	28,401,654	2.2%
Compound Annual Growth Rate						
2024 – 2032	2.2%		2.5%		2.3%	

NOTES:

FY – Fiscal Year; IAH – George Bush Intercontinental Airport

SOURCES: Houston Airport System, December 2024 (historical); Ricondo & Associates, Inc., May 2025 (forecast).

TABLE 7 HOU ENPLANED PASSENGER FORECAST

YEAR	DOMESTIC		INTERNATIONAL		TOTAL	
	ENPLANED PASSENGERS	ANNUAL GROWTH	ENPLANED PASSENGERS	ANNUAL GROWTH	ENPLANED PASSENGERS	ANNUAL GROWTH
Actual						
FY 2024	6,803,332	7.4%	491,140	0.7%	7,294,472	6.9%
Forecast						
FY 2025	6,519,775	-4.2%	453,060	-7.8%	6,972,835	-4.4%
FY 2026	6,605,987	1.3%	443,048	-2.2%	7,049,036	1.1%
FY 2027	6,767,703	2.4%	550,650	24.3%	7,318,353	3.8%
FY 2028	7,102,024	4.9%	601,244	9.2%	7,703,268	5.3%
FY 2029	7,339,796	3.3%	648,131	7.8%	7,987,927	3.7%
FY 2030	7,506,822	2.3%	675,971	4.3%	8,182,793	2.4%
FY 2031	7,650,665	1.9%	695,655	2.9%	8,346,320	2.0%
FY 2032	7,796,146	1.9%	715,547	2.9%	8,511,692	2.0%
Compound Annual Growth Rate						
2024 – 2032	1.7%		4.8%		1.9%	

NOTES:

FY – Fiscal Year; HOU – William P. Hobby Airport

SOURCES: Houston Airport System, December 2024 (historical); Ricondo & Associates, Inc., May 2025 (forecast).

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Table 8 presents the forecast of O&D and connecting enplaned passengers for IAH and HOU. IAH O&D enplaned passengers are forecast to increase by a CAGR of 1.8 percent between FY 2024 and FY 2032 compared to a CAGR of 3.0 percent for connecting enplaned passengers. The connecting passenger share of total passengers at IAH is forecast to increase from 40.9 percent in FY 2024 to 43.0 percent in FY 2032. HOU O&D enplaned passengers are forecast to increase by a CAGR of 0.8 percent between FY 2024 and FY 2032 compared to a CAGR of 3.7 percent for connecting enplaned passengers. The connecting passenger share of total passengers at HOU is forecast to increase from 37.6 percent in FY 2024 to 43.1 percent in FY 2032.

TABLE 8 IAH AND HOU O&D AND CONNECTING ENPLANED PASSENGER FORECAST

YEAR	IAH ENPLANED PASSENGERS			HOU ENPLANED PASSENGERS		
	O&D	CONNECTING	CONNECTING SHARE	O&D	CONNECTING	CONNECTING SHARE
<i>Actual</i>						
FY 2024	14,017,147	9,700,951	40.9%	4,555,254	2,739,218	37.6%
<i>Forecast</i>						
FY 2025	13,570,128	10,662,243	44.0%	4,480,958	2,491,877	35.7%
FY 2026	13,591,348	10,678,917	44.0%	4,529,927	2,519,108	35.7%
FY 2027	14,407,711	10,654,646	42.5%	4,324,473	2,993,880	40.9%
FY 2028	14,846,174	11,131,557	42.9%	4,468,143	3,235,125	42.0%
FY 2029	15,164,362	11,399,434	42.9%	4,568,997	3,418,930	42.8%
FY 2030	15,499,700	11,670,625	43.0%	4,658,546	3,524,247	43.1%
FY 2031	15,838,514	11,944,078	43.0%	4,749,003	3,597,318	43.1%
FY 2032	16,181,383	12,220,272	43.0%	4,840,530	3,671,163	43.1%
<i>Compound Annual Growth Rate</i>						
2024 – 2032	1.8%	2.9%		0.8%	3.7%	

NOTES:

HOU – William P. Hobby Airport; IAH – George Bush Intercontinental Airport; FY – Fiscal Year; O&D – Origination and Destination

SOURCES: Houston Airport System, December 2024 (historical); Ricondo & Associates, Inc., May 2025 (forecast).

The forecast of passenger airline operations (arriving and departing flights) was based on the forecast of enplaned passengers and estimates of future average seats per departure and load factor. The forecast of non-passenger airline operations was based on growth rates established in the 2024 FAA Aerospace forecast for air taxi and general aviation operations applied to the baseline FY 2024 reported operations. Military operations were assumed to remain constant FY 2024 levels through FY 2032.

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Table 9 presents the actual and forecast operations at IAH from FY 2024 through FY 2032. Total IAH operations are forecast to increase from 435,190 in FY 2024 to 498,106 in FY 2032, which represents a CAGR of 1.7 percent. **Table 10** presents the actual and forecast operations at HOU from FY 2024 through FY 2032. Total HOU operations are forecast to increase from 204,533 in FY 2024 to 210,915 in FY 2032, which represents a CAGR of 0.4 percent.

TABLE 9 IAH OPERATIONS FORECAST

YEAR	OPERATIONS				
	AIR CARRIER ¹	AIR TAXI / COMMUTER ²	GENERAL AVIATION ³	MILITARY	TOTAL
Actual					
FY 2024	374,372	52,882	7,820	116	435,190
Forecast					
FY 2025	383,123	53,477	8,008	116	444,724
FY 2026	383,277	51,241	8,112	116	442,746
FY 2027	394,902	51,026	8,162	116	454,206
FY 2028	408,325	51,588	8,187	116	468,216
FY 2029	416,287	52,152	8,211	116	476,767
FY 2030	422,792	52,729	8,237	116	483,874
FY 2031	429,282	53,314	8,262	116	490,974
FY 2032	435,790	53,913	8,287	116	498,106
Compound Annual Growth Rate					
2024 – 2032	1.9%	0.2%	0.7%	0.0%	1.7%

NOTES:

FY – Fiscal Year; IAH – George Bush Intercontinental Airport

1 Air carrier includes aircraft with seating capacity of more than 60 seats or a maximum payload capacity of more than 18,000 pounds carrying passengers or cargo for hire or compensation.

2 Air taxi and commuter include aircraft with seating capacity of 60 seats or less or a maximum payload capacity of 18,000 pounds or less carrying passengers or cargo for hire or compensation.

3 General aviation includes all civil aviation that is not for hire or compensation and excludes military operations. Activity includes flying for personal or corporate reasons and pilot training.

SOURCES: Houston Airport System, December 2024 (historical); Ricondo & Associates, Inc., May 2025 (forecast).

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TABLE 10 HOU OPERATIONS FORECAST

YEAR	OPERATIONS				
	AIR CARRIER ¹	AIR TAXI / COMMUTER ²	GENERAL AVIATION ³	MILITARY	TOTAL
Actual					
FY 2024	124,143	29,636	50,173	581	204,533
Forecast					
FY 2025	111,316	29,969	51,380	581	193,246
FY 2026	111,124	28,716	52,047	581	192,467
FY 2027	113,934	28,596	52,365	581	195,476
FY 2028	118,443	28,911	52,525	581	200,460
FY 2029	121,311	29,227	52,685	581	203,804
FY 2030	123,519	29,550	52,846	581	206,496
FY 2031	125,231	29,878	53,008	581	208,698
FY 2032	126,949	30,214	53,171	581	210,915
Compound Annual Growth Rate					
2024 – 2032	0.3%	0.2%	0.7%	0.0%	0.4%

NOTES:

FY – Fiscal Year; HOU – William P. Hobby Airport

- 1 Air carrier includes aircraft with seating capacity of more than 60 seats or a maximum payload capacity of more than 18,000 pounds carrying passengers or cargo for hire or compensation.
- 2 Air taxi and commuter include aircraft with seating capacity of 60 seats or less or a maximum payload capacity of 18,000 pounds or less carrying passengers or cargo for hire or compensation.
- 3 General aviation includes all civil aviation that is not for hire or compensation and excludes military operations. Activity includes flying for personal or corporate reasons and pilot training.

SOURCES: Houston Airport System, December 2024 (historical); Ricondo & Associates, Inc., May 2025 (forecast).

The passenger landed weight forecast was based on forecast year-over-year percentage change in passenger airline departing seats applied to the baseline FY 2024 passenger airline landed weight at IAH and HOU, under the assumption that changes in average seats per departure generally reflect changes in average aircraft size. The all-cargo landed weight forecast was based on the year-over-year percentage change in cargo revenue ton miles as presented in the 2024 FAA aerospace forecast applied to the baseline FY 2024 all-cargo landed weight at IAH and HOU, under that assumption that cargo volumes at IAH and HOU grow in line with national averages and that average all-cargo aircraft size does not meaningfully change over the course of the Projection Period. **Table 11** presents the actual and forecast passenger airline and all-cargo landed weight at IAH and HOU from FY 2024 through FY 2032.

The activity forecast presented in Table 6 through Table 11 was used for purposes of the financial analysis presented in this 2025 Letter.

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TABLE 11 IAH AND HOU LANDED WEIGHT FORECAST

YEAR	IAH LANDED WEIGHT			HOU LANDED WEIGHT		
	PASSENGER AIRLINES	ALL-CARGO AIRLINES	TOTAL	PASSENGER AIRLINES	ALL-CARGO AIRLINES	TOTAL
<i>Actual</i>						
FY 2024	28,234,224	2,175,988	30,410,213	8,340,309	587	8,340,897
<i>Forecast</i>						
FY 2025	29,093,497	2,242,284	31,335,781	7,922,884	605	7,923,489
FY 2026	29,104,063	2,333,454	31,437,517	7,959,873	630	7,960,502
FY 2027	30,017,930	2,427,396	32,445,326	8,213,134	655	8,213,789
FY 2028	31,077,092	2,518,819	33,595,911	8,592,235	680	8,592,914
FY 2029	31,740,245	2,607,933	34,348,178	8,855,581	704	8,856,285
FY 2030	32,426,236	2,690,332	35,116,568	9,016,800	726	9,017,526
FY 2031	33,117,433	2,772,290	35,889,723	9,141,756	748	9,142,505
FY 2032	33,815,075	2,856,811	36,671,885	9,267,230	771	9,268,001
<i>Compound Annual Growth Rate</i>						
2024 – 2032	2.3%	3.5%	2.4%	1.3%	3.5%	1.3%

NOTES:

FY – Fiscal Year; HOU – William P. Hobby Airport; IAH – George Bush Intercontinental Airport

SOURCES: Houston Airport System, December 2024 (historical); Ricondo & Associates, Inc., May 2025 (forecast).

Potential Impact of Federal Initiatives and Geopolitical Issues on Air Traffic Demand

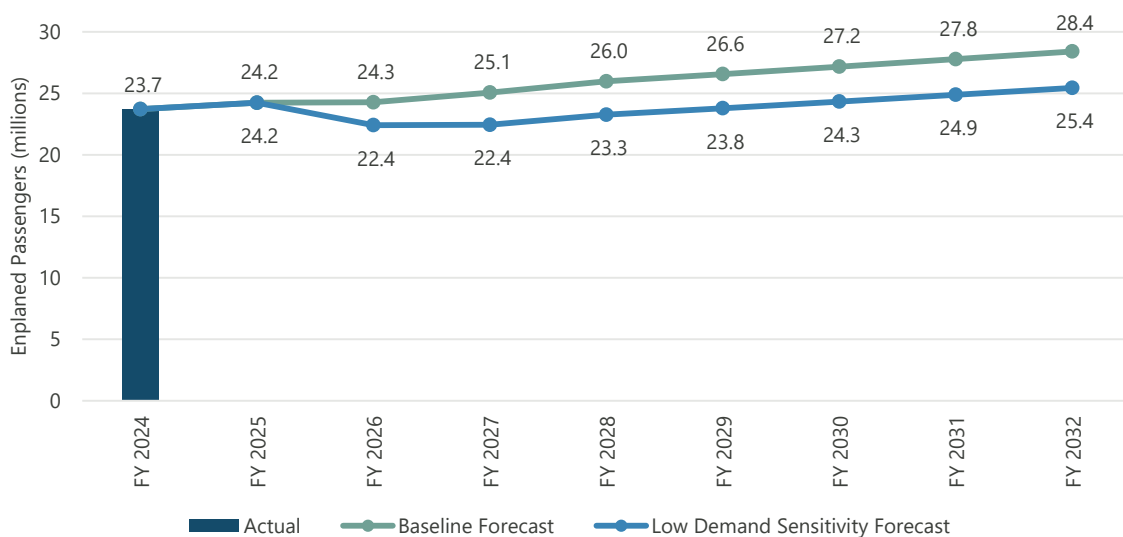
At the time of this 2025 Letter, the implementation of tariffs and other policies and actions executed by the US government that have the potential to impact economic conditions and travel, directly or indirectly, are in various stages of development and implementation. It is too soon to account for the potential near or long-term impacts, if any, of such actions on the national and global economies or air travel. However, implementation of such policies may impact air travel, economic projections (i.e., GDP growth, levels of employment, and Per Capita Personal Income [PCPI] growth), further impacting air traffic, and activity forecasts included in this 2025 Letter might not be attained. Additionally, geopolitical issues may affect aviation activity during the Projection Period. Potential governmental or regional instability in certain countries or locations may affect access to, or demand for, aviation service in these places.

As of the date of this 2025 Letter, several US airlines have reduced their near-term revenue outlooks, citing concerns about the impact of increased economic uncertainty on demand for air travel. Fuel prices have recently decreased, as expected in a slowing economy. Lower fuel prices reduce the pressure on airlines to pull down seat capacity as demand decreases. The potential effects of tariffs on the demand for air traffic and the underlying economics, positive or negative, have not been incorporated into the baseline analyses or findings of this 2025 Letter.

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For purposes of testing the resiliency of the financial results presented in this 2025 Letter, a low demand sensitivity forecast was developed. The low demand sensitivity forecast was developed by applying a decrease in enplaned passengers over a 2-year period, through FY 2027 with separate adjustments for domestic and international enplaned passengers. Year-over-year growth rates from FY 2028 through FY 2032 are the same as the baseline forecast and, while an accelerated recovery may be possible and has some historical precedent, it was not assumed for purpose of this 2025 Letter. **Exhibits 1 and 2** compare the baseline enplaned passenger forecast and low demand sensitivity enplaned passengers forecast for IAH and HOU, respectively. For the purpose of the sensitivity analysis, a similar decrease and recovery profile was applied to the baseline landed weight forecast.

EXHIBIT 1 IAH BASELINE AND LOW DEMAND SENSITIVITY FORECAST ENPLANED PASSENGERS



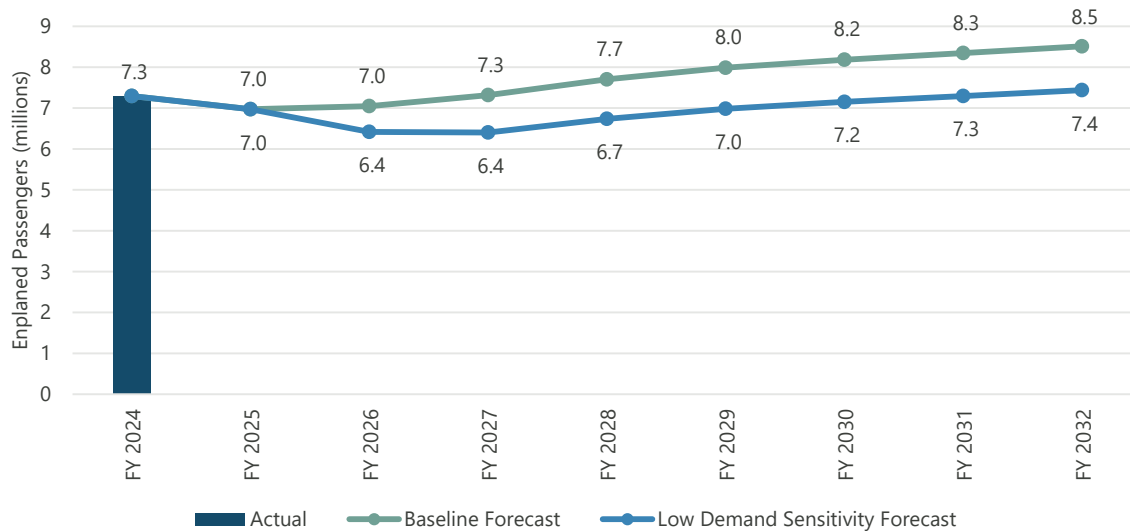
NOTES:

FY – Fiscal Year; IAH – George Bush Intercontinental Airport

SOURCES: Houston Airport System, December 2024 (historical); Ricondo & Associates, Inc., May 2025 (forecast).

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EXHIBIT 2 HOU BASELINE AND LOW DEMAND SENSITIVITY FORECAST ENPLANED PASSENGERS



NOTES:

FY – Fiscal Year; HOU – William P. Hobby Airport

SOURCES: Houston Airport System, December 2024 (historical); Ricondo & Associates, Inc., May 2025 (forecast).

Terminal Growth Scenario

The updated capital plan at IAH provides the possibility of additional gate capacity and utilization that would support additional activity, including the Terminal B Transformation Program, anticipated to be complete by FY 2028 with phases of the project opening in FY 2026. An alternative scenario forecast was developed to evaluate increased activity at IAH. The terminal growth scenario forecast assumes that IAH would capture a larger share of total domestic O&D passengers and O&D passengers traveling between the US and international destinations as connecting passengers. Domestic connecting passenger share increases from 0.7 percent of total US domestic passengers in FY 2024 to 1.9 percent in the terminal growth scenario by FY 2028, compared to 1.0 percent in the baseline forecast. International connecting passenger share increases from 4.8 percent of total passengers traveling between the US and international destinations in FY 2024 to 6.0 percent in the terminal growth scenario by FY 2028, compared to 4.3 percent in the baseline forecast. The terminal growth scenario retains O&D passenger forecast developed for the baseline forecast.

Table 12 presents the terminal growth scenario forecast for IAH. Domestic enplaned passengers are forecast to increase from 17.7 million in FY 2024 to 24.5 million in FY 2032, which represents a CAGR of 4.1 percent. International enplaned passengers are forecast to increase from 6.0 million in FY 2024 to 8.7 million in FY 2032, which represents a CAGR of 4.7 percent. Total enplaned passengers are forecast to increase from 23.7 million in FY 2024 to 33.1 million in FY 2032, which represents a CAGR of 4.3 percent.

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TABLE 12 IAH TERMINAL GROWTH SCENARIO ENPLANED PASSENGER FORECAST

YEAR	DOMESTIC		INTERNATIONAL		TOTAL	
	ENPLANED PASSENGERS	ANNUAL GROWTH	ENPLANED PASSENGERS	ANNUAL GROWTH	ENPLANED PASSENGERS	ANNUAL GROWTH
Actual						
FY 2024	17,716,657	5.6%	6,001,441	12.2%	23,718,098	7.2%
Forecast						
FY 2025	18,112,529	2.5%	6,119,842	2.0%	24,232,371	2.4%
FY 2026	18,145,938	0.2%	6,124,326	0.1%	24,270,265	0.2%
FY 2027	20,719,543	14.2%	7,130,823	16.4%	27,850,366	14.8%
FY 2028	22,387,204	8.0%	7,713,712	8.2%	30,100,916	8.1%
FY 2029	23,065,448	3.0%	7,937,079	2.9%	31,002,526	3.0%
FY 2030	23,533,982	2.0%	8,174,223	3.0%	31,708,206	2.3%
FY 2031	24,006,909	2.0%	8,413,562	2.9%	32,420,470	2.2%
FY 2032	24,485,105	2.0%	8,655,456	2.9%	33,140,560	2.2%
Compound Annual Growth Rate						
2024 – 2032	4.1%		4.7%		4.3%	

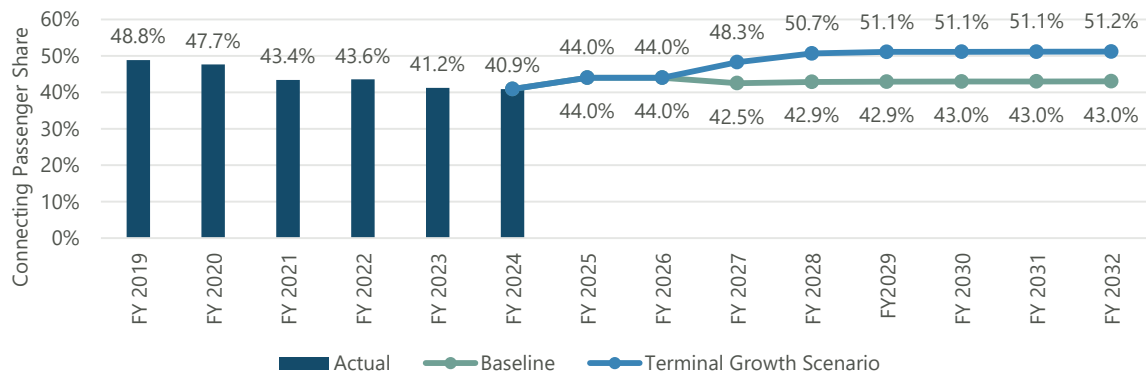
NOTES:

FY – Fiscal Year; IAH – George Bush Intercontinental Airport

SOURCES: Houston Airport System, December 2024 (historical); Ricondo & Associates, Inc., May 2025 (forecast).

Exhibit 3 presents a comparison of the connecting passenger percentages in the baseline and terminal growth scenario forecasts for IAH. The connecting passenger share increases from 40.9 percent in FY 2024 to 51.2 percent in FY 2030 and remains at that share through FY 2032 in the terminal growth scenario, compared to a peak of 43.0 percent in the baseline forecast.

EXHIBIT 3 IAH CONNECTING PASSENGER SHARE FORECAST COMPARISON



NOTES:

FY – Fiscal Year; IAH – George Bush Intercontinental Airport

The historical connecting passenger share in this 2025 Letter was derived using US Department of Transportation databases. The historical connecting share presented in the 2023 Report was based on Houston Airport System reporting of connecting passengers.

SOURCES: Cirium Diio, May 2025 (US DOT T-100 and DB1B, historical share); Ricondo & Associates, Inc., May 2025 (forecast share).

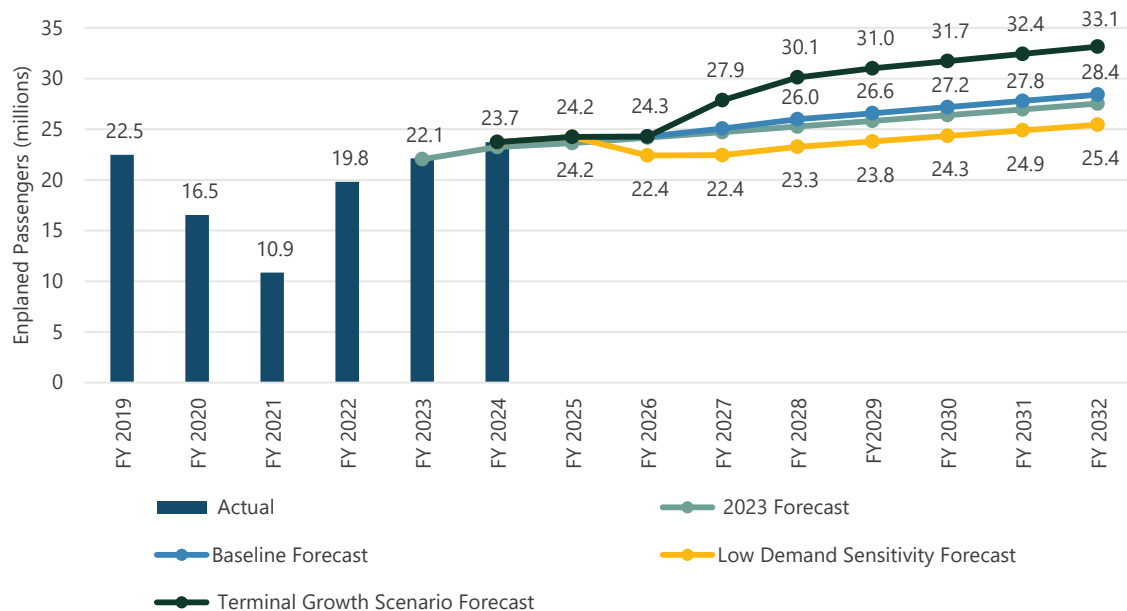


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Forecast Comparison

Exhibit 4 presents the actual and forecast enplaned passengers for IAH for the forecast prepared in 2023, the baseline forecast, the low demand sensitivity forecast, and the terminal growth scenario forecast. The baseline forecast is higher than the 2023 forecast throughout the Projection Period, increasing to 28.4 million enplaned passengers in FY 2032 compared to 27.5 million enplaned passengers in FY 2032 in the 2023 forecast and 25.4 million in the low demand sensitivity forecast. Enplaned passengers increase to 33.1 million in FY 2032 in the terminal growth scenario forecast.

EXHIBIT 4 IAH ENPLANED PASSENGER FORECAST COMPARISON



NOTES:

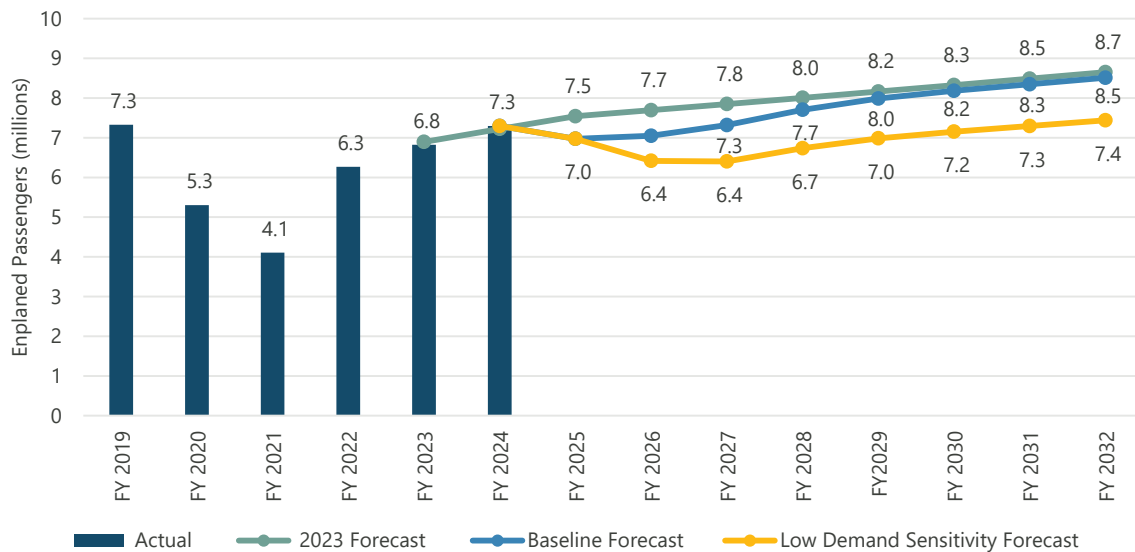
FY – Fiscal Year; IAH – George Bush Intercontinental Airport
Financial analysis assumes the baseline (2025) forecast.

SOURCES: Houston Airport System, December 2024 (historical); Ricondo & Associates, Inc., May 2025 (forecast).

Exhibit 5 presents the actual and forecast enplaned passengers for HOU for the forecast prepared in 2023, the baseline forecast, and the low demand sensitivity forecast. The baseline forecast is lower than the 2023 forecast throughout the Projection Period, with the difference between the two forecasts narrowing from FY 2029 through FY 2032.

Mr. Jim Szczesniak
City of Houston, Houston Airport System
July 17, 2025

EXHIBIT 5 HOU ENPLANED PASSENGER FORECAST COMPARISON



NOTES:

FY – Fiscal Year; HOU – William P. Hobby Airport

SOURCES: Houston Airport System, December 2024 (historical); Ricondo & Associates, Inc., May 2025 (forecast).

Updated Financial Analysis

Changes to the financial analysis from the 2023 Report reflect updates to activity forecasts, Airports rates and charges budget information, actual debt service on the 2023 Bonds, the estimated 2025 Bonds, and updated future debt service assumptions based on the FY 2026 – FY 2032 CIP.

This updated financial analysis, like the 2023 Report, assumes a continuation of the rate-setting methodology set forth in the existing airline use and lease agreements for the entirety of the Projection Period.

The FY 2025 budget and the baseline traffic activity forecast serve as the basis for the updated financial projections and the financial analysis in this 2025 Letter.

Generally, changes to the financial projections compared with the 2023 Report include the following:

- Increase in O&M Expenses by 19.8 percent in the FY 2025 budget compared to the FY 2025 projection in the 2023 Report, as discussed in the following section
- Increase in non-airline revenues by 2.0 percent in the FY 2025 budget compared to the FY 2025 projection in the 2023 Report

Mr. Jim Szczesniak
City of Houston, Houston Airport System
July 17, 2025

- Adjustments to projected Debt Service (based on final pricing of 2023 Bonds, issuance of the 2025 Bonds, and revised future Airport Obligations issuance assumptions based on the FY 2026 – FY 2032 CIP)

An updated set of financial projection tables, corresponding to Appendix A of the 2023 Report, are included at the end of this 2025 Letter as **Attachment 1**.

Updated Operation and Maintenance Expense Projections

The final approved FY 2023 budget for HAS served as the base year from which O&M Expenses were projected in the 2023 Report and totaled approximately \$367.4 million. Actual FY 2023 O&M Expenses totaled approximately \$369.1 million. Actual FY 2024 O&M Expenses totaled approximately \$417.3 million, approximately 13.1 percent higher than FY 2023 O&M Expenses. Contributors to the increase in FY 2024 included additional administrative costs, a shift in the treatment of parking expenses, and Airport Improvement Fund (AIF)-funded capital outlays, and increased building maintenance costs associated with the opening of certain ITRP components. Budget FY 2025 O&M Expenses are \$469.6 million, approximately 12.5 percent higher than Actual FY 2024 O&M Expenses.

The base year for O&M Expenses for this 2025 Letter is Budget FY 2025. Actual HAS O&M Expenses have historically come in near or under budget. Actual FY 2023 expenses were approximately 0.5 percent higher than the FY 2023 budget. However, Actual FY 2024 expenses were approximately 3.7 percent lower than the FY 2024 budget. According to HAS, FY 2025 expenses are estimated to end the year more than \$20 million (4.3 percent) lower than the FY 2025 budget.

Exhibit 6 presents the FY 2025 budgeted O&M Expenses by cost category. Additional information and descriptions of the types of O&M expenses can be found in section 6.2.4 of the 2023 Report.

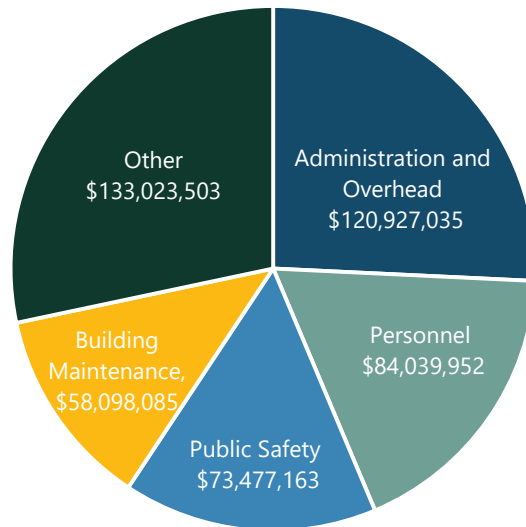
O&M Expenses are projected to increase based on the type of expenditure, expectations of future inflation rates, and operational impacts of planned capital projects. A comparison of projected O&M Expenses between the updated financial analysis and the 2023 Report is presented on **Exhibit 7**. In the 2023 Report, total O&M Expenses were projected to be approximately \$391.8 million in FY 2025, and they are now budgeted to be \$469.6 million, a difference of 19.8 percent, due to the previously noted factors that have increased expenses since FY 2023. O&M Expenses are now projected to be \$577.2 million in FY 2032, an increase of 19.2 percent from the 2023 Report.

As shown in Table A-1 in Attachment 1, total O&M Expenses are projected to increase from approximately \$469.6 million in FY 2025 to approximately \$577.2 million in 2032, reflecting a CAGR of 3.0 percent. This compares to a CAGR of 3.1 percent projected in the 2023 Report for the same period. Projected O&M Expenses incorporate incremental O&M Expenses related to the scheduled completion of the Airport Capital Program through FY 2032.

Mr. Jim Szczesniak
City of Houston, Houston Airport System
July 17, 2025

EXHIBIT 6 FISCAL YEAR 2025 OPERATION AND MAINTENANCE EXPENSES BY CATEGORY

(Fiscal Years Ending June 30)



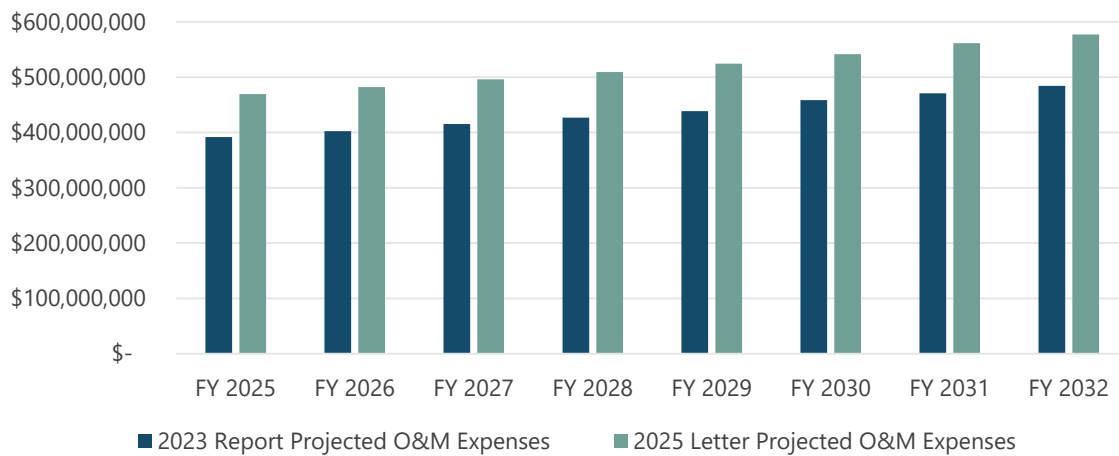
NOTE:

Other O&M Expenses include Parking, Utilities, Supplies, Capital Outlays, Noncapital Equipment, Pension Obligation Bond Interest, and Other Services.

SOURCE: Houston Airport System, June 2025.

EXHIBIT 7 PROJECTED OPERATION AND MAINTENANCE EXPENSES COMPARISON

(Fiscal Years Ending June 30)



NOTES:

FY – Fiscal Year; O&M – Operation and Maintenance

SOURCE: Ricondo & Associates, Inc., June 2025.

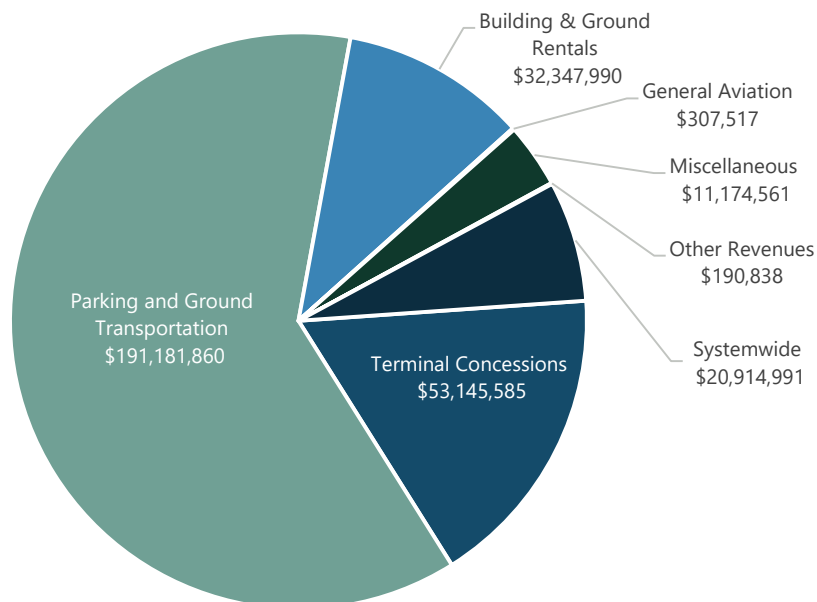
Mr. Jim Szczesniak
City of Houston, Houston Airport System
July 17, 2025

Updated Non-Airline Revenue Projections

Non-airline revenues include all Gross Revenues³⁰ generated for the Airport System except for airline rates, fees, and charges. **Exhibit 8** presents the breakdown of budgeted FY 2025 non-airline revenues by category. Total non-airline revenues in FY 2025 are budgeted at approximately \$309.3 million. Budget FY 2025 non-airline revenues serve as the base from which non-airline revenues are projected. Additional information and descriptions of the types of non-airline revenues can be found in section 6.3.4 of the 2023 Report.

EXHIBIT 8 FISCAL YEAR 2025 BUDGETED NON-AIRLINE REVENUES BY CATEGORY

(Fiscal Year Ending June 30)



NOTE:

Systemwide revenues include construction permits, ground transportation concessions, investment revenues, and systemwide miscellaneous revenue. Miscellaneous revenues include cell tower revenue, disposal fees, badging fees, miscellaneous operating revenue, and operating recoveries and refunds at George Bush Intercontinental and William P. Hobby Airports. Other revenues include various revenues collected at Ellington Airport, including auto rental concessions, special event concessions, and recoveries and refunds.

SOURCE: Houston Airport System, June 2025.

³⁰ Gross Revenues means all income and revenues derived directly or indirectly by the City from the operation and use of and otherwise pertaining to the Airport System, subject to the terms of the definition included in the Bond Ordinance.

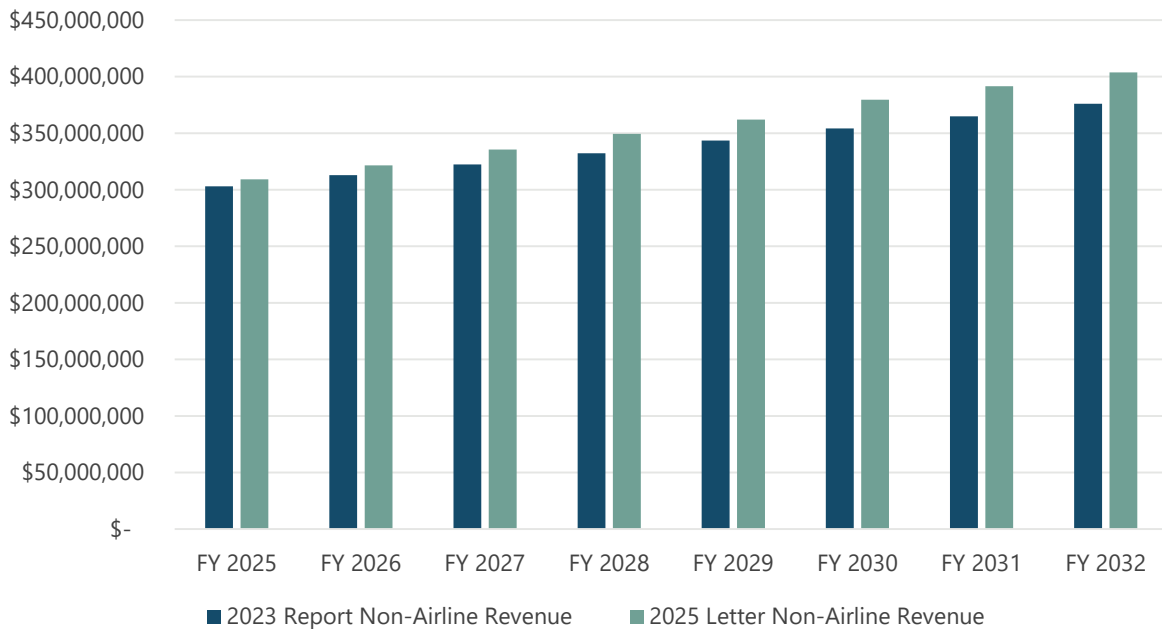
Mr. Jim Szczesniak
City of Houston, Houston Airport System
July 17, 2025

Similar to the 2023 Report, non-airline revenues are projected to increase based on factors such as inflation, passenger activity growth, operational impacts, or a combination thereof, depending upon the category of revenues. In addition, non-airline revenues may be impacted by one-time increases to concession spending per passenger upon the expansion of IAH and HOU facilities. Consistent with the 2023 Report, additional incremental non-airline revenue increases are not assumed for purposes of this analysis. It is anticipated that any such increases to non-airline revenues resulting from additional concessions space would increase HAS Gross Revenues above the figures shown in Attachment 1.

A comparison of projected non-airline revenues between the updated financial analysis and the 2023 Report is presented on **Exhibit 9**. In the 2023 Report, total non-airline revenues were projected to be approximately \$303.1 million in FY 2025, and they are now budgeted to be \$309.3 million, a difference of 2.0 percent. Non-airline revenues are now projected to be \$403.7 million in FY 2032, an increase of 7.4 percent from the 2023 Report.

EXHIBIT 9 PROJECTED NON-AIRLINE REVENUES COMPARISON

(Fiscal Years Ending June 30)



NOTE:

FY- Fiscal Year

SOURCE: Ricondo & Associates, Inc., June 2025.

Mr. Jim Szczesniak
City of Houston, Houston Airport System
July 17, 2025

As shown in Table A-2 in Attachment 1, total non-airline revenues are projected to increase from approximately \$309.3 million in FY 2025 to approximately \$403.7 million in 2032, reflecting a CAGR of 3.9 percent. This compares to a CAGR of 3.1 percent projected in the 2023 Report for the same period, generally reflecting changes in forecast passenger activity.

Updated Other Available Revenue

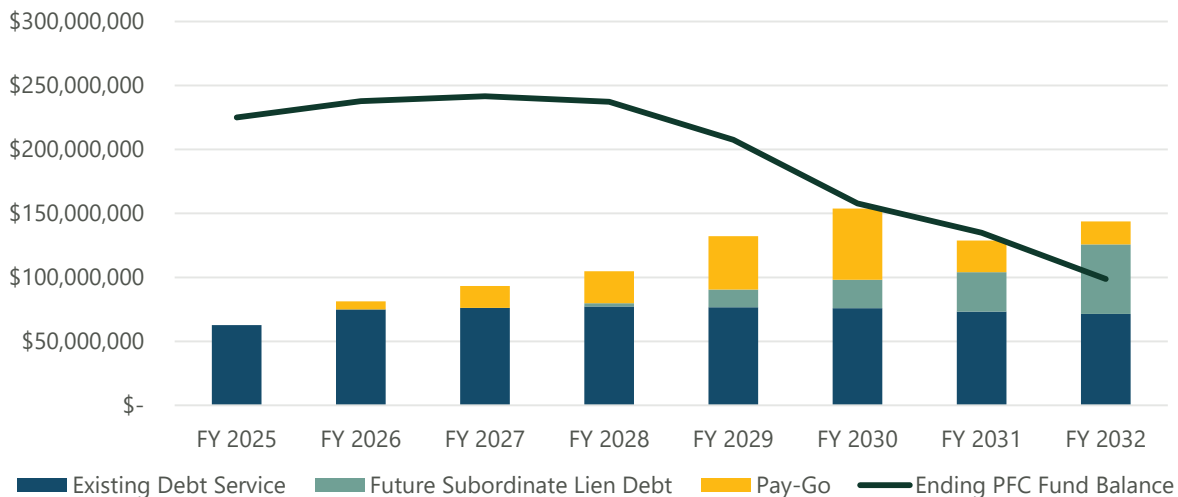
Passenger Facility Charge Revenue

This 2025 Letter assumes continued collection and use of a \$4.50 Passenger Facility Charge (PFC) per passenger at both IAH and HOU. Attachment 1 presents the projected annual PFC Revenue cash flow, forecast enplaned passengers, an assumed PFC level of \$4.50 per enplaned passenger through the end of the Projection Period, and an assumed PFC collection ratio of 85 percent of enplaned passengers. PFC Revenues are assumed to be used on a pay as you go basis for certain CIP projects, as depicted in Table 3. PFC Revenues are also assumed to be used to pay a portion of debt service on existing bonds, the 2025 Bonds, and future bonds, based on assumed PFC eligibility of bond funded projects.

Projected PFC Revenues, as shown on **Exhibit 10** and **Exhibit 11**, are expected to be sufficient to cover all anticipated PFC commitments to the portion of Subordinate Lien Bonds that finance PFC projects. No PFC Revenues are anticipated to be committed to Senior Lien Obligations or Inferior Lien Obligations throughout the Projection Period.

EXHIBIT 10 PROJECTED IAH PASSENGER FACILITY CHARGE AVAILABILITY AND USES

(Fiscal Years Ending June 30)



NOTES:

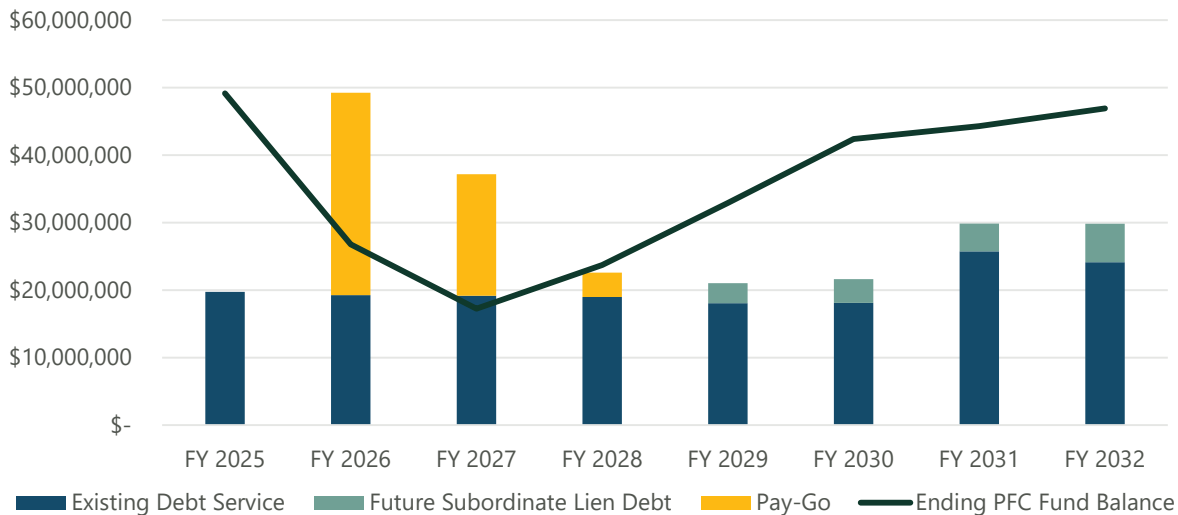
FY – Fiscal Year; IAH – George Bush Intercontinental Airport; Pay-Go – Pay as you go; PFC – Passenger Facility Charge
Future Subordinate Lien Debt includes the proposed 2025 Bonds, along with future bonds.

SOURCE: Houston Airport System, July 2025.

Mr. Jim Szczesniak
City of Houston, Houston Airport System
July 17, 2025

EXHIBIT 11 PROJECTED HOU PASSENGER FACILITY CHARGE AVAILABILITY AND USES

(Fiscal Years Ending June 30)



NOTES:

FY – Fiscal Year; HOU – William P. Hobby Airport; Pay-Go – Pay as you go; PFC – Passenger Facility Charge
Future Subordinate Lien Debt includes the proposed 2025 Bonds, along with future bonds.

SOURCE: Houston Airport System, July 2025.

Federal Aviation Administration Airport Improvement Program Grants and Other Federal Funding

Since the 2023 Report, HAS continues to receive federal grant allocations through the Infrastructure Investment and Jobs Act (IIJA). Under this program through September 2024, HAS has been allocated a total of \$220.0 million in Airport Infrastructure Grant (AIG) entitlement funds and has been awarded \$60.7 million in Airport Terminal Program (ATP) discretionary grants. An additional ATP grant for \$9.6 million was announced in October 2024 for the Skyway project at IAH. All current and future AIG allocations and ATP awards will be applied to projects included in the CIP. In addition to IIJA funding, HAS continues to apply for and receive Airport Improvement Program (AIP) entitlement and discretionary grants, which are assumed to continue through the Projection Period. Approximately \$547.6 million in federal (AIP/IIJA) grants are estimated to fund portions of the CIP through the Projection Period.

Updated Debt Service

Existing Airport Obligations

Total debt service on existing Subordinate Lien Bonds is approximately \$222.4 million in FY 2025, increasing to approximately \$237.0 million in FY 2032. Existing Subordinate Lien debt service includes the 2023 Bonds, as issued in connection with the 2023 Report.

Mr. Jim Szczesniak
City of Houston, Houston Airport System
July 17, 2025

2025 Bonds

The 2025 Bonds are assumed to have a term of 30 years, and for purposes of this 2025 Letter, interest on the 2025 Bonds is assumed at 5.5 percent, which is partially capitalized through FY 2028. Total debt service payable on the 2025 Bonds is projected to be approximately \$1.3 million in FY 2026, increasing to approximately \$53.5 million in FY 2029 and remaining at that level annually thereafter through the Projection Period.

Future Airport Obligations

Subsequent to the 2025 Bonds, future additional Subordinate Lien Bonds are anticipated to be issued to fund the FY 2026 – FY 2032 CIP, as summarized in **Table 13**. For the purposes of this 2025 Letter, each future Subordinate Lien Bond is assumed to have a 30-year level debt amortization schedule with 3 years of interest only payments, and interest assumed at 5.5 percent, which is fully capitalized for up to 3 years following issuance, based on estimated project completion.

TABLE 13 ASSUMED FUTURE BOND ISSUANCES

FUTURE SUBORDINATE LIEN BOND ISSUANCES	BOND PAR	BOND PROCEEDS (PROJECT FUNDING)
Series 2027	\$190.4 million	\$164.7 million
Series 2029	\$393.8 million	\$337.2 million
Series 2030	\$422.1 million	\$352.8 million
Series 2031	\$178.9 million	\$148.5 million
Series 2032	\$109.3 million	\$94.5 million
Total Subsequent to 2025 Bonds	\$1,294.5 million	\$1,097.7 million
2025 Bonds	\$743.2 million	\$586.5 million
Total Future Bonds	\$2,037.7 million	\$1,684.2 million

NOTES:

Totals may not sum due to rounding.

Amounts do not assume refunding of existing bonds.

SOURCES: Houston Airport System, July 2025; Masterson Advisors LLC, July 2025.

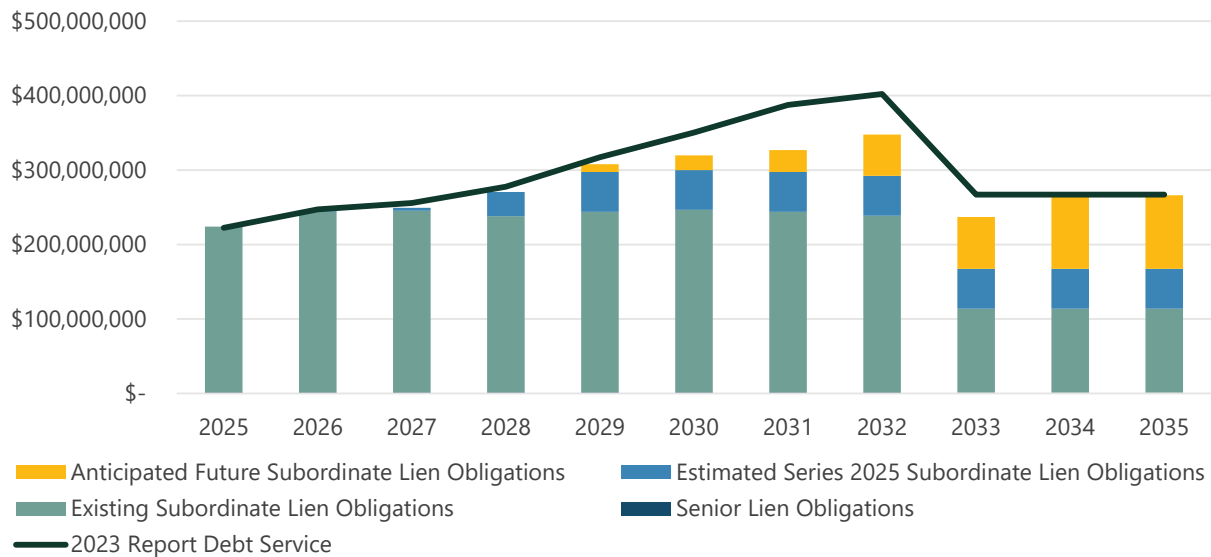
Debt Service

Debt service in the financial analysis reflects existing and projected future debt service. Debt service figures are adjusted to reflect Debt Service Requirements as defined in the Bond Ordinance, investment income, and program fees. A comparison of projected debt service between the updated financial analysis and the financial analysis in the 2023 Report is presented on **Exhibit 12**. Debt service is projected to be lower through the Projection Period compared to the 2023 Report due to an anticipated decrease in the use of bond proceeds and associated increase in the use of AIF funding and anticipated grants.

Mr. Jim Szczesniak
City of Houston, Houston Airport System
July 17, 2025

EXHIBIT 12 PROJECTED DEBT SERVICE COMPARISON

(Fiscal Years Ending June 30)



NOTES:

Net of capitalized interest. Years shown represent Fiscal Years.

Debt Service Requirements, as defined in the Master Ordinance and as shown, reflect interest and principal due, less the amount irrevocably committed to be paid with Airport System funds other than Gross Revenues, including PFC Revenues.

The Senior Lien Obligations are expected to be used for commercial paper only during the Projection Period, with the Subordinate Lien Obligations representing the "working lien" for all new-money issuances.

SOURCES: Houston Airport System, July 2025; Masterson Advisors LLC, July 2025.

As shown, debt service is projected to be approximately \$224.2 million in FY 2025, increasing to approximately \$347.8 million in FY 2032. Considering anticipated use of PFC Revenues to pay eligible debt service and other funds available to offset debt service allowable by the Bond Ordinance, the resulting Debt Service Requirements to be paid with Net Revenues is estimated to range between approximately \$141.7 million and approximately \$192.1 million within the Projection Period.

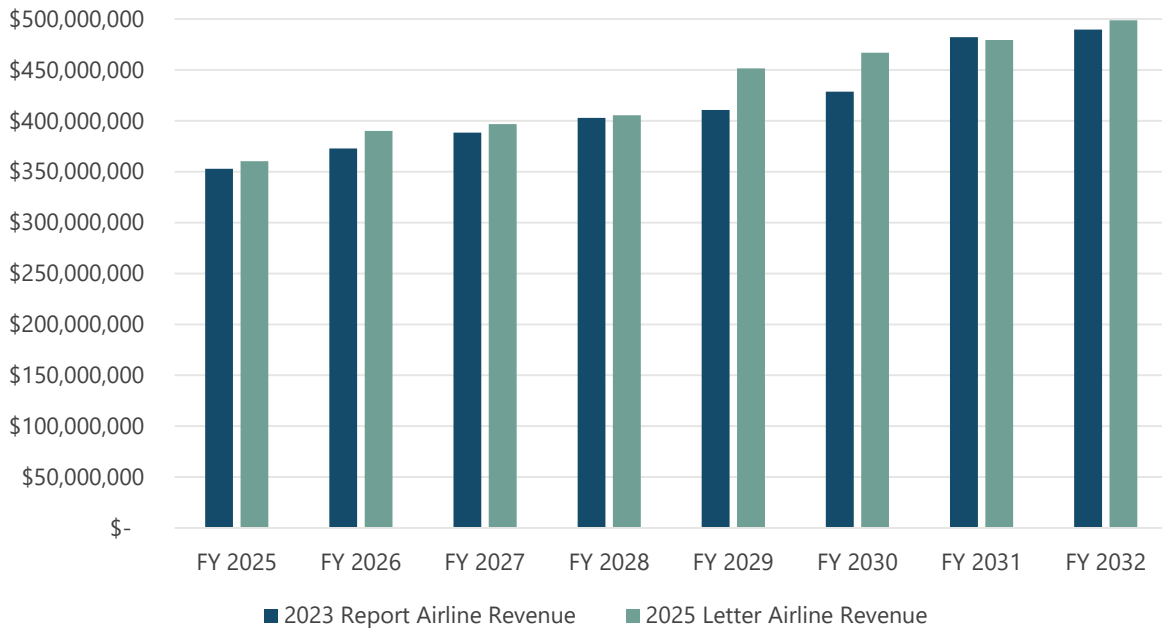
Updated Airline Revenues

HAS airline revenues include landing fees and terminal rentals collected from airlines operating at IAH and HOU. Terminal rentals include charges for airline-leased areas in the terminals, as well as charges for the use and lease of aprons, loading bridges, the APM, FIS, and baggage equipment. A comparison of Projected airline revenues between the updated financial analysis and the financial analysis included in the 2023 Report is presented on **Exhibit 13**. Airline revenues are projected to be approximately \$360.3 million in FY 2025, increasing to approximately \$498.8 million in FY 2032, reflecting a CAGR of 4.8 percent.

Mr. Jim Szczesniak
City of Houston, Houston Airport System
July 17, 2025

EXHIBIT 13 PROJECTED AIRLINE REVENUES COMPARISON

(Fiscal Years Ending June 30)



NOTE:

FY – Fiscal Year

SOURCE: Ricondo & Associates, Inc., July 2025.

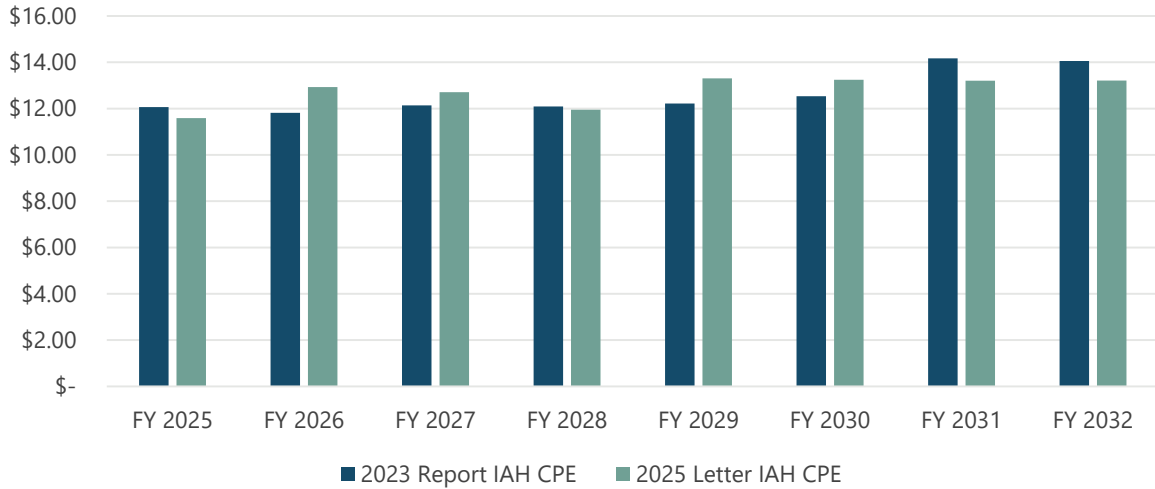
Updated Cost Per Enplaned Passenger

As described in Section 6.7 of the 2023 Report, a general test for the reasonableness of airport user fees is to compare projected airline costs in a manner that accounts for airline activity. **Exhibit 14** and **Exhibit 15** present a comparison of the projected Airline CPEs at IAH and HOU, respectively, based on the updated financial analysis (2025 Letter) versus the analysis from the 2023 Report. CPE for IAH is projected to be similar to projections in the 2023 Report, with some comparative increases in FY 2031 and FY 2032 due to anticipated HAS investments in Terminal B through FY 2029, which was not included in the 2023 Report. CPE for HOU is projected to be higher than projections in the 2023 Report, primarily due to assumed cost increase for the West Concourse Expansion project and additional airfield improvement projects not included in the previous CIP.

Mr. Jim Szczesniak
City of Houston, Houston Airport System
July 17, 2025

EXHIBIT 14 PROJECTED IAH AIRLINE COST PER ENPLANED PASSENGER COMPARISON

(Fiscal Years Ending June 30)



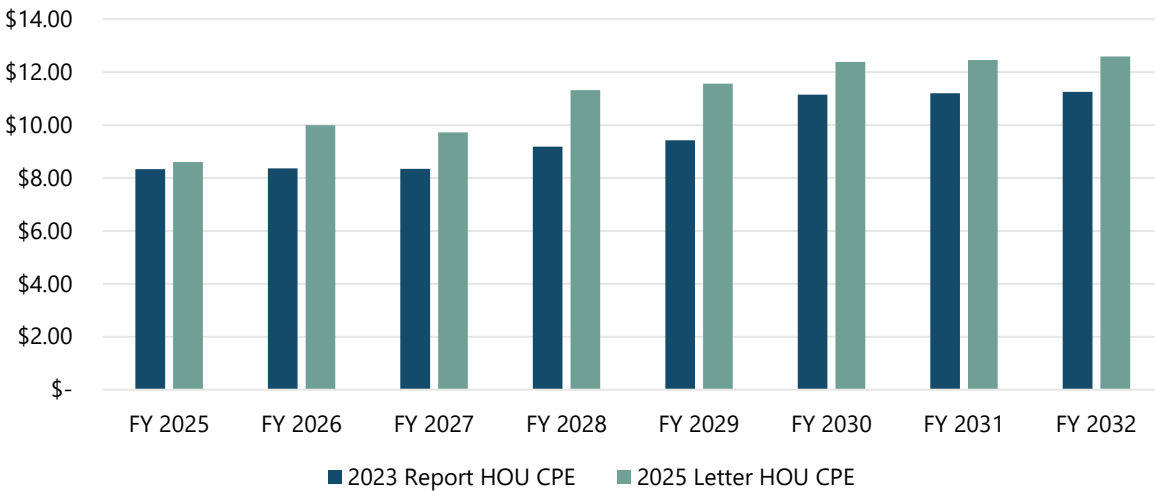
NOTES:

CPE – Cost per Enplaned Passenger; FY – Fiscal Year; IAH – George Bush Intercontinental Airport

SOURCE: Ricondo & Associates, Inc., July 2025.

EXHIBIT 15 PROJECTED HOU AIRLINE COST PER ENPLANED PASSENGER COMPARISON

(Fiscal Years Ending June 30)



NOTES:

CPE – Cost per Enplaned Passenger; FY – Fiscal Year; HOU – William P. Hobby Airport

SOURCE: Ricondo & Associates, Inc., July 2025.

Mr. Jim Szczesniak
City of Houston, Houston Airport System
July 17, 2025

Updated Debt Service Coverage

Table A-8 in Attachment 1 presents the application of revenues for FY 2025 through FY 2032 into the appropriate funds as described in the Bond Ordinance. Included in this cash flow are Gross Revenues, O&M Expenses, Reserve Fund Requirements, and Debt Service Requirements. This table also presents the projected balance of the Operation and Maintenance Reserve Fund, Renewal and Replacement Fund, and AIF through the Projection Period.

Table A-9 in Attachment 1 presents the projection of Gross Revenues, Net Revenues, Airport Obligations, and debt service coverage as calculated pursuant to the Bond Ordinance.

Debt service coverage ranges from 1.41x to 1.69x through the Projection Period.

Sensitivity Analysis Financial Results

Table A-10 in Attachment 1 to this 2025 Letter presents the key financial results due to the low demand sensitivity forecast compared to baseline results. The low demand sensitivity forecast primarily impacts revenues and does not assume any corresponding decrease in capital or operating expenses or other mitigation that HAS could undertake during an economic recession.

In comparison to the baseline financial results, CPE under the sensitivity analysis is higher, although still reasonable, and all debt service coverage requirements continue to be met.

Confirmation of 2023 Report Findings

Based on the assumptions and analyses described in the 2023 Report and this 2025 Letter, and Ricondo's experience preparing financial projections for airport operators, Ricondo is of the opinion that, for each fiscal year of the Projection Period:

- The projected Airport System Revenue Bonds debt service coverage ratio meets the minimum requirements of the Bond Ordinance.
- The projected airport user fees are reasonable based on the following:
 - the ATA's large population and strong economic base
 - the Airports' strategic geographic locations
 - the importance of the Airports within the operating networks for United and Southwest
 - increases in debt are associated with capital projects supported by airlines



Mr. Jim Szczesniak
City of Houston, Houston Airport System
July 17, 2025

Sincerely,

A handwritten signature in black ink that reads "Ricondo & Associates, Inc." in a cursive script.

RICONDO & ASSOCIATES, INC.

ENCLOSURES

Attachment 1: Financial Projection Tables

Attachment 2: Series 2023 Report of the Airport Management Consultant



Mr. Jim Szczesniak
City of Houston, Houston Airport System
July 17, 2025

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ATTACHMENT 1

Financial Projection Tables

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TABLE A-1 (1 OF 2) OPERATION AND MAINTENANCE EXPENSES

(For Fiscal Years Ending June 30)

	BUDGET	PROJECTED							COMPOUND ANNUAL GROWTH RATE (2025-2032)	
	2025	2026	2027	2028	2029	2030	2031	2032		
George Bush Intercontinental Airport										
Administration and Overhead	\$ 92,359,018	\$ 94,107,446	\$ 96,231,390	\$ 96,781,583	\$ 99,123,733	\$ 100,320,167	\$ 102,427,156	\$ 104,459,525	1.8%	
Personnel	\$ 58,350,079	\$ 60,100,581	\$ 61,903,599	\$ 63,760,707	\$ 65,673,528	\$ 67,643,734	\$ 69,673,046	\$ 71,763,237	3.0%	
Public Safety	\$ 53,349,024	\$ 54,949,495	\$ 56,597,980	\$ 58,295,919	\$ 60,044,797	\$ 61,846,140	\$ 63,701,525	\$ 65,612,570	3.0%	
Building Maintenance	\$ 47,509,626	\$ 48,934,915	\$ 51,255,820	\$ 52,793,495	\$ 54,387,617	\$ 56,019,246	\$ 60,528,758	\$ 62,344,620	4.0%	
Parking	\$ 43,818,213	\$ 45,132,759	\$ 46,486,742	\$ 47,881,344	\$ 49,317,785	\$ 50,797,318	\$ 52,321,238	\$ 53,890,875	3.0%	
Utilities	\$ 24,470,681	\$ 25,170,245	\$ 26,042,293	\$ 26,787,610	\$ 28,363,754	\$ 29,177,262	\$ 31,347,255	\$ 32,248,757	4.0%	
Other Services	\$ 21,421,893	\$ 21,850,331	\$ 22,430,248	\$ 22,878,853	\$ 23,417,077	\$ 23,885,419	\$ 24,570,868	\$ 25,062,285	2.3%	
Supplies	\$ 4,447,547	\$ 4,580,973	\$ 4,781,843	\$ 4,925,299	\$ 5,097,812	\$ 5,250,746	\$ 5,853,291	\$ 6,028,890	4.4%	
Capital Outlays	\$ 4,215,311	\$ 4,299,617	\$ 4,385,610	\$ 4,473,322	\$ 4,562,788	\$ 4,654,044	\$ 4,747,125	\$ 4,842,067	2.0%	
Noncapital Equipment	\$ 2,093,775	\$ 2,135,651	\$ 2,178,364	\$ 2,221,931	\$ 2,266,369	\$ 2,311,697	\$ 2,357,931	\$ 2,405,089	2.0%	
Pension Obligation Bond Interest	\$ 42,052	\$ 42,052	\$ 42,052	\$ 42,052	\$ 157,695	\$ 157,695	\$ 157,695	\$ 157,695	20.8%	
Total O&M Expenses by Type	\$ 352,077,220	\$ 361,304,067	\$ 372,335,941	\$ 380,842,113	\$ 392,412,955	\$ 402,063,468	\$ 417,685,888	\$ 428,815,613	2.9%	
Airfield	\$ 39,072,532	\$ 44,578,923	\$ 45,688,054	\$ 46,730,468	\$ 47,949,952	\$ 49,114,267	\$ 50,153,274	\$ 51,457,025	4.0%	
Terminal Area A	\$ 47,003,731	\$ 46,274,130	\$ 47,363,280	\$ 48,445,876	\$ 49,606,588	\$ 50,799,111	\$ 60,227,549	\$ 62,128,632	4.1%	
Terminal Area B	\$ 12,424,476	\$ 14,046,817	\$ 14,328,688	\$ 14,644,909	\$ 17,574,816	\$ 18,294,466	\$ 18,490,103	\$ 18,935,780	6.2%	
Terminal Area C	\$ 27,759,873	\$ 27,332,525	\$ 27,843,995	\$ 28,458,589	\$ 28,902,670	\$ 29,536,690	\$ 29,848,895	\$ 30,573,335	1.4%	
Terminal Area D (IAB)	\$ 42,029,358	\$ 44,263,058	\$ 47,795,491	\$ 48,975,790	\$ 50,045,959	\$ 51,223,671	\$ 52,051,041	\$ 53,391,101	3.5%	
Terminal Area E	\$ 13,422,180	\$ 13,289,734	\$ 13,524,152	\$ 13,821,014	\$ 14,025,507	\$ 14,329,531	\$ 14,475,500	\$ 14,822,795	1.4%	
Central FIS	\$ 45,936,500	\$ 46,189,412	\$ 47,249,240	\$ 48,251,242	\$ 49,294,315	\$ 50,388,589	\$ 51,183,062	\$ 52,433,591	1.9%	
APM	\$ 24,356,737	\$ 24,453,579	\$ 25,080,889	\$ 25,667,694	\$ 26,337,114	\$ 27,000,949	\$ 27,550,613	\$ 28,303,254	2.2%	
Non-Airline Cost Centers	\$ 99,935,692	\$ 100,737,026	\$ 103,320,510	\$ 105,702,057	\$ 108,528,669	\$ 111,225,883	\$ 113,552,534	\$ 116,613,716	2.2%	
Roads/Ditch Maintenance	\$ 136,141	\$ 138,864	\$ 141,642	\$ 144,474	\$ 147,364	\$ 150,311	\$ 153,317	\$ 156,384	2.0%	
Total O&M Expenses by Cost Center	\$ 352,077,220	\$ 361,304,067	\$ 372,335,941	\$ 380,842,113	\$ 392,412,955	\$ 402,063,468	\$ 417,685,888	\$ 428,815,613	2.9%	
\$ -										
William P. Hobby Airport										
Administration and Overhead	\$ 26,826,759	\$ 27,456,474	\$ 27,768,084	\$ 29,699,363	\$ 29,920,454	\$ 31,311,873	\$ 31,843,893	\$ 32,492,813	2.8%	
Personnel	\$ 22,987,892	\$ 23,677,529	\$ 24,387,855	\$ 25,119,490	\$ 25,873,075	\$ 27,166,729	\$ 28,525,065	\$ 29,951,318	3.9%	
Public Safety	\$ 20,128,139	\$ 20,748,925	\$ 21,389,013	\$ 22,049,008	\$ 22,729,536	\$ 23,431,242	\$ 24,154,792	\$ 24,900,873	3.1%	
Parking	\$ 9,173,777	\$ 9,540,728	\$ 9,922,357	\$ 10,319,251	\$ 10,732,022	\$ 11,161,302	\$ 11,607,755	\$ 12,072,065	4.0%	
Utilities	\$ 6,133,338	\$ 6,308,572	\$ 6,488,888	\$ 6,726,606	\$ 6,919,173	\$ 7,804,562	\$ 8,029,020	\$ 8,260,019	4.3%	
Other Services	\$ 5,744,339	\$ 5,899,557	\$ 6,059,135	\$ 6,231,580	\$ 6,414,079	\$ 6,774,225	\$ 6,956,710	\$ 7,144,301	3.2%	
Building Maintenance	\$ 10,074,959	\$ 10,377,208	\$ 10,688,524	\$ 11,009,180	\$ 11,582,823	\$ 13,335,096	\$ 13,735,149	\$ 14,147,204	5.0%	
Supplies	\$ 2,277,125	\$ 2,345,439	\$ 2,415,802	\$ 2,496,360	\$ 2,596,744	\$ 2,928,233	\$ 3,016,080	\$ 3,106,563	4.5%	
Capital Outlays	\$ 3,888,830	\$ 3,888,830	\$ 3,888,830	\$ 3,888,830	\$ 3,906,521	\$ 4,005,664	\$ 4,005,664	\$ 4,005,664	0.4%	
Noncapital Equipment	\$ 861,150	\$ 878,373	\$ 895,940	\$ 913,859	\$ 932,136	\$ 950,779	\$ 969,795	\$ 989,191	2.0%	
Pension Obligation Bond Interest	\$ 16,539	\$ 16,539	\$ 16,539	\$ 16,539	\$ 62,023	\$ 62,023	\$ 62,023	\$ 62,023	20.8%	
Total O&M Expenses by Type	\$ 108,112,848	\$ 111,138,175	\$ 113,920,968	\$ 118,470,067	\$ 121,668,585	\$ 128,931,729	\$ 132,905,946	\$ 137,132,033	3.5%	

TABLE A-1 (2 OF 2) OPERATION AND MAINTENANCE EXPENSES

(For Fiscal Years Ending June 30)

	BUDGET 2025	PROJECTED							COMPOUND ANNUAL GROWTH RATE (2025-2032)
		2026	2027	2028	2029	2030	2031	2032	
Airfield	\$ 24,060,696	\$ 24,719,610	\$ 25,335,663	\$ 26,270,537	\$ 26,885,345	\$ 27,745,825	\$ 28,662,364	\$ 29,633,056	3.0%
Central Concourse Apron	\$ 2,080,859	\$ 2,135,664	\$ 2,186,050	\$ 2,266,286	\$ 2,315,938	\$ 2,377,483	\$ 2,454,743	\$ 2,536,903	2.9%
Terminal Building	\$ 40,187,163	\$ 41,273,648	\$ 42,262,961	\$ 43,922,250	\$ 45,363,264	\$ 49,781,130	\$ 51,274,612	\$ 52,863,935	4.0%
West Concourse Apron	\$ 408,797	\$ 419,571	\$ 429,476	\$ 445,253	\$ 455,014	\$ 467,115	\$ 482,306	\$ 498,462	2.9%
West Concourse & FIS	\$ 14,734,196	\$ 15,133,409	\$ 15,492,559	\$ 16,146,597	\$ 16,490,451	\$ 17,464,615	\$ 18,002,564	\$ 18,576,346	3.4%
Parking & Ground Transportation	\$ 23,523,491	\$ 24,283,250	\$ 24,989,207	\$ 26,113,344	\$ 26,801,014	\$ 27,622,631	\$ 28,482,986	\$ 29,399,392	3.2%
Other	\$ 3,117,647	\$ 3,173,024	\$ 3,225,052	\$ 3,305,800	\$ 3,357,559	\$ 3,472,930	\$ 3,546,370	\$ 3,623,939	2.2%
Total O&M Expenses by Cost Center	\$ 108,112,848	\$ 111,138,175	\$ 113,920,968	\$ 118,470,067	\$ 121,668,585	\$ 128,931,729	\$ 132,905,946	\$ 137,132,033	3.5%
Ellington Field									
Personnel	\$ 2,701,981	\$ 2,783,040	\$ 2,866,532	\$ 2,952,528	\$ 3,041,103	\$ 3,193,159	\$ 3,352,817	\$ 3,520,457	3.9%
Other Services	\$ 582,650	\$ 594,303	\$ 606,189	\$ 618,313	\$ 630,679	\$ 643,293	\$ 656,159	\$ 669,282	2.0%
Administration and Overhead	\$ 1,741,258	\$ 1,781,655	\$ 1,813,013	\$ 1,847,791	\$ 1,851,125	\$ 1,881,178	\$ 1,912,433	\$ 1,954,814	1.7%
Utilities	\$ 2,236,112	\$ 2,295,764	\$ 2,357,058	\$ 2,420,038	\$ 2,484,753	\$ 2,551,253	\$ 2,619,586	\$ 2,689,805	2.7%
Building Maintenance	\$ 513,499	\$ 534,039	\$ 555,401	\$ 577,617	\$ 600,721	\$ 624,750	\$ 649,740	\$ 675,730	4.0%
Supplies	\$ 411,920	\$ 424,278	\$ 437,006	\$ 450,116	\$ 463,620	\$ 477,528	\$ 491,854	\$ 506,610	3.0%
Capital Outlays	\$ 1,162,715	\$ 1,162,715	\$ 1,162,715	\$ 1,162,715	\$ 1,162,715	\$ 1,162,715	\$ 1,162,715	\$ 1,162,715	0.0%
Noncapital Equipment	\$ 22,000	\$ 22,440	\$ 22,889	\$ 23,347	\$ 23,814	\$ 24,290	\$ 24,776	\$ 25,271	2.0%
Pension Obligation Bond Interest	\$ 2,036	\$ 2,036	\$ 2,036	\$ 2,036	\$ 7,635	\$ 7,635	\$ 7,635	\$ 7,635	20.8%
Parking	\$ 1,500	\$ 1,560	\$ 1,622	\$ 1,687	\$ 1,755	\$ 1,825	\$ 1,898	\$ 1,974	4.0%
Public Safety	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	n/a
Total O&M Expenses by Type	\$ 9,375,671	\$ 9,601,830	\$ 9,824,460	\$ 10,056,187	\$ 10,267,920	\$ 10,567,624	\$ 10,879,611	\$ 11,214,292	2.6%
Houston Airport System									
Administration and Overhead	\$ 120,927,035	\$ 123,345,576	\$ 125,812,487	\$ 128,328,737	\$ 130,895,312	\$ 133,513,218	\$ 136,183,482	\$ 138,907,152	2.0%
Personnel	\$ 84,039,952	\$ 86,561,151	\$ 89,157,985	\$ 91,832,725	\$ 94,587,706	\$ 98,003,621	\$ 101,550,928	\$ 105,235,013	3.3%
Public Safety	\$ 73,477,163	\$ 75,698,420	\$ 77,986,993	\$ 80,344,927	\$ 82,774,333	\$ 85,277,382	\$ 87,856,317	\$ 90,513,444	3.0%
Building Maintenance	\$ 58,098,085	\$ 59,846,162	\$ 62,499,745	\$ 64,380,291	\$ 66,571,161	\$ 69,979,092	\$ 74,913,647	\$ 77,167,554	4.1%
Parking	\$ 52,993,490	\$ 54,675,047	\$ 56,410,722	\$ 58,202,283	\$ 60,051,561	\$ 61,960,446	\$ 63,930,890	\$ 65,964,914	3.2%
Utilities	\$ 32,840,131	\$ 33,774,582	\$ 34,888,239	\$ 35,934,254	\$ 37,767,680	\$ 39,533,076	\$ 41,995,861	\$ 43,198,581	4.0%
Other Services	\$ 27,748,882	\$ 28,344,191	\$ 29,095,572	\$ 29,728,745	\$ 30,461,836	\$ 31,302,936	\$ 32,183,736	\$ 32,875,868	2.5%
Supplies	\$ 7,136,592	\$ 7,350,690	\$ 7,634,651	\$ 7,871,774	\$ 8,158,175	\$ 8,656,507	\$ 9,361,226	\$ 9,642,062	4.4%
Capital Outlays	\$ 9,266,856	\$ 9,351,162	\$ 9,437,155	\$ 9,524,867	\$ 9,632,024	\$ 9,822,423	\$ 9,915,504	\$ 10,010,446	1.1%
Noncapital Equipment	\$ 2,976,925	\$ 3,036,464	\$ 3,097,193	\$ 3,159,137	\$ 3,222,319	\$ 3,286,766	\$ 3,352,501	\$ 3,419,551	2.0%
Pension Obligation Bond Interest	\$ 60,627	\$ 60,627	\$ 60,627	\$ 60,627	\$ 227,353	\$ 227,353	\$ 227,353	\$ 227,353	20.8%
Total O&M Expenses by Type	\$ 469,565,738	\$ 482,044,072	\$ 496,081,368	\$ 509,368,368	\$ 524,349,460	\$ 541,562,821	\$ 561,471,444	\$ 577,161,937	3.0%

SOURCE: Houston Airport System, July 2025; Ricondo & Associates, Inc., July 2025.

TABLE A-2 (1 OF 3) GROSS REVENUES

(For Fiscal Years Ending June 30)

	BUDGET		PROJECTED							COMPOUND ANNUAL							
	2025		2026	2027	2028	2029	2030	2031	2032	GROWTH RATE (2025-2032)							
George Bush Intercontinental Airport																	
AIRLINE REVENUES																	
Landing fees	\$	67,053,539	\$	72,344,147	\$	75,061,424	\$	71,736,867	\$	69,015,645	\$	70,052,243	\$	73,194,503	\$	74,439,865	1.5%
Cargo Airline landing fees		5,578,312		5,800,280		6,069,832		5,814,320		5,670,661		5,812,077		6,127,178		6,288,929	1.7%
Less: Air service incentive credits		(1,200,000)		(1,217,418)		(1,293,673)		(1,379,733)		(1,452,252)		(1,528,979)		(1,609,303)		(1,693,441)	5.0%
Total landing fees	\$	71,431,851	\$	76,927,010	\$	79,837,583	\$	76,171,455	\$	73,234,054	\$	74,335,342	\$	77,712,379	\$	79,035,353	1.5%
Terminal Rentals																	
Terminal A	\$	23,719,232	\$	23,859,893	\$	24,349,786	\$	23,442,024	\$	23,982,438	\$	25,296,203	\$	30,221,722	\$	31,090,741	3.9%
Terminal B		10,660,614		11,825,458		12,032,644		12,012,571		52,530,802		53,155,807		53,268,026		53,600,926	26.0%
Terminal C		44,563,084		41,171,074		40,499,800		36,002,056		36,379,149		37,045,423		31,180,873		31,927,512	-4.7%
Terminal D		46,207,453		68,197,556		68,995,408		69,498,456		70,225,142		70,905,688		67,214,571		68,172,189	5.7%
Terminal E		15,317,678		15,135,215		15,378,767		14,882,713		14,746,959		15,057,735		15,074,702		15,429,741	0.1%
Central FIS		52,146,488		55,282,948		56,696,234		55,937,614		56,931,637		58,057,424		60,547,790		61,823,603	2.5%
Skyway APM		27,181,016		27,182,697		27,819,216		30,393,945		31,079,642		31,789,281		40,284,759		50,554,944	9.3%
Total Terminal Rentals	\$	219,795,563	\$	242,654,841	\$	245,771,855	\$	242,169,379	\$	285,875,769	\$	291,307,560	\$	297,792,443	\$	312,599,657	5.2%
TOTAL AIRLINE REVENUES	\$	291,227,415	\$	319,581,850	\$	325,609,438	\$	318,340,834	\$	359,109,822	\$	365,642,902	\$	375,504,823	\$	391,635,009	4.3%
NON-AIRLINE REVENUES																	
Terminal Concessions																	
Food and Beverage	\$	13,106,443	\$	13,046,721	\$	13,877,531	\$	14,816,068	\$	15,602,834	\$	18,235,486	\$	19,203,079	\$	20,217,126	6.4%
News and Gifts		7,631,891		7,558,418		8,037,759		8,581,013		9,041,397		11,929,507		12,568,173		13,237,628	8.2%
Duty Free		3,756,989		3,638,689		3,858,782		4,117,754		4,364,131		6,430,025		6,817,802		7,225,229	9.8%
Advertising		2,415,121		2,450,177		2,603,647		2,776,851		2,922,803		3,077,224		3,238,884		3,408,220	5.0%
Other Concessions		7,603,428		7,713,792		8,196,955		8,742,248		9,201,743		9,687,898		10,196,846		10,729,961	5.0%
Subtotal Terminal Concessions	\$	34,513,872	\$	34,407,795	\$	36,574,674	\$	39,033,934	\$	41,132,909	\$	49,360,140	\$	52,024,784	\$	54,818,165	6.8%
Parking and Ground Transportation																	
Automobile Parking	\$	96,383,660	\$	103,580,226	\$	109,696,291	\$	113,062,858	\$	116,599,183	\$	119,154,561	\$	121,736,365	\$	124,349,032	3.7%
Car Rental		29,958,700		26,818,094		28,401,613		29,273,255		29,896,117		30,551,318		31,213,295		31,883,184	0.9%
Ground Transportation		19,635,700		19,920,713		21,168,473		22,576,682		23,763,319		25,018,804		26,333,152		27,709,912	5.0%
Subtotal Parking and Ground Transpor	\$	145,978,060	\$	150,319,033	\$	159,266,377	\$	164,912,795	\$	170,258,619	\$	174,724,684	\$	179,282,811.33	\$	183,942,127.95	3.4%

TABLE A-2 (2 OF 3) GROSS REVENUES

(For Fiscal Years Ending June 30)

	BUDGET		PROJECTED							COMPOUND ANNUAL							
	2025		2026	2027	2028	2029	2030	2031	2032	GROWTH RATE (2025-2032)							
Other Non-Airline Revenues																	
Building & Ground Rentals	\$	19,651,990	\$	20,241,550	\$	20,848,796	\$	21,474,260	\$	22,118,488	\$	22,782,043	\$	23,465,504	\$	24,169,469	3.0%
Allocated systemwide		15,681,919		16,146,597		16,653,832		17,087,650		17,616,884		18,000,707		18,578,179		19,111,341	2.9%
Miscellaneous		9,147,311		9,135,748		9,299,867		9,482,139		9,619,001		9,759,212		9,901,480		10,046,348	1.3%
Subtotal Other Non-Airline Revenues	\$	44,481,220	\$	45,523,895	\$	46,802,495	\$	48,044,049	\$	49,354,373	\$	50,541,962	\$	51,945,163	\$	53,327,157	2.6%
TOTAL NON-AIRLINE REVENUES	\$	224,973,151	\$	230,250,723	\$	242,643,546	\$	251,990,778	\$	260,745,901	\$	274,626,785	\$	283,252,759	\$	292,087,450	3.8%
TOTAL REVENUES	\$	516,200,566	\$	549,832,574	\$	568,252,984	\$	570,331,611	\$	619,855,723	\$	640,269,687	\$	658,757,581	\$	683,722,459	4.1%
William P. Hobby Airport																	
AIRLINE REVENUES																	
Landing fees	\$	23,817,330	\$	24,417,921	\$	24,952,265	\$	26,140,806	\$	30,042,301	\$	37,347,038	\$	39,149,528	\$	41,181,608	8.1%
Cargo Airline landing fees	\$	-	\$	1,931	\$	1,990	\$	2,068	\$	2,387	\$	3,007	\$	3,204	\$	3,426	n/a
Total landing fees	\$	23,817,330	\$	24,419,852	\$	24,954,255	\$	26,142,874	\$	30,044,689	\$	37,350,044	\$	39,152,731	\$	41,185,034	8.1%
Terminal rentals and use fees																	
Central Terminal	\$	28,273,898	\$	28,647,851	\$	28,570,835	\$	29,900,006	\$	30,873,180	\$	30,344,527	\$	30,684,711	\$	31,295,687	1.5%
West Terminal		10,044,043		10,267,605		10,397,462		23,894,772		24,081,967		27,723,379		28,067,604		28,436,929	16.0%
FIS Facility		6,957,951		7,115,028		7,207,542		7,232,805		7,365,633		5,922,514		6,079,454		6,246,548	-1.5%
Total Terminal Rentals	\$	45,275,892	\$	46,030,484	\$	46,175,840	\$	61,027,583	\$	62,320,780	\$	63,990,420	\$	64,831,769	\$	65,979,163	5.5%
TOTAL AIRLINE REVENUES	\$	69,093,222	\$	70,450,337	\$	71,130,094	\$	87,170,457	\$	92,365,469	\$	101,340,464	\$	103,984,500	\$	107,164,197	6.5%
NON-AIRLINE REVENUES																	
Terminal Concessions																	
Food and Beverage	\$	11,083,173	\$	11,471,085	\$	12,253,484	\$	13,265,571	\$	14,153,741	\$	14,923,636	\$	15,669,582	\$	16,450,144	5.8%
News and Gifts		6,851,541		7,091,345		7,575,019		8,200,684		8,749,744		9,225,688		9,686,827		10,169,364	5.8%
Duty Free		-		-		-		-		-		-		-		-	n/a
Advertising		2,109,834		2,183,678		2,332,619		2,525,283		2,694,359		2,840,919		2,982,920		3,131,510	5.8%
Other Concessions		(1,412,835)		1,021,716		1,091,403		1,181,549		1,260,657		1,329,231		1,395,671		1,465,195	-200.5%
Subtotal Terminal Concessions	\$	18,631,713	\$	21,767,823	\$	23,252,525	\$	25,173,087	\$	26,858,502	\$	28,319,473	\$	29,735,000	\$	31,216,213	7.65%

TABLE A-2 (3 OF 3) GROSS REVENUES

(For Fiscal Years Ending June 30)

	BUDGET		PROJECTED							COMPOUND ANNUAL GROWTH RATE (2025-2032)							
	2025		2026	2027	2028	2029	2030	2031	2032								
Parking and Ground Transportation																	
Automobile Parking	\$	31,319,540	\$	33,825,103	\$	33,202,735	\$	34,228,875	\$	35,202,000	\$	35,973,003	\$	36,694,411	\$	37,424,267	2.58%
Car Rental		8,663,280		9,356,342		9,184,189		9,468,030		9,737,205		9,950,472		10,150,020		10,351,905	2.58%
Ground Transportation		5,220,980		5,403,714		5,772,281		6,249,048		6,667,441		7,030,117		7,381,512		7,749,213	5.80%
Subtotal Parking and Ground Transporta	\$	45,203,800	\$	48,585,160	\$	48,159,205	\$	49,945,953	\$	51,606,646	\$	52,953,592	\$	54,225,943	\$	55,525,384	2.98%
Other Non-Airline Revenues																	
Building & Ground Rentals	\$	6,592,680	\$	6,790,460	\$	6,994,174	\$	7,203,999	\$	7,420,119	\$	7,642,723	\$	7,872,005	\$	8,108,165	3.00%
Allocated systemwide		4,815,469		4,966,740		5,095,454		5,315,523		5,462,157		5,772,378		5,911,501		6,111,664	3.46%
Miscellaneous		2,027,250		2,007,111		2,037,687		2,083,454		2,115,247		2,134,711		2,149,798		2,164,947	0.94%
Subtotal Other Non-Airline Revenues	\$	13,435,399	\$	13,764,311	\$	14,127,315	\$	14,602,976	\$	14,997,523	\$	15,549,812	\$	15,933,304	\$	16,384,776	2.88%
TOTAL NON-AIRLINE REVENUES	\$	77,270,912	\$	84,117,295	\$	85,539,045	\$	89,722,015	\$	93,462,670	\$	96,822,877	\$	99,894,247	\$	103,126,374	4.21%
TOTAL REVENUES	\$	146,364,134	\$	154,567,631	\$	156,669,140	\$	176,892,472	\$	185,828,139	\$	198,163,341	\$	203,878,747	\$	210,290,571	5.31%
Ellington Field																	
General aviation	\$	298,560	\$	307,517	\$	316,742	\$	326,245	\$	336,032	\$	346,113	\$	356,496	\$	367,191	3.00%
Building and ground rentals		6,103,320		6,286,420		6,475,012		6,669,263		6,869,340		7,075,421		7,287,683		7,506,314	3.00%
Other revenues		185,280		190,838		196,564		202,460		208,534		214,790		221,234		227,871	3.00%
Allocated systemwide		417,603		429,104		439,428		451,202		460,965		473,121		483,912		499,796	2.60%
Subtotal Revenues	\$	7,004,763	\$	7,213,878	\$	7,427,746	\$	7,649,169	\$	7,874,872	\$	8,109,445	\$	8,349,326	\$	8,601,172	2.98%
TOTAL SYSTEM REVENUES	\$	669,569,463	\$	711,614,083	\$	732,349,870	\$	754,873,253	\$	813,558,734	\$	846,542,473	\$	870,985,654	\$	902,614,202	4.36%

SOURCE: Houston Airport System, July 2025; Ricondo & Associates, Inc., July 2025.

TABLE A-3 AIRPORT SYSTEM REVENUE BOND DEBT SERVICE

(For Fiscal Years Ending June 30)

	BUDGET 2025	PROJECTED							
		2026	2027	2028	2029	2030	2031	2032	
Outstanding Senior Lien Obligations									
Senior Lien Commercial Paper Notes ¹	\$	1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000
TOTAL SENIOR LIEN OBLIGATIONS	\$	1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000
Outstanding Subordinate Lien Obligations ²									
Series 2018A	\$	9,676,000	\$ 9,680,000	\$ 9,683,250	\$ 9,680,250	\$ 9,675,750	\$ 9,679,250	\$ 9,674,750	\$ 9,677,000
Series 2018B		30,329,250	30,329,750	30,325,750	30,330,250	71,825,500	71,829,500	3,825,500	3,826,000
Series 2018C		22,684,500	22,955,250	23,183,500	23,468,750	23,815,500	24,182,750	16,851,250	17,062,500
Series 2018D		26,029,500	26,029,750	26,031,250	26,032,500	29,032,000	29,028,250	29,032,250	29,031,500
Series 2020A		6,501,000	6,451,000	8,401,000	8,251,000	9,811,000	9,815,500	7,618,000	4,468,000
Series 2020B		3,578,250	16,898,250	16,632,250	16,336,250	16,395,750	16,317,000	-	-
Series 2020C		80,050,801	66,027,244	63,894,150	32,155,446	6,306,217	21,168,216	58,402,090	40,394,463
Series 2021A		14,623,200	16,735,700	16,985,700	17,110,700	16,415,700	16,140,700	16,065,700	15,380,700
Series 2023A		23,561,654	41,408,658	42,458,975	56,667,225	48,730,225	41,403,475	72,508,225	76,203,975
Series 2023B		5,282,650	5,857,650	5,858,900	16,113,650	10,109,150	5,107,650	28,117,650	41,005,400
Fiscal agent and other fees		100,000	100,000	100,000	100,000	100,000	100,000	100,000	-
Subtotal Existing Subordinate Lien Obligations	\$	222,416,805	\$ 242,473,252	\$ 243,554,725	\$ 236,246,021	\$ 242,216,792	\$ 244,772,291	\$ 242,195,415	\$ 237,049,538
Estimated Series 2025 Subordinate Lien Obligations ²									
Series 2025	\$	-	\$ 1,269,277	\$ 4,102,155	\$ 32,569,135	\$ 53,480,475	\$ 53,479,250	\$ 53,477,875	\$ 53,479,150
Subtotal Estimated Series 2025 Subordinate Lien Obligations	\$	-	\$ 1,269,277	\$ 4,102,155	\$ 32,569,135	\$ 53,480,475	\$ 53,479,250	\$ 53,477,875	\$ 53,479,150
Anticipated Future Subordinate Lien Obligations ²									
Series 2027		-	-	-	-	10,469,800	13,694,800	13,697,425	13,695,150
Series 2028		-	-	-	-	-	-	-	-
Series 2029		-	-	-	-	-	6,051,350	12,121,956	28,336,475
Series 2030		-	-	-	-	-	-	3,671,726	13,443,200
Subtotal Future Subordinate Lien Obligations	\$	-	\$ -	\$ -	\$ -	\$ 10,469,800	\$ 19,746,150	\$ 29,491,107	\$ 55,474,825
TOTAL SUBORDINATE LIEN OBLIGATIONS	\$	222,416,805	\$ 243,742,529	\$ 247,656,880	\$ 268,815,156	\$ 306,167,067	\$ 317,997,690	\$ 325,164,397	\$ 346,003,513
Inferior Lien Obligations									
Inferior Lien Obligations	\$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-
TOTAL INFERIOR LIEN OBLIGATIONS	\$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-
TOTAL DEBT SERVICE REQUIREMENTS	\$	224,166,805	\$ 245,492,529	\$ 249,406,880	\$ 270,565,156	\$ 307,917,067	\$ 319,747,690	\$ 326,914,397	\$ 347,753,513

NOTES:

1 Amounts shown as projected Senior Lien Obligations for FY 2025 through FY 2032 reflect commitment fees associated with the HAS commercial paper program. Historically, commercial paper has been refunded by subordinate lien bonds.

2 Annual debt service payments are shown net of capitalized interest.

SOURCE: Houston Airport System, July 2025; Ricondo & Associates, Inc., July 2025.

TABLE A-4 SPECIAL FACILITIES REVENUE BOND DEBT SERVICE

(For Fiscal Years Ending June 30)

	BUDGET 2025	PROJECTED							
		2026	2027	2028	2029	2030	2031	2032	
Outstanding Special Facilities Obligations									
Series 2011	\$ 7,460,638	\$ 12,481,963	\$ 12,468,725	\$ 12,457,900	\$ 12,447,863	\$ 12,432,150	\$ 12,419,138	\$ 12,397,306	
Series 2014	\$ 39,098,250	\$ 39,363,250	\$ 39,178,500	\$ 39,347,000	\$ 39,322,500	\$ -	\$ -	\$ -	
Series 2015B-1	\$ 8,832,500	\$ 8,832,500	\$ 22,526,375	\$ 22,506,625	\$ 22,490,875	\$ 22,472,250	\$ 22,449,000	\$ 22,429,125	
Series 2015B-2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Series 2018C	\$ 2,321,250	\$ 2,321,250	\$ 2,321,250	\$ 2,321,250	\$ 47,585,625	\$ -	\$ -	\$ -	
Series 2018	\$ 4,532,500	\$ 4,532,500	\$ 4,532,500	\$ 4,532,500	\$ 92,916,250	\$ -	\$ -	\$ -	
Series 2020A	\$ 1,708,250	\$ 1,708,250	\$ 35,873,250	\$ -	\$ -	\$ -	\$ -	\$ -	
Series 2020B-2	\$ 2,373,500	\$ 2,373,500	\$ 2,373,500	\$ 48,656,750	\$ -	\$ -	\$ -	\$ -	
Series 2020C	\$ 3,344,500	\$ 3,344,500	\$ 3,344,500	\$ 68,562,250	\$ -	\$ -	\$ -	\$ -	
Series 2021A	\$ 2,807,000	\$ 2,807,000	\$ 2,807,000	\$ 2,807,000	\$ 2,807,000	\$ 2,807,000	\$ 2,807,000	\$ 2,807,000	
Series 2021B-1	\$ 8,772,800	\$ 8,772,800	\$ 8,772,800	\$ 8,772,800	\$ 8,772,800	\$ 8,772,800	\$ 8,772,800	\$ 8,772,800	
Series 2024B	\$ -	\$ 66,959,108	\$ 59,814,588	\$ 59,814,588	\$ 59,814,588	\$ 59,814,588	\$ 59,814,588	\$ 59,814,588	
Subtotal Existing Special Facilities Revenue Bonds	\$ 81,251,188	\$ 153,496,620	\$ 194,012,988	\$ 269,778,663	\$ 286,157,500	\$ 106,298,788	\$ 106,262,525	\$ 106,220,819	
Assumed Special Facilities Obligations									
Future Special Facilities Obligations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Subtotal Future Special Facilities Obligations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
TOTAL SPECIAL FACILITIES OBLIGATIONS	\$ 81,251,188	\$ 153,496,620	\$ 194,012,988	\$ 269,778,663	\$ 286,157,500	\$ 106,298,788	\$ 106,262,525	\$ 106,220,819	

NOTE:

At the request of United Airlines, the City has authorized the issuance of Special Facilities Bonds to provide financing for various Special Facilities at IAH, including the construction of Terminals, B, C, and E. The payments for all Special Facilities Bonds are remitted directly to a trustee by United Airlines as Special Facilities Payments. Debt service on Special Facilities Bonds is not payable with Net Revenues and is not included in the definition of Airport Obligations. Therefore, Special Facilities Bonds is not included in the calculation of debt service coverage on Airport Obligations. United Airlines issued \$1.1 billion in Special Facilities Revenue Bonds in November 2024 and may request additional Special Facilities Revenue Bonds within the Projection Period. The City approved an inducement resolution in May 2025 for \$400 million in non-terminal Special Facilities Bonds to be paid from lease payments from United.

SOURCE: Houston Airport System, July 2025; Ricondo & Associates, Inc., July 2025.

TABLE A-5 COST PER ENPLANED PASSENGER

(For Fiscal Years Ending June 30)

	BUDGET		PROJECTED													
	2025		2026	2027	2028	2029	2030	2031	2032							
George Bush Intercontinental Airport																
Terminal Rentals and Fees																
Terminal A	\$	23,719,232	\$	23,859,893	\$	24,349,786	\$	23,982,438	\$	25,296,203	\$	30,221,722	\$	31,090,741		
Terminal B		10,660,614		11,825,458		12,032,644		12,012,571		52,530,802		53,155,807		53,268,026		53,600,926
Terminal C		44,563,084		41,171,074		40,499,800		36,002,056		36,379,149		37,045,423		31,180,873		31,927,511
Terminal D		46,207,453		68,197,556		68,995,408		69,498,456		70,225,142		70,905,688		67,214,571		68,172,189
Terminal E		15,317,678		15,135,215		15,378,767		14,882,713		14,746,959		15,057,735		15,074,702		15,429,741
Central FIS		52,146,488		55,282,948		56,696,234		55,937,614		56,931,637		58,057,424		60,547,790		61,823,603
Skyway APM		27,181,016		27,182,697		27,819,216		30,393,945		31,079,642		31,789,281		40,284,759		50,554,944
Subtotal Terminal Rentals And Use Fees	\$	219,795,563	\$	242,654,841	\$	245,771,855	\$	242,169,379	\$	285,875,769	\$	291,307,560	\$	297,792,443	\$	312,599,657
AIRLINE PAYMENTS TO HAS																
Landing fees	\$	67,053,539	\$	72,344,147	\$	75,061,424	\$	71,736,867	\$	69,015,645	\$	70,052,243	\$	73,194,503	\$	74,439,865
Terminal rentals and use fees		219,795,563		242,654,841		245,771,855		242,169,379		285,875,769		291,307,560		297,792,443		312,599,657
Less: Air service incentive credits		(1,200,000)		(1,217,418)		(1,293,673)		(1,379,733)		(1,452,252)		(1,528,979)		(1,609,303)		(1,693,441)
Less: Revenue share		-		-		(1,046,985)		(2,028,137)		-		-		(2,465,514)		(10,055,778)
Total airline payments	\$	285,649,103	\$	313,781,570	\$	318,492,622	\$	310,498,376	\$	353,439,161	\$	359,830,825	\$	366,912,130	\$	375,290,302
Enplaned passengers		24,652,000		24,270,265		25,062,357		25,977,731		26,563,797		27,170,325		27,782,592		28,401,654
Average airline payment to HAS per enplaned passenger	\$	11.59	\$	12.93	\$	12.71	\$	11.95	\$	13.31	\$	13.24	\$	13.21	\$	13.21
William P. Hobby Airport																
Landing fees	\$	23,817,330	\$	24,417,921	\$	24,952,265	\$	26,140,806	\$	30,042,301	\$	37,347,038	\$	39,149,528	\$	41,181,608
Terminal rentals and use fees																
Central Terminal	\$	28,273,898	\$	28,647,851	\$	28,570,835	\$	29,900,006	\$	30,873,180	\$	30,344,527	\$	30,684,711	\$	31,295,687
West Terminal		10,044,043		10,267,605		10,397,462		23,894,772		24,081,967		27,723,379		28,067,604		28,436,929
FIS Facility		6,957,951		7,115,028		7,207,542		7,232,805		7,365,633		5,922,514		6,079,454		6,246,548
Less: Revenue share		-		-		-		-		-		-		-		-
Total Terminal Rentals	\$	45,275,892	\$	46,030,484	\$	46,175,840	\$	61,027,583	\$	62,320,780	\$	63,990,420	\$	64,831,769	\$	65,979,163
Net airline payments	\$	69,093,222	\$	70,448,405	\$	71,128,105	\$	87,168,389	\$	92,363,082	\$	101,337,458	\$	103,981,296	\$	107,160,771
Enplaned passengers		8,029,000		7,049,036		7,318,353		7,703,268		7,987,927		8,182,793		8,346,320		8,511,692
Average airline payment to HAS per enplaned passenger	\$	8.61	\$	9.99	\$	9.72	\$	11.32	\$	11.56	\$	12.38	\$	12.46	\$	12.59

NOTE:

Enplaned passengers reflect budgeted activity for FY 2023 and projected activity for FY 2024 through FY 2032.

SOURCE: Houston Airport System, July 2025; Ricondo & Associates, Inc., July 2025.

TABLE A-6 COST PER ENPLANED PASSENGER - INTERCONTINENTAL

(For Fiscal Years Ending June 30)

	BUDGET 2025	PROJECTED						
		2026	2027	2028	2029	2030	2031	2032
George Bush Intercontinental Airport								
Airline payments to HAS	\$ 285,649,103	\$ 313,781,570	\$ 318,492,622	\$ 310,498,376	\$ 353,439,161	\$ 359,830,825	\$ 366,912,130	\$ 375,290,302
Plus: Existing Special Facilities Debt Service	81,251,188	153,496,620	194,012,988	269,778,663	286,157,500	106,298,788	106,262,525	106,220,819
Plus: Future Special Facilities Debt Service	-	-	-	-	-	-	-	-
Plus: O&M Expenses Paid Directly by Airlines								
Terminal B	10,247,674	10,555,104	10,871,758	11,197,910	11,533,848	11,879,863	12,236,259	12,603,347
Terminal C	21,623,991	22,272,711	22,940,892	23,629,119	24,337,992	25,068,132	25,820,176	26,594,781
Terminal E	16,228,930	16,715,798	17,217,272	17,733,790	18,265,804	18,813,778	19,378,191	19,959,537
Total Payments to HAS	\$ 415,000,885	\$ 516,821,803	\$ 563,535,530	\$ 632,837,857	\$ 693,734,305	\$ 521,891,385	\$ 530,609,281	\$ 540,668,786
Enplaned Passengers	24,652,000	24,270,265	25,062,357	25,977,731	26,563,797	27,170,325	27,782,592	28,401,654
Average payment per enplaned passenger	\$ 16.83	\$ 21.29	\$ 22.49	\$ 24.36	\$ 26.12	\$ 19.21	\$ 19.10	\$ 19.04

SOURCE: Houston Airport System, July 2025; Ricondo & Associates, Inc., July 2025.

TABLE A-7 PROJECTED PFC REVENUE COLLECTIONS

(For Fiscal Years Ending June 30)

	BUDGET 2025	PROJECTED						
		2026	2027	2028	2029	2030	2031	2032
George Bush Intercontinental Airport								
Enplaned Passengers	24,232,371	24,270,265	25,062,357	25,977,731	26,563,797	27,170,325	27,782,592	28,401,654
Eligibility Ratio	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%
Eligible Enplaned Passengers	20,597,515	20,629,725	21,303,003	22,081,071	22,579,227	23,094,777	23,615,203	24,141,406
Beginning Fund Balance	\$ 194,174,706	\$ 225,022,686	\$ 237,779,655	\$ 241,576,932	\$ 237,272,053	\$ 207,519,530	157,840,066	134,821,537
Annual PFC collections	\$ 90,423,092	\$ 90,564,493	\$ 93,520,185	\$ 96,935,903	\$ 99,122,807	\$ 101,386,069	\$ 103,670,742	\$ 105,980,772
Interest Earnings	\$ 3,120,576	\$ 3,445,179	\$ 3,568,411	\$ 3,564,633	\$ 3,311,104	\$ 2,719,798	\$ 2,178,622	\$ 1,738,762
Applied as Pay-Go - Future Projects	\$ -	\$ (6,300,000)	\$ (17,166,650)	\$ (25,000,000)	\$ (41,750,000)	\$ (55,700,000)	\$ (24,750,000)	\$ (18,000,000)
PFCs Used To Pay Existing Debt Service	\$ (62,695,688)	\$ (74,952,702)	\$ (76,124,670)	\$ (77,201,581)	\$ (76,701,296)	\$ (75,969,088)	(73,197,170)	(71,391,735)
PFCs Used To Pay 2025 Bonds and Future Debt Service ¹	\$ -	\$ -	\$ -	\$ (2,603,834)	\$ (13,735,139)	\$ (22,116,243)	\$ (30,920,723)	\$ (54,397,172)
Ending Fund Balance	\$ 225,022,686	\$ 237,779,655	\$ 241,576,932	\$ 237,272,053	\$ 207,519,530	\$ 157,840,066	\$ 134,821,537	\$ 98,752,165
William P. Hobby Airport								
Enplaned Passengers	6,972,835	7,049,036	7,318,353	7,703,268	7,987,927	8,182,793	8,346,320	8,511,692
Eligibility Ratio	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%
Eligible Enplaned Passengers	5,926,910	5,991,680	6,220,600	6,547,778	6,789,738	6,955,374	7,094,372	7,234,939
Beginning Fund Balance	\$ 42,191,780	\$ 49,147,987	\$ 26,771,946	\$ 17,245,258	\$ 23,705,120	\$ 32,912,860	\$ 42,377,485	\$ 44,305,661
Annual PFC collections	\$ 26,019,134	\$ 26,303,477	\$ 27,308,434	\$ 28,744,744	\$ 29,806,950	\$ 30,534,094	\$ 31,144,294	\$ 31,761,381
Interest Earnings	\$ 679,949	\$ 565,161	\$ 327,672	\$ 304,842	\$ 421,474	\$ 560,474	\$ 645,284	\$ 679,074
Applied as Pay-Go - Future Projects	\$ -	\$ (30,000,000)	\$ (18,000,000)	\$ (3,600,000)	\$ -	\$ -	\$ -	\$ -
PFCs Used To Pay Existing Debt Service	\$ (19,742,876)	\$ (19,244,678)	\$ (19,162,793)	\$ (18,989,723)	\$ (18,051,025)	\$ (18,097,024)	\$ (25,736,772)	\$ (24,126,964)
PFCs Used To Pay 2025 Bonds and Future Debt Service ¹	\$ -	\$ -	\$ -	\$ -	\$ (2,969,658)	\$ (3,532,919)	\$ (4,124,630)	\$ (5,702,570)
Ending Fund Balance	\$ 49,147,987	\$ 26,771,946	\$ 17,245,258	\$ 23,705,120	\$ 32,912,860	\$ 42,377,485	\$ 44,305,661	\$ 46,916,582

NOTE:

¹ PFCs Used to Pay Future Debt Service reflect anticipated future approved PFC-eligible debt service related to the Domestic Redevelopment Program at IAH and the West Concourse Expansion at HOU.

SOURCE: Houston Airport System, July 2025; Ricondo & Associates, Inc., July 2025.

TABLE A-8 APPLICATIONS OF REVENUES

(For Fiscal Years Ending June 30)

	BUDGET 2025	PROJECTED						
		2026	2027	2028	2029	2030	2031	2032
GROSS REVENUES	\$ 669,569,463	\$ 711,614,083	\$ 732,349,870	\$ 754,873,253	\$ 813,558,734	\$ 846,542,473	\$ 870,985,654	\$ 902,614,202
Application of Gross Revenues								
1. Operation and Maintenance Expenses	\$ 469,565,738	\$ 482,044,072	\$ 496,081,368	\$ 509,368,368	\$ 524,349,460	\$ 541,562,821	\$ 561,471,444	\$ 577,161,937
2. Senior Lien Bond Interest and Sinking Fund	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000
Less: PFC revenues to pay debt service								
Less: Grants to pay debt service	-	-	-	-	-	-	-	-
Less: Interest and other amounts to pay debt service	-	-	-	-	-	-	-	-
Net Senior Debt Service Requirements	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000
3. Senior Lien Bond Reserve Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4. Subordinate Lien Bond Interest and Sinking Fund	\$ 222,416,805	\$ 243,742,529	\$ 247,656,880	\$ 268,815,156	\$ 306,167,067	\$ 317,997,690	\$ 325,164,397	\$ 346,003,513
Less: PFC revenues to pay debt service	(82,438,564)	(94,197,380)	(95,287,463)	(98,795,138)	(111,457,118)	(119,715,274)	(133,979,295)	(155,618,440)
Less: Grants to pay debt service	-	-	-	-	-	-	-	-
Less: Interest and other amounts to pay debt service	-	-	-	-	-	-	-	-
Net Subordinate Debt Service Requirements	\$ 139,978,241	\$ 149,545,149	\$ 152,369,417	\$ 170,020,018	\$ 194,709,949	\$ 198,282,416	\$ 191,185,102	\$ 190,385,073
5. Subordinate Lien Bond Reserve Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6. Inferior Lien obligations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Less: PFC revenues to pay debt service								
Less: Interest and other amounts to pay debt service	-	-	-	-	-	-	-	-
Net Inferior Debt Service Requirements	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
7. Operation and Maintenance Reserve Fund Deposit	\$ 6,139,749	\$ 2,121,317	\$ 2,386,340	\$ 2,258,790	\$ 2,546,786	\$ 2,926,271	\$ 3,384,466	\$ 2,667,384
8. Renewal and Replacement Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9. Airports Improvement Fund	\$ 52,135,735	\$ 76,153,546	\$ 79,762,745	\$ 71,476,077	\$ 90,202,539	\$ 102,020,965	\$ 113,194,642	\$ 130,649,808
Less: Revenue sharing ¹	\$ -	\$ -	\$ (1,046,985)	\$ (2,028,137)	\$ -	\$ -	\$ (2,465,514)	\$ (10,055,778)
Available Airports Improvement Deposits for Capital Improvements	\$ 52,135,735	\$ 76,153,546	\$ 78,715,760	\$ 69,447,940	\$ 90,202,539	\$ 102,020,965	\$ 110,729,128	\$ 120,594,029
TOTAL APPLICATION OF GROSS REVENUES	\$ 669,569,463	\$ 711,614,083	\$ 732,349,870	\$ 754,873,253	\$ 813,558,734	\$ 846,542,473	\$ 870,985,654	\$ 902,614,202

NOTE:

¹ Annual revenue sharing is anticipated beginning in the fiscal year after completion of ITRP Phase 1 and Hobby west concourse expansion projects in the amount equal to 50% of net revenues above 1.5 debt service coverage for carriers at IAH and HOU, respectively.

SOURCE: Houston Airport System, July 2025; Ricondo & Associates, Inc., July 2025.

TABLE A-9 DEBT SERVICE COVERAGE

(For Fiscal Years Ending June 30)

	BUDGET 2025	PROJECTED						
		2026	2027	2028	2029	2030	2031	2032
Gross Revenues	\$ 669,569,463	\$ 711,614,083	\$ 732,349,870	\$ 754,873,253	\$ 813,558,734	\$ 846,542,473	\$ 870,985,654	\$ 902,614,202
Less: Operation and Maintenance Expenses	(469,565,738)	(482,044,072)	(496,081,368)	(509,368,368)	(524,349,460)	(541,562,821)	(561,471,444)	(577,161,937)
Plus: Renewal and Replacement Fund transfer	-	-	-	-	-	-	-	-
Net Revenues	\$ 200,003,725	\$ 229,570,011	\$ 236,268,502	\$ 245,504,885	\$ 289,209,274	\$ 304,979,652	\$ 309,514,210	\$ 325,452,264
Calculation of debt service coverage								
Debt Service Requirements								
Senior Lien Obligations (Commercial Paper)	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000
Subordinate Lien Bonds (General Airport Revenue Bonds)	222,416,805	243,742,529	247,656,880	268,815,156	306,167,067	317,997,690	325,164,397	346,003,513
Less: PFC revenues to pay debt service ¹	(82,438,564)	(94,197,380)	(95,287,463)	(98,795,138)	(111,457,118)	(119,715,274)	(133,979,295)	(155,618,440)
Less: Grants to pay debt service	-	-	-	-	-	-	-	-
Total Debt Service Requirements	\$ 141,728,241	\$ 151,295,149	\$ 154,119,417	\$ 171,770,018	\$ 196,459,949	\$ 200,032,416	\$ 192,935,102	\$ 192,135,073
Debt service coverage for all Airport System Revenue Bonds	1.41 x	1.52 x	1.53 x	1.43 x	1.47 x	1.52 x	1.60 x	1.69 x

NOTE:

1 PFC revenues to pay debt service are estimated based on existing PFC approvals as well as anticipated approvals for the HOU West Concourse Expansion and the IAH Domestic Redevelopment Program.

SOURCE: Houston Airport System, July 2025; Ricondo & Associates, Inc., July 2025.

TABLE A-10 LOW DEMAND SENSITIVITY ANALYSIS

(Fiscal Years Ending June 30)

	PROJECTED						
	2026	2027	2028	2029	2030	2031	2032
Aviation Activity Forecast							
Enplaned Passengers - IAH	22,409,662	22,440,032	23,259,488	23,786,119	24,331,410	24,881,859	25,438,415
Enplaned Passengers - HOU	6,418,075	6,402,234	6,736,927	6,983,553	7,152,785	7,295,146	7,439,115
Landed Weight - IAH	29,206,347	29,304,489	30,344,084	31,029,218	31,728,485	32,431,989	33,143,846
Landed Weight - HOU	7,248,610	7,186,252	7,515,676	7,743,453	7,883,187	7,991,808	8,100,884
Key Financial Results							
Total Airline Cost per Enplaned Passenger - IAH	\$ 11.59	\$ 13.98	\$ 14.20	\$ 13.41	\$ 14.83	\$ 14.99	\$ 14.80
Total Airline Cost per Enplaned Passenger - HOU	\$ 8.61	\$ 11.00	\$ 11.13	\$ 12.96	\$ 13.25	\$ 14.18	\$ 14.28
Debt Service Coverage	1.48x	1.43x	1.33x	1.39x	1.46x	1.51x	1.60x

SOURCE: Houston Airport System, June 2025; Ricondo & Associates, Inc., July 2025.

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ATTACHMENT 2

Series 2023 Report of the Airport Management Consultant

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June 12, 2023

APPENDIX A

Report of the Airport Management Consultant

Houston Airport System

Airport System Subordinate Lien Revenue and Refunding
Bonds, Series 2023A and Airport System Subordinate Lien
Revenue and Refunding Bonds, Series 2023B

Prepared for:

City of Houston, Texas

Prepared by:

RICONDO

Ricondo & Associates, Inc. prepared this document for the stated purposes as expressly set forth herein and for the sole use of the City of Houston, Texas and its intended recipients. The techniques and methodologies used in preparing this document are consistent with industry practices at the time of preparation and this Report should be read in its entirety for an understanding of the analysis, assumptions, and opinions presented. Ricondo & Associates, Inc. is not registered as a municipal advisor under Section 15B of the Securities Exchange Act of 1934 and does not provide financial advisory services within the meaning of such act.

2023 Report

June 12, 2023

Mr. Mario C. Diaz
Director of Aviation, City of Houston
Houston Airport System
P.O. Box 60106
Houston, Texas 77205

RE: Report of the Airport Management Consultant
City of Houston, Texas
Airport System Subordinate Lien Revenue and Refunding Bonds, Series 2023A and Series 2023B
(2023 Bonds)

Dear Mr. Diaz:

Ricondo & Associates, Inc. (Ricondo) is pleased to present this Report of the Airport Management Consultant (Report) for inclusion as Appendix A in the Official Statement for the 2023 Bonds, described in detail in this Report. The City of Houston (City) issues bonds relating to the Houston Airport System (HAS) pursuant to a master ordinance adopted by the City in November 2016 (the Master Ordinance). On May 31, 2023, the City adopted a seventh supplemental ordinance authorizing the issuance of the 2023 Bonds (the Supplemental Ordinance). Since 2016, additional parity bonds have been issued pursuant to the Master Ordinance and separate supplemental ordinances. Prior to 2016, each series of additional parity bonds were issued under the terms of standalone ordinances incorporating common covenants to those in the Master Ordinance. For purposes of this Report, the Master Ordinance, the Supplemental Ordinance, and all prior parity ordinances are collectively referred to as the Bond Ordinance.

Under provisions of the Bond Ordinance, the 2023 Bonds will be issued as Subordinate Lien Bonds, secured by and payable from Net Revenues (Gross Revenues less Operation and Maintenance Expenses) of the Airport, subject to the prior and superior lien of Additional Senior Lien Obligations (inclusive of Senior Lien Notes).

The City will use the proceeds from the sale of the 2023 Bonds, together with other available funds, to:

- i. fund portions of the HAS Capital Improvement Program,
- ii. refund the Senior Lien Notes,
- iii. pay capitalized interest,
- iv. refund the Subordinate Lien Revenue Bonds, Series 2002A and Series 2002B,
- v. tender a portion of the Subordinate Lien Revenue Refunding Bonds, Series 2020C Bonds for purchase and cancellation,
- vi. fund the Subordinate Lien Bond Reserve Fund, and
- vii. pay all costs of issuance incurred in connection with the issuance of the 2023 Bonds.

All capitalized terms in this Report have the meanings assigned to such terms in the Bond Ordinance, the Official Statement for the 2023 Bonds, or defined herein based on airline use and lease agreements authorized by the City or notations within the Report. In addition to the 2023 Bonds, the financial analysis presented in Chapter 6 of this Report also includes debt service on future bonds assumed to be issued to fully fund planned HAS capital projects described herein. For purposes of this Report, it was assumed that future bonds will also be issued as Subordinate Lien Bonds.

This Report presents the analysis undertaken by Ricondo to demonstrate the ability of the City to comply with the requirements of the Bond Ordinance for Fiscal Years (FYs) 2024 through 2032 (the Projection Period) based on the assumptions regarding the planned issuance of the 2023 Bonds established by the City through consultation with its financial advisors, underwriters, and the financing team. In developing its analysis, Ricondo reviewed historical trends and formulated projections based on the assumptions put forth in this Report, which have been reviewed by the City, regarding the ability of the Air Trade Area (as defined herein) to generate demand for airline service within the Airport System, the amount of airline service and passenger activity within the Airport System, and the generation of Net Revenues through the Projection Period.

The Report is organized as follows:

- Summary of Findings
- Chapter 1: The 2023 Bonds
- Chapter 2: The Houston Airport System
- Chapter 3: The Capital Improvement Program and Funding Sources
- Chapter 4: Demographic and Economic Analysis
- Chapter 5: Air Traffic
- Chapter 6: Financial Analysis

On the basis of the analysis set forth in this Report, Ricondo is of the opinion that the Net Revenues generated each year of the Projection Period are expected to be sufficient to comply with the rate covenant established in section 3.03 of the Master Ordinance, and that the resulting projected airline costs should remain reasonable. Although summary information is provided, a complete understanding of the justification for our conclusion cannot be attained without reading the Report in its entirety.

Founded in 1989, Ricondo is a full-service aviation consulting firm providing airport physical and financial planning services to airport owners and operators, airlines, and federal and state agencies. Ricondo has prepared reports of the airport consultant in support of over \$41 billion of airport-related revenue bonds since 1996. Ricondo is not registered as a municipal advisor under Section 15B of the Securities Exchange Act of 1934. Ricondo is not acting as a municipal advisor and has not been engaged by the City to provide advice with respect to the structure, timing, terms, or other similar matters concerning the issuance of

Mr. Mario C. Diaz
Houston Airport System
June 12, 2023
Page 3

municipal securities. The assumptions regarding such matters included in this Report were provided by the City or the City's financial advisors or underwriters, or, with the City's approval, were derived from general, publicly available data approved by the City. Ricondo owes no fiduciary duty to the City. Ricondo recommends that the City discuss the information and analysis contained in this Report with internal and external advisors and experts that the City deems appropriate before taking any action. Any opinions, assumptions, views, or information contained herein are not intended to be, and do not constitute, "advice" within the meaning of Section 15B of the Securities Exchange Act of 1934.

The techniques and methodologies used by Ricondo in preparing this Report are consistent with industry practices for similar studies in connection with airport revenue bond sales. While Ricondo believes the approach and assumptions used in this Report are reasonable, some assumptions regarding future trends and events detailed in this Report, including, but not limited to, the implementation schedule, the forecast of passenger activity, and the projections of financial performance, may not materialize. Therefore, actual performance will likely differ from the projections and forecasts set forth in this Report, and the variations may be material. In developing our analyses, Ricondo used information from various sources, including the City, the underwriters, the financial advisors, federal and local governmental agencies, and independent private providers of economic and aviation industry data, as identified in the notes accompanying the related tables and exhibits in this Report. Ricondo believes these sources to be reliable but has not audited the data and does not warrant their accuracy. The analysis presented is based on conditions known as of the date of this letter. Ricondo has no obligation to update this Report on an ongoing basis.

Sincerely,


RICONDO & ASSOCIATES, INC.

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2023 Report

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SUMMARY OF FINDINGS

The City of Houston (the City) engaged Ricondo & Associates, Inc. (Ricondo) to prepare this Report of the Airport Management Consultant (the Report) to provide an independent assessment of the City's ability to meet its obligations regarding the issuance of the Houston Airport System (HAS) Subordinate Lien Revenue and Refunding Bonds, Series 2023A (the 2023A Bonds) and Airport System Subordinate Lien Revenue and Refunding Bonds, Series 2023B (the 2023B Bonds, together with the 2023A Bonds, the 2023 Bonds).¹

HAS, an enterprise system of the City of Houston, Texas, manages and operates George Bush Intercontinental/Houston Airport (Intercontinental or IAH), William P. Hobby Airport (Hobby or HOU), and Ellington Airport (Ellington or EFD). Collectively, the three airports managed by HAS are referred to within this Report as the Airport System or the Airports.

The 2023 Bonds will be issued pursuant to the Master Ordinance adopted by the City of Houston in November 2016 (the Master Ordinance) and the supplemental ordinance authorizing the issuance of the 2023 Bonds (the Supplemental Ordinance). Since 2016, additional parity bonds have been issued pursuant to the Master Ordinance and separate supplemental ordinances. Prior to 2016, each series of additional parity bonds were issued under the terms of standalone ordinances incorporating common covenants to those in the Master Ordinance. For purposes of this Report, the Master Ordinance, the Supplemental Ordinance, and all prior parity ordinances are collectively referred to as the Bond Ordinance.

All capitalized terms in this Report have the meanings assigned to such terms in the Bond Ordinance, the Official Statement for the 2023 Bonds, or defined herein based on airline use and lease agreements authorized by the City or notations within the Report.

In developing the analyses, Ricondo reviewed the terms of the 2023 Bonds, as provided by the City's Financial Advisor; the outstanding financial obligations of HAS; the capacity of the Airport System's existing and planned facilities to accommodate current and forecast demand; projects included in the HAS Capital Improvement Program (CIP); and proposed funding sources, including future bonds assumed to be issued.

To develop the pro forma analysis of the financial performance of HAS, Ricondo reviewed key provisions of the existing agreements that establish the business arrangements between the City and its various airport tenants, including the commercial airlines serving the Airport System. In addition, Ricondo reviewed key provisions of certain proposed airline agreements provided by the City, the negotiations of which are nearly complete as of June 2023. Assumptions regarding airline rates and charges resulting from the existing and proposed agreements are described in Section 6.1.

Airport Revenues are in large measure driven by passenger demand for air service from the Airports, which is a function of local, national and international economic conditions, as well as the ability and willingness of the commercial airlines to supply service at a level commensurate with this demand. Thus, Ricondo reviewed the

¹ Ricondo prepared this Report for the stated purposes as expressly set forth herein and for the sole use of the City and its intended recipients. The techniques and methodologies used in preparing this Report are consistent with industry practices at the time of preparation, and this Report should be read in its entirety for an understanding of the analyses, assumptions, and opinions presented. Ricondo is not registered as a municipal advisor under Section 15B of the Securities Exchange Act of 1934 and does not provide financial advisory services within the meaning of such Act.

historical relationships between economic activity and demand for air service, the airlines' provision of air service, and the financial performance of the Airports. Based on this historical review, Ricondo developed assumptions regarding these factors and relationships through the period from Fiscal Year (FY) 2024 through FY 2032 (the Projection Period), which provide the basis for the forecasts of passenger activity and the projections of financial performance presented in this Report.²

On the basis of the analysis set forth in this Report, Ricondo is of the opinion that the Net Revenues generated each year of the Projection Period are expected to be sufficient to comply with the Rate Covenant established in Section 3.03 of the Master Ordinance, and that the resulting projected airline costs should remain reasonable. The following sections summarize Ricondo's assumptions, projections, and findings. Additional details are included in Chapters 1 through 6 of this Report, which should be read in its entirety.

THE 2023 BONDS

The 2023 Bonds are being issued to refund the Senior Lien Notes, as well as to provide funding for the completion of the IAH Terminal Redevelopment Program (ITRP). The proceeds to be used for the refunding approximately \$350 million of Senior Lien Notes, while the proceeds used to fund remaining ITRP costs are expected to be approximately \$212 million. Upon issuance of the 2023 Bonds, sufficient funds will be available to complete the construction of the ITRP.

Additionally, proceeds from the 2023 Bonds will be used to pay capitalized interest; refund the City's Airport System Subordinate Lien Revenue Bonds, Series 2002A and Series 2002B (Series 2002 Bonds); purchase and cancel certain of the City's Airport System Subordinate Lien Revenue Refunding Bonds, Series 2020C (Series 2020C Bonds) tendered to the City; fund the Subordinate Lien Bond Reserve Fund with bond proceeds and/or a surety policy; and pay certain costs of issuance incurred in connection with the 2023 Bonds.

For the purposes of this Report and financial analysis included herein, the refunding of the Series 2002 Bonds and the purchase and cancellation of the Series 2020C Bonds tendered to the City is not assumed. If the 2023 Bonds refund the Series 2002 Bonds and/or purchase the Series 2020C Bonds, it is expected that a reduction of annual debt service would occur.

Pursuant to the terms of the Bond Ordinance, the 2023 Bonds will be payable from and secured by Net Revenues, subject to the prior and superior lien on Net Revenues securing the Senior Lien Obligations. The 2023 Bonds will further be secured by the Subordinate Lien Bond Interest and Sinking Fund and the Subordinate Lien Bond Reserve Fund.

Additional information on the 2023 Bonds is provided in Chapter 1 of this Report.

² FY ending June 30.

THE HOUSTON AIRPORT SYSTEM AND AIRPORT CAPITAL PROGRAM

Chapter 2 reviews the existing Airport System facilities, and Chapter 3 summarizes the HAS CIP for FY 2024 through FY 2030³, including anticipated funding sources.

In total, the HAS capital improvement projects anticipated for FY 2024 through FY 2030 are estimated to cost approximately \$3.3 billion. Estimated funding sources are summarized as follows:

- Series 2023 Bond Proceeds (\$211.9 million)
- Future Bond Proceeds (\$1,893.2 million)
- Passenger Facility Charge (PFC) Pay-as-You-Go Revenues (\$207.4 million)
- Grant Proceeds (\$399.0 million)
- Airport Improvement Fund (AIF; \$602.8 million)

GEORGE BUSH INTERCONTINENTAL/HOUSTON AIRPORT

IAH serves as an international gateway and is the largest commercial service airport in the Houston Air Trade Area. It covers approximately 10,125 acres of land and is located 22 miles north of downtown Houston, Texas. The Federal Aviation Administration (FAA) classifies IAH as a large-hub airport based on total enplaned passengers, and IAH serves as a connecting hub for United Airlines (United).

The airfield consists of five runways, with the longest measuring approximately 12,000 feet in length, as well as a network of taxiways and apron areas, aviation fuel services, and lighting systems. Airlines serving the airport operate from five terminal buildings (A, B, C, D, and E), providing access to 127 gates. Terminal A serves primarily domestic flights, as well as a select number of pre-cleared international flights. Terminal B, which is leased entirely by United, is mainly served by United Express regional jet flights. Terminal C is served by United domestic flights, and its original north concourse, demolished in 2021, was located in the footprint of the expanded Terminal D area planned as a component of ITRP. Terminal D, dedicated solely to international flights, and Terminal E, dedicated to both domestic and international flights, are situated on opposite sides of a central Federal Inspection Services (FIS) facility. Ongoing redevelopment of Terminal D and the FIS facility through the ITRP is included in the HAS CIP.

Facilities at IAH include a hotel, cargo and general aviation facilities, parking and rental car facilities, and support facilities, such as the fire stations located on the airfield.

The primary improvements planned at Intercontinental within the HAS CIP for FY 2024 through FY 2030 include the following: completion of ITRP, the Domestic Redevelopment Program (DRP), Skyway Train Replacement, Inter-Terminal Train (ITT) / Subway Replacement, Central Utility Plant (CUP) Improvements, and IAH airfield improvements. A portion of the 2023 Bonds proceeds will be used for the completion of ITRP. In addition, the 2023 Bonds will provide for the refunding of Senior Lien Notes that have been used to fund prior project costs primarily associated with ITRP.

Table S-1 summarizes the primary improvements planned at IAH for the period from FY 2024 through FY 2030.

³ The analysis associated with this Report incorporates the HAS preliminary five-year CIP (FY 2024 through FY 2028) as well as additional planned capital spending in FY 2029 and FY 2030 provided by HAS. Beyond FY 2030, planned capital improvements for the Airports are not included within the analysis, but there is a potential for additional CIP spending. The City adopts five-year capital improvement programs each year. The City expects to adopt the FY 2024 through FY 2028 CIP in June 2023.

TABLE S-1 IAH CAPITAL IMPROVEMENTS (FISCAL YEAR 2024 – FISCAL YEAR 2030)

PROGRAM	DESCRIPTION	PROJECT COSTS (FY 2024 – FY 2030; IN THOUSANDS)
IAH Terminal Redevelopment Program (ITRP)	North Concourse Project: - Refurbishment and re-life of the existing Terminal D - Construction of the new MLIT D-West Pier Central Processor and FIS Project: - Demolition of the existing Terminal D/E Garage - Roadway modifications - Construction of the new International Central Processor (ICP) building - Renovation and expansion of the existing FIS facilities	\$485,097
Domestic Redevelopment Program (DRP)	Modernize and expand Terminal A	\$875,564
Skyway Train Replacement	Complete design, fabrication, assembly, factory testing, demolition, disposal, construction, installation and on-site integration, test and demonstration, and implementation of the Skyway APM System	\$350,000
Inter-Terminal Train (ITT) / Subway Replacement Design	Design of the train/subway replacement system that includes the capability to extend service to the rental car facility and a future East Side Terminal	\$22,000
Central Utility Plant (CUP) Improvements	Replacing various equipment and components	\$118,624
IAH Airfield Improvements	- Reconstruction of Taxiways SA and SB - Reconstruction of Taxiways RA and RB - Additional airfield improvements	\$106,162
Other Ongoing Capital Projects	- Terminal A Vault Replacement; FIDS and BIDS upgrade - IAH Consolidated Employee Parking Lot - Terminal B Garage third and fourth levels rehabilitation - Rehabilitation of JFK and Will Clayton Parkway Cell Phone Lots - Construction of Kenswick Intersections - Rehabilitation and expansion program for ARFF Station 92 - Additional capital projects	\$310,278
TOTAL IAH CAPITAL PROJECTS INCLUDED IN FINANCIAL ANALYSIS		\$2,315,525

NOTES:

ARFF – Aircraft Rescue and Firefighting

BIDS – Baggage Information Display System

FIDS – Flight Information Display System

FIS – Federal Inspection Services

MLIT - Mickey Leland International Terminal

SOURCE: Houston Airport System, June 2023.

WILLIAM P. HOBBY AIRPORT

Prior to the opening of Intercontinental in 1969, HOU served as Houston's main international airport. HOU covers approximately 1,500 acres of land and is located approximately 7 miles southeast of downtown Houston, Texas. The FAA classifies HOU as a medium-hub airport based on total enplaned passengers, and it serves as an operating base for Southwest Airlines (Southwest).

The HOU airfield consists of three intersecting runways, with the longest runways measuring approximately 7,600 feet in length, as well as a network of taxiways and apron areas, aviation fuel services, and lighting systems. The Hobby terminal building serves 30 gates, 5 at the west concourse from which international flights are operated and 25 at the central concourse designated for domestic flights. The FIS facilities for arriving international passengers are located on the first floor of the west concourse.

The airport also provides cargo and general aviation services, parking and rental car facilities, and support facilities.

Planned capital improvements at HOU include an expansion of the west concourse, airfield improvements, renewal and replacement projects, and other infrastructure improvements.

Table S-2 summarizes the primary improvements planned at HOU for the period from FY 2024 through FY 2030.

TABLE S-2 HOU CAPITAL IMPROVEMENTS (FISCAL YEAR 2024 – FISCAL YEAR 2030)

PROGRAM	DESCRIPTION	PROJECT COSTS (FY 2024 – FY 2030; IN THOUSANDS)
West Concourse Expansion	- Adding seven narrowbody contact gates - Increasing the overall holdroom area - Enhancing the concessions and retail space - Increasing the apron area and airfield circulation	\$412,325
Airfield Improvements	- Non-standard taxiway realignment - Fuel tank relocation; demolition of an operational "hot spot" by Runway 17-35 - Reconstruction of Taxiway C - Rehabilitation and upgrade of Runway 12L-30R - Rehabilitation of Taxiway M - Additional airfield improvements	\$196,836
Renewal and Replacement	- SIDA booth improvements - Sanitary sewer system - Passenger boarding bridges - Additional capital projects	\$144,105
TOTAL HOU CAPITAL PROJECTS INCLUDED IN FINANCIAL ANALYSIS		\$753,266

NOTE:

SIDA – Secure Identification Display Area

SOURCE: Houston Airport System, June 2023.

ELLINGTON AIRPORT

EFD currently serves general aviation, military, and National Aeronautics and Space Administration (NASA) operations, with no commercial aviation service. It is also home to the Houston Spaceport. EFD covers approximately 2,300 acres of land and is located 15 miles southeast of downtown Houston, Texas. Approximately 400 acres are designated on the southeast side of the airport for the Spaceport development.

The EFD airfield consists of three runways, with the longest measuring approximately 9,000 feet, as well as a network of taxiways and apron areas, aviation fuel services, and lighting systems.

Planned capital improvements at Ellington include airfield, infrastructure, and commercial development projects.

Table S-3 summarizes the primary improvements planned at EFD for the period from FY 2024 through FY 2030.

TABLE S-3 EFD CAPITAL IMPROVEMENTS (FISCAL YEAR 2024 – FISCAL YEAR 2030)

PROGRAM	DESCRIPTION	PROJECT COSTS (FY 2024 – FY 2030; IN THOUSANDS)
Airfield Projects	Construction of a new Taxiway L to support growing Spaceport activities	\$110,000
Additional Ellington Improvements	- Axiom Spaceport Development - Drainage improvements - Intuitive machines - Spaceport Roadway - Additional capital projects	\$51,421
TOTAL EFD CAPITAL PROJECTS INCLUDED IN FINANCIAL ANALYSIS		\$161,421

SOURCE: Houston Airport System, June 2023.

DEMOGRAPHIC AND ECONOMIC ANALYSIS

The demand for air transportation at an airport is, to a large degree, dependent upon the demographic and economic characteristics of the geographical area surrounding the airport (the airport's "air trade area"). This relationship is particularly true for origin and destination (O&D) passenger traffic, which has historically accounted for between approximately 42 and 56 percent of passenger traffic at IAH and between approximately 63 and 74 percent of passenger traffic at HOU.⁴ The HAS Airports (IAH, HOU, EFD) are within the Air Trade Area.

The Air Trade Area has a large, diverse economy with projected growth that is anticipated to increase the demand for air travel and is a base that supports business and leisure travel. Projected economic variables indicate the Air Trade Area will remain a destination that supports the growth of inbound and outbound air travel.

Table S-4 presents selected 2020 and 2032 economic figures for the Air Trade Area and for the United States, as projected by Woods & Poole Economics, Inc. (Woods & Poole).

Additional information on the demographic and economic characteristics of the Air Trade Area is provided in Chapter 3.

AIR TRAFFIC

Houston's large population base and geographic position support domestic and international connectivity and make it a natural location for airline hub and focus city operations.⁵ The status of IAH as a hub for United and HOU as a focus city for Southwest have established the positions of IAH and HOU as key components of the national air transportation system. IAH is United's third-largest hub in terms of scheduled average daily departures in FY 2023 and ranks fourth in terms of scheduled average daily departing seats. HOU is the seventh-largest airport in Southwest's network by both average daily departures and departing seats.

⁴ For purposes of this Report, the Air Trade Area coincides with the geographic boundaries of the Houston–The Woodlands, Texas, Combined Statistical Area (CSA).

⁵ At hub airports airlines schedule flights around multiple departure and arrival banks throughout the day to accommodate local and connecting passenger itineraries. At focus city airports airlines schedule service to many destinations and multiple daily frequencies on many routes, prioritizing accommodation of O&D passengers. The volume of flights and destinations served from a focus city typically enable accommodation of connecting passenger itineraries as well.

TABLE S-4 PROJECTIONS OF ECONOMIC VARIABLES USED IN PASSENGER DEMAND FORECAST
(2020 AND 2032)

VARIABLE	CY 2020	CY 2032	COMPOUND ANNUAL GROWTH RATE
			CY 2020 – CY 2032
Air Trade Area Population	7,341,569	8,593,146	1.3%
US Population	331,501,094	356,413,906	0.6%
Air Trade Area Total Employment (jobs) ¹	4,230,366	5,560,960	2.3%
US Total Employment (jobs) ¹	186,274,766	232,916,601	1.9%
Air Trade Area Total Personal Income ²	\$396,257	\$567,690	3.0%
US Total Personal Income ²	\$17,628,632	\$22,484,638	2.0%
Air Trade Area Per Capita Personal Income ³	\$53,974	\$66,063	1.7%
US Per Capita Personal Income ³	\$53,178	\$63,086	1.4%
Air Trade Area Gross Regional Product (GRP) ²	\$446,516	\$636,084	3.0%
US Gross Domestic Product (GDP) ²	\$18,664,908	\$24,492,794	2.3%
Air Trade Area per Capita Gross Regional Product (GRP) ³	\$60,820	\$74,022	1.7%
US per Capita Gross Domestic Product (GDP) ³	\$56,304	\$68,720	1.7%

NOTES:

All dollar amounts are in 2020 dollars. 2032 data are Woods & Poole Economics, Inc., projections.

CY – Calendar Year

1 Employment data include wage and salary workers, proprietors, private household employees, and miscellaneous workers.

2 Figures displayed in millions of 2012 dollars.

3 Figures displayed in 2012 dollars.

SOURCE: Woods & Poole Economics, Inc., 2022 Complete Economic and Demographic Data Source (CEDDS), June 2022.

Based on airline bookings data, in the year ending June 2022 the Houston market was ranked 13th in the nation in terms of total O&D passengers. IAH and HOU are served by a large and stable base of airlines. As of April 2023, 52 airlines served IAH and HOU, collectively, with 49 serving IAH and 9 serving HOU (6 airlines serve both airports). Currently, no airlines operate scheduled passenger or cargo flights to EFD. Significant US airlines serving IAH include Alaska Airlines (Alaska), American Airlines (American), Delta Air Lines (Delta), Frontier Airlines (Frontier; transferred service from HOU to IAH in 2012), JetBlue Airways (JetBlue; transferred service from HOU to IAH in 2019), Southwest (initiated service in 2021), Sun Country Airlines (Sun Country; initiated service in 2021), Spirit Airlines (Spirit; initiated service in 2012), and United. American, Delta, and Southwest have consistently served HOU. Allegiant Air (Allegiant) launched service from HOU in 2020 and Frontier resumed service at HOU in 2022, while maintaining service at IAH.

During CY 2023 airlines scheduled 423 average daily departures to 113 domestic destinations and 111 average daily departures to 66 international destinations from IAH. During CY 2023 airlines scheduled 129 average daily departures to 69 domestic destinations and 8 average daily departures to 9 international destinations from HOU.

The HAS served approximately 26.1 million enplaned passengers in FY 2022, which represents 87.5 percent of 29.8 million enplaned passengers in FY 2019, prior to the impact of COVID-19 on air travel. Historically, IAH and HOU have served approximately three-quarters and one-quarter of HAS traffic, respectively. The compound annual growth rate (CAGR) from FY 2013 to FY 2019 was 2.9 percent, and the FY 2013 to FY 2022 CAGR was 0.4 percent.

Of the passengers served by IAH and HOU in FY 2022, O&D passenger traffic comprised approximately 58.1 percent and 64.0 percent of traffic at IAH and HOU, respectively, while connecting passenger traffic comprised approximately 41.9 percent and 36.0 percent of traffic at IAH and HOU, respectively.

Forecasts of aviation demand (i.e., enplaned passengers, aircraft operations, and landed weight) were developed considering the following:

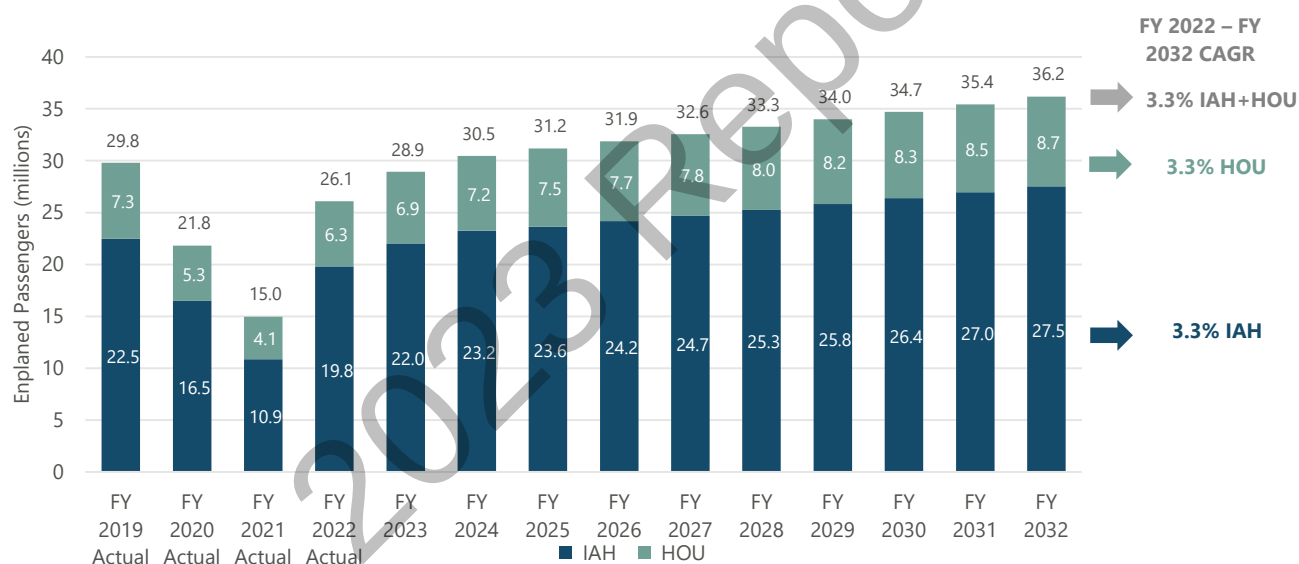
- historical activity at the Airport System and across the industry;
- recent trends and projections of local and national socioeconomic factors; and
- anticipated use of IAH and HOU by United, Southwest, and other airlines.

Enplaned passenger activity is forecast to grow at IAH from 19.8 million in FY 2022 to 27.5 million in FY 2032, which represents a CAGR of 3.3 percent. Total enplaned passengers are forecast to exceed 2019 levels on a FY basis beginning in FY 2024.

At HOU, enplaned passengers are forecast to increase from 6.3 million in FY 2022 to 8.7 million in FY 2032, which represents a CAGR of 3.3 percent. Total enplaned passengers are forecast to exceed 2019 levels on a FY basis beginning in FY 2024.

Additional information on air traffic is provided in Chapter 5 of this Report. **Exhibit S-1** summarizes historical and forecast enplaned passengers at the Airports through FY 2032.

EXHIBIT S-1 IAH AND HOU TOTAL ENPLANED PASSENGERS



NOTES:

CAGR – Compound Annual Growth Rate

FY – Fiscal Year

HOU – William P. Hobby Airport

IAH – George Bush Intercontinental/Houston Airport

SOURCES: Houston Airport System, April 2023 (actual passengers); Ricondo & Associates, Inc., June 2023 (forecast passengers).

FINANCIAL ANALYSIS

HAS maintains the financial records and accounts of the Airports in accordance with generally accepted accounting principles and as required by the provisions of the Bond Ordinance. Neither the City of Houston nor State of Texas tax revenues are pledged to the payment of debt service or to fund the cost of operations at the Airports. The City's FY begins on July 1 and ends on June 30 of each year.

As defined in the Bond Ordinance, Net Revenues are Revenues less Operation and Maintenance Expenses (O&M Expenses) resulting in Net Revenues of the combined Airport System (IAH, HOU, and EFD). The financial framework and debt service coverage calculations are presented in Chapter 6 and Appendix A of this Report.

Airline use and lease agreements have been authorized to formalize the main financial and operational arrangements between the City and the signatory airlines at IAH. Rather than a single agreement, distinct agreements have been developed for each terminal. For each agreement, charges are assessed using a residual airfield calculation and a compensatory cost recovery methodology for the remaining airline-related Airport Cost Centers.⁶ However, costs at IAH Terminal D are recovered primarily on a common use, or activity basis, while costs at the remaining IAH terminals are primarily recovered on an exclusive or preferential use basis. In addition, the retention of concessions revenues and commitments regarding capital improvements vary between each use and lease agreement. Information on the terminal-specific agreements, including certain agreements that are currently being negotiated, is included in Chapter 6.

The Hobby Airport Use and Lease Agreement, initially established in 2013, provides for the operational and financial arrangement between the City and airlines operating at HOU. Airlines operating from Hobby are provided the opportunity to enter into either Short-Term or Long-Term Airport Use and Lease Agreements, with terms extending to 5 years after authorization or to 2040 for the Short-Term and Long-Term leases, respectively. The Short-Term agreements may be renewed for 5-year periods until 2040.

Based on the analysis in this Report, and the financial projections presented in Chapter 6, Ricondo is of the opinion that the Net Revenues generated by the Airport System in each year of the Projection Period are expected to be sufficient to comply with the Bond Ordinance.

Results of the financial analysis presented herein are summarized below. Although the Series 2023 Bonds may include the refunding of the Series 2002 Bonds and the purchase and cancellation of the Series 2020C Bonds, the analysis associated with this Report does not reflect any anticipated reduction of total annual debt service requirements resulting from such refunding and/or purchase.

- Total Operating and Maintenance (O&M) Expenses are budgeted to increase from \$367.3 million in FY 2023 to \$484.3 million in FY 2032, reflecting a CAGR of 3.1 percent. The increase includes impacts of the planned terminal expansions, in addition to inflation (assumed to average 3.0 percent annually through the Projection Period).
- Non-airline revenues are projected to increase from approximately \$240.1 million in the FY 2023 budget to approximately \$376.0 million in FY 2032, reflecting a CAGR of 5.1 percent. The increase is mainly due to the forecast growth of passengers and inflation.
- Other available revenue includes PFCs, as well as FAA Airport Improvement Program (AIP) grants and other federal funding. Projected PFC Revenues are expected to be sufficient to cover all anticipated PFC commitments, as described in more detail in Chapter 6.
- Debt Service Requirements (including outstanding Airport Obligations, estimated debt service on the 2023 Bonds, and projected debt service on future bonds necessary to complete the HAS CIP), net of capitalized interest, PFC Revenues, and other funds used to pay debt service as further provided in the Bond Ordinance, is budgeted to be approximately \$88.6 million in FY 2023; it is projected to increase throughout the Projection Period to approximately \$275.3 million in FY 2032.

⁶ Airport Cost Centers is defined in the HAS airline agreements as “the facilities and areas to be used in accounting for Airport costs for the purposes of calculating rates and charges . . . as such areas now exist or may hereafter be modified or expanded.”

- HAS airline revenue is projected to increase from \$299.1 million in FY 2023 to \$489.6 million in FY 2032, reflecting a CAGR of 5.6 percent.
- **Table S-5** provides a summary of cost per enplaned passenger (CPE) and debt service coverage projections associated with the financial analysis. Supporting calculations can be found in Appendix A.

TABLE S-5 PROJECTED COST PER ENPLANED PASSENGER AND DEBT SERVICE COVERAGE

	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032
Hobby CPE	\$8.62	\$8.33	\$8.36	\$8.34	\$9.18	\$9.42	\$11.15	\$11.20	\$11.25
Intercontinental CPE	\$11.22	\$12.06	\$11.82	\$12.14	\$12.09	\$12.22	\$12.53	\$14.17	\$14.06
Debt Service Coverage	1.78 x	1.85 x	1.82 x	1.82 x	1.71 x	1.48 x	1.39 x	1.42 x	1.39x

NOTE:

CPE – Cost per Enplaned Passenger

SOURCE: Houston Airport System, June 2023; Ricondo & Associates, Inc., June 2023.

The projected CPE amounts shown on Table S-5 were determined to be reasonable based on the expectation that these fees would not deter forecast demand for air traffic at HAS airports as airlines continue to deploy capacity to airports based on available resources. The projected CPE amounts are estimated assuming certain terms will be included in future airline agreements authorizing the use of facilities at the Airport System, as described in more detail in Section 61. The projected user fees in this analysis are deemed to be reasonable based on the following combination of factors, which are discussed in detail in Section 6.6.7.1:

- large population and strong economic base,
- attractive geographical location,
- important airports for United and Southwest, and
- increases in debt are associated with capital projects supported by airlines.

1. THE 2023 BONDS

The 2023 Bonds will be issued as Subordinate Lien Bonds pursuant to provisions of the Master Ordinance and the Supplemental Ordinance. Collectively, the Master Ordinance, the Supplemental Ordinance, and the previously described prior parity ordinances are referred to in this Report as the Bond Ordinance. This chapter describes the 2023 Bonds and key provisions of the Bond Ordinance.

Unless otherwise defined herein, all capitalized terms in this Report have the meanings assigned to such terms in the Bond Ordinance, the Official Statement for the 2023 Bonds, or the airline use and lease agreements authorized by the City.

1.1 THE 2023 BONDS

The 2023 Bonds include the 2023A Bonds and the 2023B Bonds. The City is issuing the 2023 Bonds to provide funding for planned capital improvements at HAS, to refund its outstanding Senior Lien Notes, and to refund the Series 2002 Bonds. Specifically, proceeds from the 2023 Bonds are anticipated to be used to:

- i. fund portions of the HAS CIP,
- ii. refund the Senior Lien Notes,
- iii. fund capitalized interest,
- iv. refund the Series 2002 Bonds,
- v. tender a portion of the Series 2020C Bonds for purchase and cancellation,
- vi. fund the Subordinate Lien Bond Reserve Fund, and
- vii. pay all costs of issuance incurred in connection with the 2023 Bonds.

Table 1-1 reflects the funding plan for the 2023 Bonds. Proceeds from the 2023 Bonds will be used to fund approximately \$562 million in project costs, including (1) \$350 million associated with prior project costs originally funded by the Senior Lien Notes and (2) approximately \$212 million associated with future project costs that will allow for completion of the ITRP at Intercontinental. Details on the projects and related proceed amounts associated with the 2023 Bonds can be found in Table 1-1.

Additional details on the HAS CIP can be found in Chapter 3 of this Report.

The HAS commercial paper program of Senior Lien Notes is supported by a direct pay letter of credit issued by Sumitomo Mitsui Banking Corporation, expiring in March 2025, which provides for a maximum amount of \$350 million in outstanding principal as Senior Lien Notes. As of April 28, 2023, \$350 million of Senior Lien Notes are outstanding. Proceeds from the 2023 Bonds will be used to refund the full amount of outstanding Senior Lien Notes.

Table 1-2 presents the estimated sources and uses for the 2023 Bonds.

For purposes of the financial analysis in this Report, the City's Financial Advisor made the following assumptions for the Series 2023 Bonds, as presented in **Table 1-3**.

TABLE 1-1 2023 BONDS PROJECT FUNDING PLAN

FUNDING	PROJECTS	2023A BONDS (AMT)	2023B BONDS (NON-AMT)	TOTAL 2023 BONDS PROCEEDS APPLIED
Outstanding Senior Lien Notes	- IAH ITRP (\$260 million) - HOU West Expansion Design/Engineering (\$20 million) - IAH Terminal A Outbound Baggage Handling System (\$16 million) - Fleet Maintenance Building (\$15 million) - Additional reimbursement of various prior capital project costs (\$39 million)	\$317,564,000	\$32,436,000	\$350,000,000
Planned Project Funding	IAH ITRP	\$211,870,000	\$0	\$211,870,000
Total		\$529,434,000	\$32,436,000	\$561,870,000

NOTES:

Amounts are approximate, estimated as of May 2023.

IAH – George Bush Intercontinental/Houston Airport

ITRP – IAH Terminal Redevelopment Program

HOU – William P. Hobby Airport

SOURCES: Houston Airport System, April 2023; Masterson Advisors LLC, May 2023.

TABLE 1-2 2023 BONDS ESTIMATED SOURCES AND USES (NOT INCLUDING REFUNDING OR TENDER)

	2023A BONDS (AMT)	2023B BONDS (NON-AMT)	TOTAL
Sources			
Par Amount of Bonds	\$571,160,000	\$32,035,000	\$603,195,000
Premium	\$32,154,500	\$2,811,116	\$34,965,616
Total Sources of Funds at Closing	\$603,314,500	\$34,846,116	\$638,160,616
Uses¹			
Deposit to Project Fund	\$211,870,000	\$0	\$211,870,000
Commercial Paper Refunding	\$317,564,000	\$32,436,000	\$350,000,000
Deposit to Subordinate Lien Bond Reserve Fund ²	\$39,025,988	\$2,153,000	\$41,178,988
Cost of Capitalized Interest	\$30,281,226	\$0	\$30,281,226
Cost of Issuance ³	\$4,573,286	\$257,116	\$4,830,402
Total Uses of Funds at Closing	\$603,314,500	\$34,846,116	\$638,160,616

NOTES:

Numbers are preliminary and based on market rates as of May 15, 2023 plus a 25 basis points cushion, and are subject to change. Numbers may not sum due to rounding.

1 The analysis associated with this Report does not include debt service savings that are anticipated to occur from the refunding of the Series 2002 Bonds and the purchase and cancellation of the Series 2020C Bonds. Any such refunding and/or tender is anticipated to result in a decrease in total annual debt service. There is approximately \$47.6 million of outstanding Series 2002 Bonds.

2 The anticipated amounts shown as Deposit to Subordinate Lien Bond Reserve Fund may include a deposit of bond proceeds, the use of bond proceeds to purchase a reserve fund surety policy, or a combination thereof.

3 The cost of issuance includes the underwriter's discount and additional proceeds.

SOURCE: Masterson Advisors LLC, May 2023.

TABLE 1-3 2023 BONDS FINANCING ASSUMPTIONS (NOT INCLUDING REFUNDING OR TENDER)

	2023A BONDS (AMT)	2023B BONDS (NON-AMT)
Last Maturity Date	07/01/2053 (30-year bond)	07/01/2053 (30-year bond)
Average Life	19.59 years	19.54 years
True Interest Cost	4.73%	4.34%

NOTE:

Numbers are preliminary and based on market rates as of May 12, 2023 plus a 25 basis point cushion, and are subject to change.

SOURCE: Masterson Advisors LLC, May 2023.

1.2 BOND ORDINANCE

1.2.1 SECURITY FOR THE 2023 BONDS

The 2023 Bonds will be payable from and secured by Net Revenues, subject to the prior and superior lien on Net Revenues securing the Senior Lien Obligations. The 2023 Bonds, as Subordinate Lien Reserve Fund Participants, will further be secured by the Subordinate Lien Bond Interest and Sinking Fund and the Subordinate Lien Bond Reserve Fund.

Table 1-4 shows total Senior Lien Notes, Subordinate Lien Bonds, and Inferior Lien Bonds outstanding as of May 2023.

TABLE 1-4 OUTSTANDING DEBT AND AIRPORT OBLIGATIONS

	OUTSTANDING DEBT (IN THOUSANDS)
Senior Lien Bonds	\$0
Senior Lien Notes	\$350,000
Subordinate Lien Bonds	\$2,055,965
Inferior Lien Bonds	\$0
Total Outstanding Airport Obligations	\$2,405,965

NOTE:

In addition to the Senior Lien and Subordinate Lien debt secured solely by Airport System Fund revenues, Houston Airport System is responsible for a portion of taxable general obligation pension bonds and special facility revenue bonds (consolidated rental car facility).

SOURCE: Houston Airport System, June 2023.

The City has authority from the FAA to impose a PFC of \$4.50 per eligible enplaned passenger at Intercontinental and Hobby. PFC Revenues are not included in the definition of Net Revenues and are not pledged to the payment of the 2023 Bonds or any other outstanding Airport Obligations. However, under the Master Ordinance, the calculation of Debt Service Requirements provides for a credit of the amount of other HAS funds, including, but not limited to, PFC Revenues that have been irrevocably committed by the City to the payment of principal or interest on Airport Obligations. HAS periodically irrevocably commits PFC Revenues to the Subordinate Lien Interest and Sinking Fund for the purpose of paying PFC-eligible debt service on approved PFC projects. For the purposes of this Report, PFC Revenues that the City expects to use to pay future debt service on Airport Obligations are credited against such future Debt Service Requirements.

The Master Ordinance establishes a Subordinate Lien Bond Reserve Fund and, within such fund, a Subordinate Lien Bond Reserve Fund Participant Account. All currently outstanding Subordinate Lien Bonds are Reserve Fund Participants secured by the Subordinate Lien Bond Reserve Fund Participant Account; however, the City reserves the right to issue future Subordinate Lien Bonds secured by a separate non-participant account within the Subordinate Lien Bond Reserve Fund. The 2023 Bonds are expected to be issued as Reserve Fund Participants. The Reserve Fund Requirement for the Subordinate Lien Bond Reserve Fund Participant Account is equal to the greatest amount of the Debt Service Requirements scheduled to occur in the then-current and each future FY for all Subordinate Lien Bonds then Outstanding that are Reserve Fund Participants, including the bonds then being issued. The Subordinate Lien Bond Reserve Fund Participant Account is currently funded with Subordinate Lien Bond Reserve Fund Surety Policies, cash, and allowable investments. A portion of the proceeds of the 2023 Bonds will be deposited in the Subordinate Lien Bond Reserve Fund Participant Account and/or used to purchase a reserve fund surety policy for the Subordinate Lien Bond Reserve Fund Participant Account.

1.2.2 RATE COVENANT

The City covenants in the Master Ordinance to fix, charge, impose, and collect rentals, rates, fees, and other charges for use of the Airport System, and, to the extent it legally may do so, revise the same as may be necessary or appropriate, in order that in each FY the Net Revenues will at all times be at least sufficient to equal the larger of either:

- (1) All amounts required to be deposited in such FY to the credit of the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Reserve Fund, the Inferior Lien Bond Interest and Sinking Fund, and the Inferior Lien Bond Reserve Fund; or
- (2) An amount not less than (1) 125 percent of the Debt Service Requirements for the Outstanding Senior Lien Obligations for such FY, plus (2) 110 percent of the Debt Service Requirements for the Outstanding Subordinate Lien Bonds for such FY, plus (3) 100 percent of the Debt Service Requirements for the Outstanding Inferior Lien Bonds for such FY.

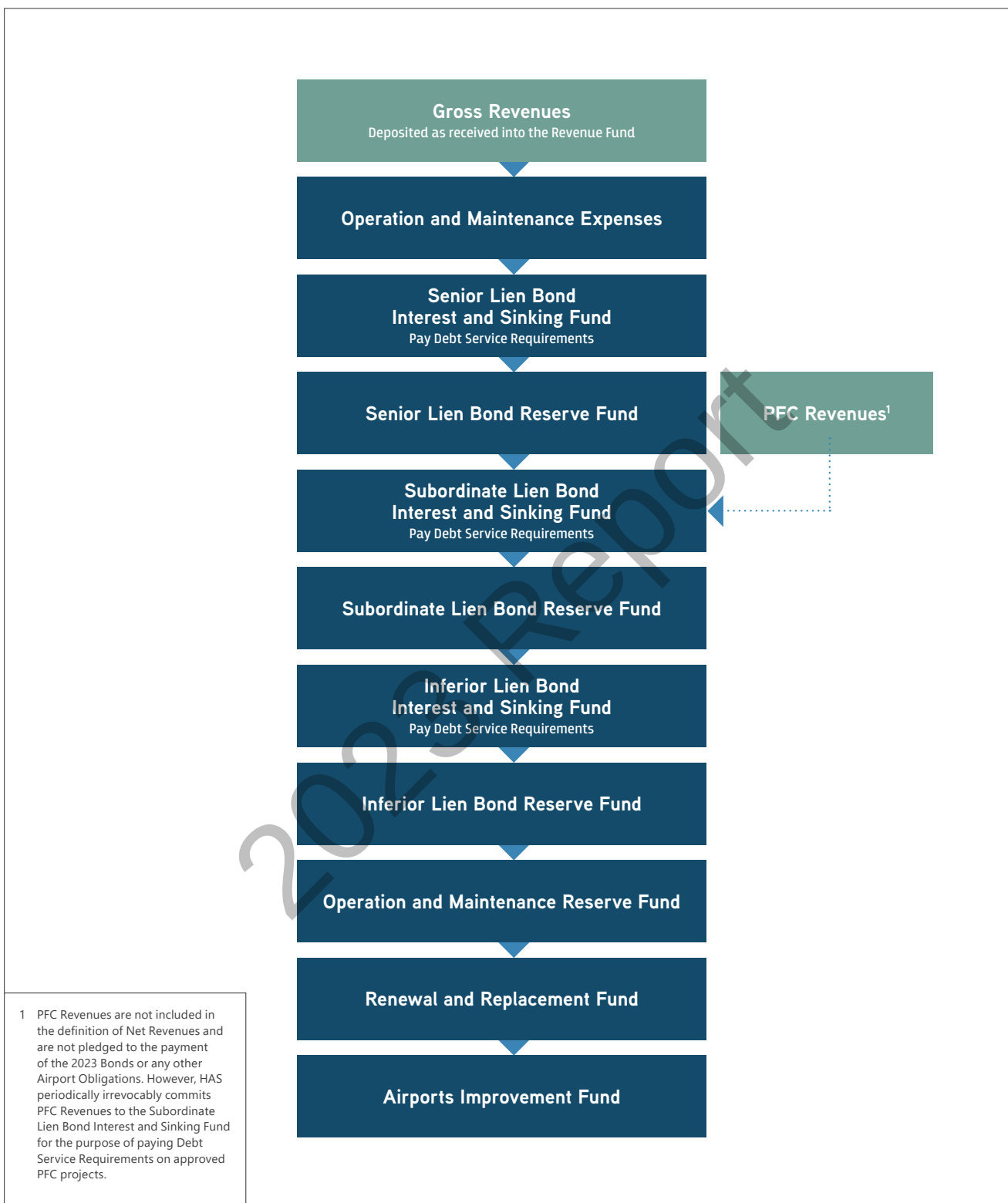
1.2.3 FLOW OF FUNDS

All Gross Revenues of the Airport System are deposited as received into the Revenue Fund and are first used for the payment of all current O&M Expenses. The City may also deposit any Federal Payments to the Revenue Fund, as further provided in the Master Ordinance. The remaining Net Revenues must then be deposited to certain accounts in order of priority, as required by the Master Ordinance; **Exhibit 1-1** illustrates the required flow of funds for Gross Revenues and PFC Revenues.

1.2.4 ADDITIONAL BONDS TEST

The Bond Ordinance authorizes the issuance of Additional Senior Lien Obligations and Additional Subordinate Lien Bonds, subject to certain conditions. The following conditions must be met:

- (1) No Default. The Mayor and Aviation Director must certify that, upon the issuance of such series of Bonds, the City will not be in default under any term or provision of any Bonds then Outstanding;
- (2) Proper Fund Balances. The City Controller shall certify that, upon the issuance of such series of Bonds, the interest and sinking funds and reserve funds for the Senior Lien Obligations and Subordinate Lien Bonds will contain the required amounts on deposit;



SOURCE: Ricondo & Associates, Inc., June 2023.

EXHIBIT 1-1
FLOW OF FUNDS

- (3) Historical Coverage on Outstanding Bonds. The City Controller shall certify that, for either the City's most recent complete FY or for any consecutive 12 out of the most recent 18 months, the Net Revenues were equal to at least
- a. 125 percent of the Debt Service Requirements on all Senior Lien Obligations for such period, plus
 - b. 110 percent of the Debt Service Requirements on all Subordinate Lien Bonds for such period.
- (4) Projected Coverage for Additional Bonds. An Airport Management Consultant provides a written report setting forth projections that indicate the estimated Net Revenues for each of the three consecutive FYs beginning in the earlier of:
- a. the first FY following the estimated date of completion and initial use of all revenue-producing facilities to be financed with such series of Bonds, based upon a certified written estimated completion date by the consulting engineer for such facility or facilities, or
 - b. the first FY in which the City will have scheduled payments of interest on or principal of the series of Bonds to be issued for the payment of which provision has not been made as indicated in the report of such Airport Management Consultant from proceeds of such series of Bonds, investment income thereon or from other appropriated sources (other than Net Revenues),
- are equal to at least
- (1) 125 percent of the Debt Service Requirements on all Senior Lien Obligations, plus
 - (2) 110 percent of the Debt Service Requirements on all Subordinate Lien Bonds,
- scheduled to occur during each such respective FY after considering the additional Debt Service Requirements for the additional series of Bonds to be issued;
- (5) Alternate Coverage for Additional Bonds. In lieu of the certification described in (4), the City Controller may provide a certificate showing that, for either the City's most recent complete FY or for any consecutive 12 out of the most recent 18 months, the Net Revenues were equal to at least:
- (1) 125 percent of the maximum Debt Service Requirements on all Senior Lien Obligations, plus
 - (2) 110 percent of the maximum Debt Service Requirements on all Subordinate Lien Bonds,
- scheduled to occur in the then-current or any future FY after taking into consideration the issuance of the series of Bonds proposed to be issued.

This Report evaluates item (4), as described in more detail in Chapter 6. Additional provisions in the Bond Ordinance are described for conditions related to refunding bonds, Short-Term/Demand Obligations, Completion Bonds, Credit Agreements, Qualified Hedge Agreements, Inferior Lien Bonds, Special Facilities Bonds, and obligations secured by PFC Revenue and Excluded Fee and Charge Revenues, all of which are not applicable to the issuance of the 2023 Bonds.

2. THE HOUSTON AIRPORT SYSTEM

The HAS, an enterprise system of the City of Houston, Texas, manages and operates IAH, HOU, and EFD. This chapter describes the existing IAH, HOU, and EFD facilities, including airfield, terminal, automobile parking, rental car, air cargo, support, and general aviation facilities.

2.1 GEORGE BUSH INTERCONTINENTAL/HOUSTON AIRPORT

Intercontinental covers approximately 10,125 acres of land and is located 22 miles north of the central business district of Houston, Texas. IAH is bordered by Farm to Market 1960 Road on the north side, Interstate 69 (I-69) on the east side, Aldine Westfield Road on the west side, and Greens Road on the south side. The FAA classifies IAH as a large-hub airport, which is based on total enplaned passengers.

Exhibit 2-1 presents an aerial view of Intercontinental.

2.1.1 AIRFIELD

The IAH airfield consists of five runways, a network of taxiways and apron areas, aviation fuel services, and lighting systems.

Table 2-1 lists the orientation and length for each runway at IAH. All runways have electronic and other navigational aids that permit aircraft to land in most weather conditions. Aircraft generally arrive on the east–west runways and depart on the northwest–southeast runways. Centerline separation allows for simultaneous approaches to the three east–west runways during most weather conditions.

TABLE 2-1 RUNWAYS – GEORGE BUSH INTERCONTINENTAL/HOUSTON AIRPORT

	ORIENTATION	LENGTH (FEET)	WIDTH (FEET)
Runway 15R-33L	northwest–southeast	10,000	150
Runway 15L-33R	northwest–southeast	12,001	150
Runway 8L-26R	east–west	9,000	150
Runway 8R-26L	east–west	9,402	150
Runway 9-27	east–west	10,000	150

SOURCE: US Department of Transportation, Federal Aviation Administration, June 2023 (airport diagram).

A network of taxiways, aprons, and aircraft holding areas supports the runways. Taxiways connect the passenger terminal, cargo, and general aviation aircraft parking areas to the runways. The taxiway system also provides access to support facilities, such as the fire stations located on the IAH airfield.



SOURCES: Nearmap, January 2023 (aerial photography—for visual reference only, may not be to scale).

EXHIBIT 2-1



EXISTING AIRPORT FACILITIES
– GEORGE BUSH INTERCONTINENTAL/HOUSTON AIRPORT

2.1.2 TERMINAL COMPLEX

The IAH terminal complex comprises five terminals: A, B, C, D, and E. With a total terminal area of over 4 million square feet, IAH provides access to 127 gates. All terminals are connected by both an underground train for passenger transport outside security (Subway) and an elevated train for passenger transport inside security (Skyway).

Exhibit 2-2 illustrates the existing terminal complex.

Within each terminal building, the lower level provides access to the non-secure Subway that connects the five terminals and the Marriott Hotel. The arrivals level provides access to baggage claim, parking, and ground transportation. The second (departure) level primarily contains ticketing and check-in, security checkpoints, and the secure areas, including holdrooms, concession spaces, and restrooms. The Skyway on Level 3 provides secure access to each terminal building, with stations located at Terminals A, B, C, and D/E.

Terminal A comprises a north and south concourse connected by a shared ticketing/check-in area. As of April 2023, 10 individual airlines provide domestic service through Terminal A. Terminal A also serves a select number of pre-cleared international flights. As discussed in more detail in Chapter 3, the modernization and expansion of Terminal A at IAH is included within the HAS CIP and is scheduled to begin in FY 2024.

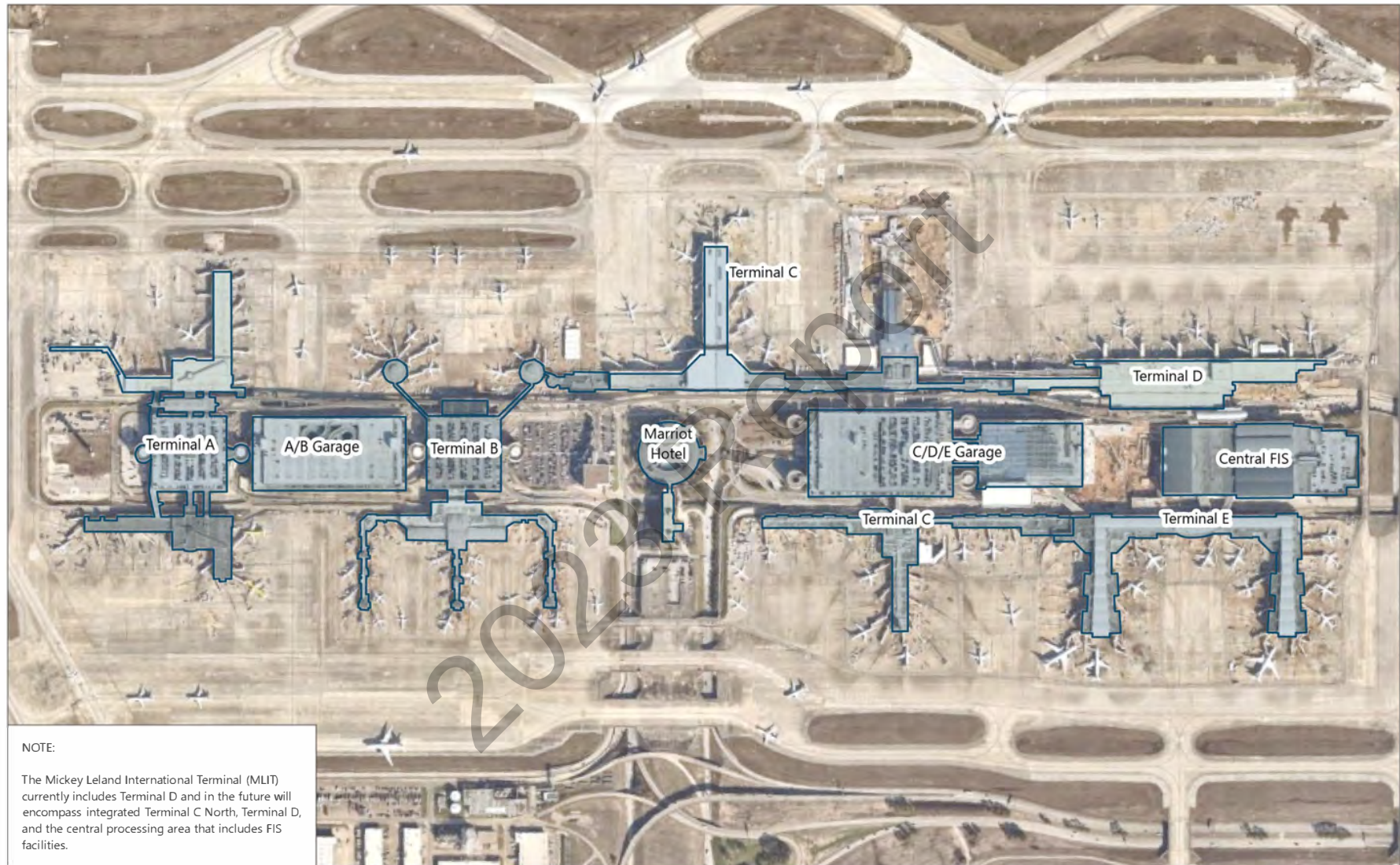
Terminal B, leased entirely by United, is also separated into north and south concourses connected by a shared ticketing/check-in area. Terminal B is primarily served by United Express regional jet flights. The south concourse was redeveloped in 2013. The Terminal B north concourse represents the only two remaining circular-shaped flight stations associated with the architecture of the original construction of IAH. The redevelopment of the north concourse to replace the two remaining flight stations may potentially be undertaken by United, but the redevelopment is not assumed to occur within the Projection Period for the purpose of this Report.

Terminal C, served by United domestic flights, comprises north and south concourses connected by a shared ticketing/check-in area. The original Terminal C North concourse, located directly north of the Terminal C South concourse, was demolished in 2021 to allow for the implementation of the ITRP. The existing Terminal C North concourse is located west of the original Terminal C North concourse and was constructed in 2017.

Terminals D and E at IAH are located north (Terminal D) and south (Terminal E) of a central FIS facility. Terminal D is an east–west oriented concourse that currently serves all non-United international operations (except Air Canada and WestJet Airlines operating pre-cleared international flight at Terminal A), while Terminal E comprises two separate piers and serves both domestic and international operations for United. The ongoing redevelopment of Terminal D and the FIS facility through the ITRP at IAH is included in the HAS CIP, as discussed in more detail in Chapter 3.

2.1.3 AIRPORT HOTEL

The Houston Airport Marriott at Intercontinental is located between Terminals B and C. The hotel offers 573 guestrooms and over 30,000 square feet of event space. On-site parking is available at the adjacent parking garage, and the Subway provides access to each terminal at the Airport.

**EXHIBIT 2-2**

EXISTING CENTRAL TERMINAL AREA

— GEORGE BUSH INTERCONTINENTAL/HOUSTON AIRPORT



NORTH

0 750 ft

2.1.4 AUTOMOBILE PARKING FACILITIES

Two public parking facilities provide a total of approximately 10,000 public parking garage spaces for Intercontinental patrons:

- Terminals A and B Parking Garage (located between Terminals A and B) – The Terminals A and B Parking Garage has eight levels for parking. The first level of the garage is used for valet parking. The remaining levels of the garage are available for public parking, totaling approximately 4,000 parking spaces for public use.
- Terminal C/D/E Parking Garage (located between Terminal C North and Terminal C South) – The Terminal C/D/E Parking Garage has seven levels for parking. The fourth level of the garage is used for valet parking. The remaining levels are available for public parking, totaling approximately 6,000 parking spaces for public use.

A third garage, the Terminal D/E Parking Garage, was previously located east of the Terminal C/D/E Parking Garage but was closed in March 2021 and demolished to accommodate the expansion related to the ITRP. An employee parking lot is located approximately 0.5 miles east of the airport.

Additional public parking is available on IAH property at two Ecopark lots with a total of approximately 11,000 spaces, and a cell phone lot is located off Will Clayton Parkway. An additional 3,000 parking spaces are available for employee use.

2.1.5 RENTAL CAR FACILITIES

The IAH consolidated rental car center is located on the airport and is approximately 5 minutes from the terminals by shuttle. All of the rental car companies serving the airport operate from the consolidated rental car center. Four companies operate 10 rental car brands on-site at the Airport: Hertz Corporation (Hertz, Dollar, and Thrifty), the Avis Budget Group (Avis, Budget, and Payless Car Rental), Enterprise Holdings (Enterprise, Alamo, and National), and Zipcar. Each brand has passenger-accessible counter space and ready/return spaces located on the first level of the rental car center. The shuttle to and from the terminal complex is located on the second level.

2.1.6 AIR CARGO

Air cargo operations are supported at two separate locations at the airport: Central Cargo and IAH Cargo Center (East Cargo). Combined, the two air cargo areas, including cargo support buildings, are located on approximately 295 acres and offer parking for up to 20 widebody aircraft. The cargo centers serve 14 cargo carriers, several passenger airlines moving belly cargo, and multiple charter cargo airlines.

2.1.7 GENERAL AVIATION

General aviation services at Intercontinental are provided by Signature Flight Support and Atlantic Aviation, two fixed base operators (FBOs) located south of the terminal complex on opposite sides of Runways 15L-33R and 15R-33L. The Signature Flight Support FBO, located west of Runway 15R-33L, consists of a 208,000-square-foot aircraft parking apron, a single 120,000-square-foot multiuse hangar, and a 5,500-square-foot executive terminal. The Atlantic Aviation FBO, located east of Runway 15L-33R, consists of a 320,000-square-foot aircraft parking apron, a 45,000-square-foot multiuse hangar, and a 17,000-square-foot executive terminal.

2.1.8 OTHER AREAS

Support facilities provide various critical functions at Intercontinental and support the airlines, airfield, and terminal operations. Activities conducted in these facilities directly impact the quality and safety of airport operations and contribute to a well-run airport. The following is a list of primary support facilities located within other areas of IAH:

- The main Aircraft Rescue and Firefighting (ARFF) Station, ARFF Station 99, is located southwest of runway 15R 33L. There are additional supporting fire stations, ARFF Station 54 and ARFF Station 92, located adjacent to Taxiways NE and SB, respectively.
- The IAH Airport Traffic Control Tower (ATCT) is located southeast of the terminal buildings, adjacent to Taxiway SF.
- A fuel farm is located on airport property and provides approximately 13 million gallons of jet fuel storage capacity.
- United's maintenance facility is located east of the terminal building complex and has a footprint of 375,000 square feet, including 260,000 square feet of aircraft hangar space.

2.2 WILLIAM P. HOBBY AIRPORT

Hobby covers approximately 1,500 acres of land and is located 7 miles southeast of the central business district of Houston, Texas. HOU is bordered by Airport Boulevard on the north side, Monroe Road on the east side, Telephone Road on the west side, and Randolph Street on the south side. The FAA classifies HOU as a medium-hub airport, which is based on total enplaned passengers.

Exhibit 2-3 presents an aerial view of Hobby.

2.2.1 AIRFIELD

The HOU airfield consists of three intersecting runways, a network of taxiways and apron areas, aviation fuel services, and lighting systems.

Table 2-2 lists the orientation, length, and width for each runway at HOU. All runways have electronic and other navigational aids that permit aircraft to land in most weather conditions. Airline operations generally take place on Runway 4-22 and Runway 13R-31L, while general aviation operations take place on the shorter Runway 13L-31R. A network of taxiways connects the passenger terminal, cargo, and general aviation aircraft parking areas to the runways.

TABLE 2-2 RUNWAYS – WILLIAM P. HOBBY AIRPORT

	ORIENTATION	LENGTH (FEET)	WIDTH (FEET)
Runway 4-22	northeast–southwest	7,602	150
Runway 13R-31L	northwest–southeast	7,602	150
Runway 13L-31R	northwest–southeast	5,148	100

SOURCE: US Department of Transportation, Federal Aviation Administration, June 2023 (airport diagram).



SOURCES: Nearmap, January 2023 (aerial photography—for visual reference only, may not be to scale).

EXHIBIT 2-3**EXISTING AIRPORT FACILITIES
—WILLIAM P. HOBBY AIRPORT**

NORTH

0 1,500 ft

2.2.2 TERMINAL

The HOU terminal building comprises a central concourse, a west concourse, and a consolidated check-in area, totaling approximately 910,000 square feet of space and serving 30 gates, 5 at the west concourse and 25 at the central concourse. **Exhibit 2-4** illustrates the existing terminal facilities.

Level 1 of the terminal is dedicated to arrivals and contains baggage claim carousels and access to ground transportation and parking. Level 1 of the west concourse also includes FIS facilities for arriving international passengers. Level 2 serves departures and contains ticketing and check-in, the security checkpoint to all gates, and the secure areas, including holdrooms, concession spaces, retail spaces, and restrooms.

Completed in 2008, the central concourse replaced the three original concourses. This concourse has 25 aircraft gates and serves domestic operations for Allegiant, American, Delta, Frontier, and Southwest. Gates 20 through 32 are located on the east side of the central concourse, while Gates 40 through 51 are located on the west side of the central concourse.

The west concourse opened in 2015 and is connected to the main terminal building via a post-security walkway. This concourse is designated for international flights and has 5 gates that are located on the second floor of the concourse, above the FIS area located on the first floor. Four of the gates are operated solely by Southwest. The HAS CIP includes a 7-gate expansion of the west concourse at HOU, anticipated to be completed by FY 2030, as described in more detail in Chapter 3 of this Report.

2.2.3 AUTOMOBILE PARKING FACILITIES

Three public parking facilities provide a total of approximately 6,500 on-airport parking spaces at HOU:

- Blue Garage – The Blue Garage has four levels, all of which are available for public parking. The Blue Garage is connected to the terminal via a pedestrian bridge on the fourth level of the garage.
- Red Garage – Located adjacent to and connected to the Blue Garage, the Red Garage also provides four levels for parking. The second level of the garage is used for valet parking. The remaining levels are available for public parking.
- Ecopark – The Ecopark parking lot is adjacent to the east end of the terminal's lower level and provides additional parking spaces for the public. In addition, the Ecopark lot includes areas designated for employee parking.

In addition, approximately 1,900 parking spaces are available at HOU for use as employee parking.

2.2.4 RENTAL CAR FACILITIES

Four companies operate 10 rental car brands at the airport: Hertz Corporation (Hertz, Dollar, and Thrifty), the Avis Budget Group (Avis, Budget, and Payless Car Rental), Enterprise Holdings (Enterprise, Alamo, and National), and Fox Rent a Car. All brands except Fox Rent a Car and Payless Car Rental have a counter in the terminal's baggage claim area. Shuttles to the rental car areas are located outside the first level of the terminal. The majority of the rental car companies operate lots that are located on HOU property at Airport Boulevard, with the exception of Dollar, Enterprise, Hertz, and Thrifty, which offer locations located off airport property.



SOURCES: Nearmap, January 2023 (aerial photography—for visual reference only, may not be to scale); Ricondo & Associates, Inc., June 2023 (existing buildings).

EXHIBIT 2-4**EXISTING TERMINAL FACILITIES
– WILLIAM P. HOBBY AIRPORT**

NORTH

0 500 ft

2.2.5 AIR CARGO

Air cargo operations at HOU consist primarily of Southwest Air Cargo activities. The Southwest Air Cargo facility is located in the northeast corner of the airport property, adjacent to the Ecopark lot. There is no dedicated apron area attached to the cargo facility.

2.2.6 GENERAL AVIATION

General aviation services at HOU are provided by six FBOs: Wilson Air Center, Million Air, Jet Aviation, Atlantic Aviation, Galaxy FBO, and Signature Flight Support. The FBOs, located on the north and south ends of the airfield, provide fueling, aircraft parking, minor airframe and powerplant service, and oxygen refilling service. Each FBO consists of an aircraft parking apron, one or more hangars, and a general aviation facility building.

2.2.7 OTHER AREAS

Support facilities provide various critical functions at Hobby and support the airlines, airfield, and terminal operations. Activities conducted in these facilities directly impact the quality and safety of airport operations and contribute to a well-run airport. The following is a list of primary support facilities located within other areas of HOU:

- The main ARFF Station is located at the intersection of Taxiways K and J.
- The HOU ATCT is located west of the terminal, at midfield.
- Southwest operates a maintenance facility located on the east side of the HOU property, adjacent to the northeast end of Runway 4-22. The facility has a footprint of approximately 240,000 square feet, including 140,000 square feet for aircraft maintenance and 100,000 square feet for offices, parts storage, and other support areas.

2.3 ELLINGTON AIRPORT

Ellington covers approximately 2,400 acres of land and is located 15 miles southeast of the central business district of Houston, Texas. EFD is bordered by Sam Houston Tollway and Genoa Red Bluff Road on the north side, Space Center Boulevard on the east side, Galveston Road on the west side, and Sylvan Rodriguez Park on the south side. EFD currently serves general aviation, military, and NASA operations, with no commercial aviation service.

HAS was granted a Commercial Spaceport Launch Site License from the FAA in 2015, allowing HAS to establish a horizontal launch site for Reusable Launch Vehicles (RLVs) at Ellington. Approximately 400 acres are designated on the southeast side of the airport for the Spaceport development.

Phase 1 of the Houston Spaceport Project was approved by the City Council in October 2018. Infrastructure construction, including streets, utility, and communication facilities, is underway. The site of Phase 1 Expansion includes 153 acres with infrastructure and 400 build-to-suit acres.

All 53,000 square feet and laboratory and office space in the Houston Aerospace Support Center, the first dedicated facility for the Houston Spaceport, are leased out. In addition, two major tenants, Axiom Space and Collins Aerospace, were selected by NASA to supply equipment for the International Space Station program and future Artemis lunar missions. In August 2022, Collins Aerospace opened a new 125,000-square-foot facility at EFD to expand operations, manufacturing, and testing capacity. Axiom Space's new headquarters is under construction at EFD and will include astronaut training, mission control, development and testing, and production facilities.

Exhibit 2-5 presents an aerial view of Ellington.



SOURCES: Nearmap, January 2023 (aerial photography—for visual reference only, may not be to scale).



NORTH

0

2,000 ft

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Report of the Airport Management Consultant

EXHIBIT 2-5

EXISTING AIRPORT FACILITIES
—ELLINGTON AIRPORT

2.3.1 AIRFIELD

The EFD airfield consists of three runways, a network of taxiways and apron areas, aviation fuel services, and lighting systems. **Table 2-3** lists the orientation, length, and width for each runway at EFD. A network of taxiways connects the general aviation aircraft parking areas, NASA facilities, and military facilities to the runways.

TABLE 2-3 RUNWAYS – ELLINGTON AIRPORT

	ORIENTATION	LENGTH (FEET)	WIDTH (FEET)
Runway 17R-35L	north–south	9,001	150
Runway 17L-35R	north–south	4,609	75
Runway 4-22	northeast–southwest	8,001	150

SOURCE: US Department of Transportation, Federal Aviation Administration, June 2023 (airport diagram).

Design is underway for the construction of a new Taxiway L at Ellington, the construction of which is planned to occur during the Projection Period for this Report. The new taxiway would provide Spaceport access to the EFD airfield. Additional details can be found in Chapter 3.

2.3.2 GENERAL AVIATION

General aviation services at EFD are provided by Signature Flight Support; the FBO is located on the west side of the airport, adjacent to Taxiway J. The FBO consists of an aircraft parking apron, a single multiuse hangar, and a general aviation facility building with 35,000 square feet of space.

2.3.3 OTHER AREAS

In addition to the FBO, tenants at EFD include businesses (TrustComm, Inc., North American Controls, Inc., and Northrop Rice), NASA, military (Texas Air National Guard, Texas Army National Guard, and US Coast Guard), and the Lone Star Flight Museum.

Support facilities provide various critical functions at Ellington. The following is a list of primary support facilities located at EFD:

- The self-fueling station can be accessed via Taxiway J to the T-hangar area and is open 24 hours a day, 7 days a week.
- The main ARFF Station is located at the north end of Taxiway H. The ARFF Station is owned by HAS and operated by Texas Army National Guard.
- The EFD ATCT is located on the west side of the airfield at the intersection of Taxiways K and H. The ATCT is owned by HAS and operated by Texas Army National Guard.

3. CAPITAL IMPROVEMENT PROGRAM AND FUNDING SOURCES

This chapter summarizes the HAS CIP, including assumed funding sources and a description of the primary project components.

3.1 CAPITAL IMPROVEMENT PROGRAM

Each year, HAS adopts a five-year CIP to address ongoing maintenance, capacity, and security needs of the Airport System. For the period from FY 2024 through FY 2028, the proposed CIP includes projects that address needs of the Airports which range from rehabilitation of airfield infrastructure to development projects that support new or expanded facilities.⁷ The largest development components of the current CIP are related to Airport terminal projects and include the completion of the ITRP at IAH, the West Concourse Expansion at HOU, and the DRP at IAH. The 2023 Bonds will provide funding for the refunding of commercial paper and the completion of ITRP. In addition, the 2023 Bonds will provide for the refunding of the Series 2002 Bonds and the purchase and cancellation of the Series 2020C Bonds tendered to the City; however, the Series 2002 Bonds and the Series 2020C Bonds are associated with prior project costs.

The analysis associated with this Report incorporates the HAS proposed five-year CIP (FY 2024 through FY 2028) as well as additional planned capital spending in FY 2029 and FY 2030 provided by HAS. Beyond FY 2030, planned capital improvements for the Airports are not included within the analysis, but there is a potential for additional CIP spending. The five-year CIP is re-evaluated annually, and projects could be included/excluded based on project need at that time.

Table 3-1 summarizes the HAS CIP for FY 2024 through FY 2030, including estimated total project costs and approximate annual funding requirements. The HAS CIP consists of approximately \$3.3 billion of total project costs over the period from FY 2024 through FY 2030.

3.1.1 INTERCONTINENTAL CAPITAL PROJECTS

The primary improvements within the HAS CIP for FY 2024 through FY 2030 related to IAH include the completion of ITRP, the DRP, Skyway Train Replacement, various airfield improvements, CUP Improvements, and ITT/Subway Replacement.

3.1.1.1 IAH TERMINAL REDEVELOPMENT PROGRAM

The implementation of the ITRP project is necessary to provide the additional facilities required to accommodate international operations at IAH. Completion of ITRP, which is underway, includes the renovation and expansion of the Mickey Leland International Terminal (MLIT) and renovation/expansion of the FIS facility. ITRP scope elements are depicted in **Exhibit 3-1**. The ITRP scope includes:

- **The International Terminal – North Concourse Project**, which is comprised of two key elements: the refurbishment and re-life of the existing Terminal D and the construction of the new MLIT D-West Pier.

⁷ The HAS preliminary proposed CIP for the period from FY 2024 through FY 2028 reflects an updated version of the CIP approved by City Council for FY 2023 through FY 2027 in June 2022 and reflects additional capital projects. The City expects to adopt the FY 2024 through FY 2028 CIP in June 2023. The CIP associated with this Report includes capital spending through FY 2030 as anticipated by HAS. The CIP in this Report is indicative of the HAS plans but remains subject to City Council approval and is subject to change.

TABLE 3-1 HOUSTON AIRPORT SYSTEM CAPITAL IMPROVEMENT PROGRAM COST AND FUNDING SOURCES (FISCAL YEAR 2024 – FISCAL YEAR 2030, DOLLARS IN THOUSANDS)

	PROJECT COSTS (FY 2024–2030)	GRANTS	PFC PAY-GO	AIF FUNDS	SERIES 2023 BONDS	FUTURE AIRPORT OBLIGATIONS
George Bush Intercontinental/Houston Airport						
ITRP	\$485,097	\$0	\$135,000	\$138,227	\$211,870	\$0
Domestic Redevelopment Program	\$875,564	\$176,477	\$0	\$82,358	\$0	\$616,730
Skyway Train Replacement	\$350,000	\$0	\$0	\$0	\$0	\$350,000
IAH Airfield Improvements	\$106,162	\$0	\$0	\$14,383	\$0	\$91,779
Central Utility Plant (CUP) Improvements	\$118,624	\$14,978	\$0	\$0	\$0	\$103,646
IAH Consolidated Employee Parking Lot	\$47,800	\$0	\$0	\$47,800	\$0	\$0
Subway Train Replacement Design	\$22,000	\$16,500	\$0	\$0	\$0	\$5,500
Additional IAH Improvements	\$310,278	\$49,539	\$0	\$80,545	\$0	\$180,214
George Bush Intercontinental/Houston Airport	\$2,315,525	\$257,494	\$135,000	\$363,313	\$211,870	\$1,347,868
William P. Hobby Airport						
7 Gate Expansion at Hobby	\$412,325	\$49,993	\$50,000	\$0	\$0	\$352,332
Hobby Airfield Improvements	\$196,836	\$40,708	\$22,379	\$73,169	\$0	\$20,580
Additional Hobby Improvements	\$144,105	\$41,799	\$0	\$13,913	\$0	\$88,393
William P. Hobby Airport	\$753,266	\$132,500	\$72,379	\$87,082	\$0	\$461,305
Ellington Airport						
Construction Of Taxiway L (Lima)	\$110,000	\$9,007	\$0	\$100,995	\$0	\$0
Additional Ellington Improvements	\$51,421	\$0	\$0	\$51,421	\$0	\$0
Ellington Airport	\$161,421	\$9,007	\$0	\$152,416	\$0	\$0
HAS System Support	\$84,075	\$0	\$0	\$0	\$0	\$84,075
Total	\$3,314,287	\$399,002	\$207,379	\$602,809	\$211,870	\$1,893,248

NOTES:

AIF – Airport Improvement Fund

FY – Fiscal Year

IAH – George Bush Intercontinental/Houston Airport

ITRP – IAH Terminal Redevelopment Program

PAY-GO – Pay as You Go

PFC – Passenger Facility Charge

SOURCE: Houston Airport System, June 2023.



SOURCES: Nearmap, January 2023 (aerial photography—for visual reference only, may not be to scale); Ricondo & Associates, Inc., November, 2022 (existing buildings); IAH Terminal Redevelopment Program (ITRP) Update, Economic Development Committee Meeting, June 17, 2020 (new and modified facilities—indicative layouts and subject to further design, review and airfield planning).

EXHIBIT 3-1



**GEORGE BUSH INTERCONTINENTAL/HOUSTON AIRPORT
IAH TERMINAL REDEVELOPMENT PROGRAM (ITRP)**

- **The International Terminal – Central Processor and FIS Project**, which is comprised of the demolition of the existing Terminal D/E Garage, roadway modifications and construction of the new International Central Processor (ICP) building, and modifications to the existing FIS building. The FIS Renovation and Expansion Program modernizes and expands the existing FIS facility to support future international passenger growth up to approximately 33 million annual enplaned passengers.
- An additional ITRP project includes a new C-West Parking Garage to replace the lost parking capacity associated with the demolition of the Terminal D/E Parking Garage. The new C-West Parking Garage adds approximately 1,800 parking spaces between the Marriott Hotel and Garage C.

The following enabling projects were performed to support the ITRP:

- Infrastructure Division Office (IDO) Building, completed in April 2019, which allowed for the collocation and integration of the HAS Infrastructure, ITRP team, designers and contractors
- Enabling utilities improvements and landside enabling projects
- Enabling work for the D-West pier Apron and utilities
- Enabling work for the demolition of the Terminal D/E Garage and other advanced civil and baggage systems scope
- Construction of the West Pier, along with the associated connector and Terminal D renovations, are anticipated to be completed in FY 2025. The Central Processor and FIS modifications are planned for completion in FY 2027. The total cost of ITRP is approximately \$1.3 billion, the majority of which has been funded with prior bonds and grant proceeds.

3.1.1.2 DOMESTIC REDEVELOPMENT PROGRAM

HAS plans to address capacity needs for domestic operations at IAH through the implementation of the DRP, which is anticipated to modernize and expand Terminal A. Although the Terminal A BHS Optimization component of the DRP is underway, the majority of the project construction will begin in FY 2024, with the date of beneficial occupancy (DBO) anticipated in FY 2031.

In 2020, HAS received several requests from airlines operating from Terminal A to expand their count of active boarding positions; active boarding positions are described as aircraft contact gates served by a passenger boarding bridge. In December 2020, recognizing there is limited capacity for other airline (OAL) domestic growth at the IAH, HAS initiated the DRP to identify opportunities and strategies to provide additional domestic gates. The DRP resulted in a terminal development strategy to add gate capacity to the Central Terminal Area (CTA) and optimize the facilities inside the CTA to address near-term gate needs from several non-hubbing airlines operating at IAH.

The Terminal A modernization and expansion is anticipated to include the addition of nine new contact gates to Terminal A. The Terminal A gate count would increase from 19 to 24 non-United gates, plus nine gates dedicated to United Airlines, for a total of 33 gates. The passengers using the Terminal A United gates will continue to be processed at other United processing facilities (e.g., Terminal B) and will use the Skyway train to connect between facilities. Additional elements of the Terminal A modernization will include restroom renovations; roof and passenger loading bridge replacements; and utility, fire protection system, and technology upgrades.

The total cost estimate for the DRP is approximately \$950 million. Approximately \$75 million has been expended to date, and approximately \$875 million in costs will be required from the period from FY 2024 through FY 2030. A discussion of the status of negotiations with air carriers using Terminal A, including anticipated changes to rate setting methodology, is included in Chapter 6.

3.1.1.3 SKYWAY TRAIN REPLACEMENT

The City intends to replace the existing Skyway Automated People Mover (APM) System operating at IAH to provide an improved level of customer experience, improve reliability and to increase capacity. The Skyway APM is nearing the end of its useful life and the operation of and maintainability of the system are becoming more challenging. There have been service interruptions and the current system is nearing capacity limits during peak periods.

The Skyway APM consists of a dual-lane guideway approximately one mile in length, which connects the airside of Terminals, A, B, C and D/E. The Skyway APM System operation consists of a pinched-loop mode between the two end stations. In the pinched-loop mode, trains depart the D/E Terminal Station and proceed along the north guideway heading west, stopping at the Terminals C, B and A stations. After stopping at the Terminal A station, the trains reverse direction and travel back to the D/E Terminal Station along the south guideway.

The operating headway during the peak period is capped at a maximum of 180 seconds and the roundtrip headway time is 11 minutes. The peak operating periods for the Skyway APM System are from 5:30 a.m. to 10:00 p.m. The Skyway APM continues to operate in off-peak hours.

The Maintenance and Storage Facility (M&SF) is located within the CTA between the surface parking lot by Terminal B and the Marriott Hotel. There are a total of five service lanes in the M&SF: three lanes are dedicated to light maintenance, one lane is dedicated to heavy maintenance and car wash, and one lane is a storage lane. The Skyway Central Control Facility (CCF) will also be relocated as an expansion to the M&SF.

The Skyway APM System replacement project includes the complete design, fabrication, assembly, factory testing, demolition, disposal, construction, installation and on-site integration, test and demonstration and implementation of the Skyway APM System. Once the Skyway APM System replacement is substantially complete, the City will commence the operations and maintenance upgrade of the APM System. The Skyway APM replacement is expected to be complete in FY 2031. The current cost estimate for the project is \$350 million.

3.1.1.4 IAH INTER-TERMINAL TRAIN/SUBWAY REPLACEMENT DESIGN

The ITT connects the landside or non-secure side of Terminals, A, B, C and D/E as well as the Marriott Hotel. The ITT is located in a below grade tunnel that provides stops at each of the terminals and the hotel. The IAH Inter-Terminal Train/Subway is reaching the end of its useful life. Parts replacement and maintainability has become challenging. Additionally, the current subway system could possibly be expanded to other landside locations on the airport.

The replacement system will take the place of the existing ITT and will operate within the existing tunnel. The replacement system will also service terminals A, B, C, D/E, and the Marriott Hotel. The replacement system will potentially include the capability to extend service to a future East Side Terminal and to the existing Consolidated Rental Car facility.

Currently, technologies under consideration for the replacement system include personal rapid transit (PRT), guideway rapid transit (GRT) and autonomous vehicle (AV) systems.

The subway replacement design is scheduled for completion in FY 2028 and is estimated to cost \$22 million.

3.1.1.5 CENTRAL UTILITY PLANT IMPROVEMENTS

The IAH CUP was constructed in 1965 and is reaching the end of its useful life. Several expansions and additions have been appended to the CUP adding approximately 20,000 square feet to the original building footprint. The CUP building houses both chilled water and hot water assets along with cooling towers located southwest of the

building. The chilled water assets include both electrically driven and steam driven centrifugal chillers. The hot water production assets consist of solely of hot water boilers that serve the entirety of the airport's heating load. Steam boilers, also located within the CUP, are used to supply steam to the steam driven chillers.

The CUP improvements are scheduled to be completed by FY 2027. The CUP improvements project is estimated to cost approximately \$119 million and will include replacing various pumps, transformers, switchgear, motor control centers, cooling towers, air handling units, chillers, boilers, controls, and other physical building structural components.

3.1.1.6 AIRFIELD IMPROVEMENTS

A major airfield capital project at IAH includes the reconstruction of Taxiways SA, SB, RA, and RB. The taxiways have been used beyond their life expectancy and have substantial deterioration. Taxiways SA and SB are located parallel to Runway 9-27 and Taxiways RA and RB are located south of and parallel to the Terminal C and E apron. These taxiways are necessary to ensure efficient movement of aircraft on the southeast side of the airport. Taxiways SA and SB are programmed for completion by the end of 2024 and will cost approximately \$81.5M. Taxiways RA and RB are estimated to cost \$37.5M and will be complete by the end of 2025.

ARFF Station 92 is over 20 years old and HAS has developed a rehabilitation and expansion program for the station. The expansion will include the addition of new vehicle bays, dormitory space, training area and support offices for ARFF staff. Additionally, the station utilities are approaching their intended useful life and require replacement and upgrading. This project is scheduled to be complete by the end of 2024 and is estimated to cost \$13.8 million.

3.1.1.7 OTHER ONGOING CAPITAL PROJECTS

Other key capital projects occurring at IAH include additional terminal and landside projects. Additional terminal projects include the Terminal A Vault Replacement, and FIDS and BIDS upgrades to be completed by the spring of 2024. Landside projects include the IAH Consolidated Employee Parking Lot anticipated to be complete by 2025, Terminal B Garage third and fourth levels rehabilitation, rehabilitation of JFK and Will Clayton Parkway Cell Phone Lots, and Construction of Kenswick Intersections.

3.1.2 WILLIAM P. HOBBY AIRPORT CAPITAL PROJECTS

Key components of the HAS CIP related to Hobby include the West Concourse Expansion, airfield improvements, renewal and replacement projects, and other infrastructure improvements.

3.1.2.1 WEST CONCOURSE EXPANSION

Southwest Airlines has initiated a planning and programming effort funded by HAS to explore the expansion of the west concourse at HOU to support growth in international operations. The design and construction of the West Concourse Expansion project are subject to certain terms and conditions outlined in a Memorandum of Agreement between Southwest Airlines and HAS. Current plans for the expansion include the addition of seven narrowbody contact gates; six to be preferential use gates for Southwest and one will be an HAS common use gate. The program is anticipated to increase the overall holdroom area within the west concourse and enhance the concessions and retail space in the concourse.

The program will also increase the apron area and airfield circulation. The terminal apron will be expanded to accommodate the additional gate positions and a taxilane to allow for aircraft circulation around the expanded concourse. The design of this program is anticipated to begin in early 2024. The construction schedule has not yet been developed. For purposes of this Report, the project is assumed to cost approximately \$430 million, of which approximately \$410 million is anticipated to be incurred during FY 2024 through FY 2030, and construction is

anticipated to be complete in FY 2030.

See Chapter 6 for a discussion of the amendment to the Hobby use agreement relating to the west concourse expansion that is currently being negotiated.

3.1.2.2 AIRFIELD IMPROVEMENTS

Planned airfield improvements at HOU include Non-Standard Taxiway Realignment and Fuel Tank Relocation, the demolition of an operational “hot spot” by Runway 17-35, reconstruction of Taxiway C, rehabilitation and upgrade of Runway 12L-30R, and rehabilitation of Taxiway M.

The Taxiway M Rehabilitation project replaces deteriorating taxiway pavement and includes the full reconstruction of the taxiway. Taxiway M is currently constructed of asphalt and this project will reconstruct the taxiway with concrete, extending the useful life of the asset. Taxiway M is the parallel taxiway to Runway 12R-30L. This taxiway will be the primary taxi route from Runway 12R-30L when reconstruction of Runway 12L-30R occurs. Taxiway M reconstruction is scheduled to occur between June 2024 and March 2027. The project is estimated to cost \$18.6 million.

3.1.2.3 RENEWAL AND REPLACEMENT

Renewal and replacement projects at HOU include Secure Identification Display Area (SIDA) Booth Improvements, Sanitary Sewer System, and Hobby Passenger Boarding Bridges.

3.1.3 ELLINGTON AIRPORT CAPITAL PROJECTS

Planned capital improvements for Ellington Airport include airfield, infrastructure, and commercial development projects. These projects are described in the sections below.

3.1.3.1 AIRFIELD

HAS plans to construct a new taxiway at EFD to support growing Spaceport activities and to provide operational flexibility on the airfield. The taxiway will be constructed parallel to Runway 4-22 and will be designated Taxiway L. The project is estimated to cost approximately \$110.0M and is anticipated to be completed in FY 2026.

3.1.3.2 INFRASTRUCTURE

Planned capital improvements for EFD includes infrastructure projects to support the airport. The first project was the Spaceport Infrastructure project, which was completed in 2022 at a cost of \$22.2 million. This project included extending all supporting infrastructure for the first phase of the Spaceport development to each of the sites being prepared for future development. The supporting infrastructure included roadways, power, data, water, and drainage. These infrastructure projects were required to facilitate the development of new tenant leaseholds.

A project has been established to address drainage concerns at the airport. The Drainage Structure Repairs project is scheduled to be complete in fall of 2024 and is estimated to cost \$1.9 million. The repairs will include maintenance and repair of existing drainage infrastructure that was damaged during storms in recent years.

3.1.3.3 COMMERCIAL DEVELOPMENT

HAS entered into reimbursable agreements with three of the Spaceport tenants. In these agreements, HAS supported the financing plans for the tenants and HAS will be reimbursed through the lease agreements. The tenant projects, the reimburse agreement cost, and the construction completion dates are provided below.

- Axiom Space headquarters and space station production facility – the total cost to HAS is approximately \$40.2 million, with approximately \$36 million incurred to date, and the scheduled completion date is November 2023.

- Intuitive Machines lunar production and operations center – the total cost is estimated at \$42.0 million and is scheduled for a spring 2024 completion date. Approximately \$13.8 million is anticipated to be incurred in FY 2024, while the remaining costs have already been incurred.

The revenues from these leases is included in the Net Revenue presented in Chapter 6.

3.2 FUNDING SOURCES

Table 3-1 also summarizes the anticipated funding sources for CIP costs through FY 2030.

3.2.1 FEDERAL AVIATION ADMINISTRATION AIRPORT IMPROVEMENT PROGRAM AND OTHER GRANTS

In total, the HAS CIP includes approximately \$408.5 million in grant funding for FY 2024 through FY 2030, including AIP discretionary funding, Bipartisan Infrastructure Law (BIL) grants, and the application of COVID relief funds. Additional details on the anticipated grant amounts received during the Projection Period can be found in Section 6.4.2.

3.2.2 SUBORDINATE LIEN BONDS

As shown in Table 3-1, approximately \$212 million in bond proceeds from the 2023 Bonds will be used for completion of ITRP.

In addition to the 2023 Bonds, future Subordinate Lien Bonds are assumed to be issued in support of the HAS CIP. Additional details on assumptions for future Subordinate Lien Bonds issuances can be found in Section 6.5.3.

3.2.3 PASSENGER FACILITY CHARGE FUNDING

Approximately \$207 million in PFC Revenues applied on a pay-go basis are included in the HAS CIP for the period from FY 2024 through FY 2030, primarily in support of the completion of ITRP. In addition, a portion of the debt service for the 2023 Bonds and anticipated future Subordinate Lien Bonds will be payable with PFC Revenues. Additional details can be found in Chapter 6 regarding the FAA application status for certain projects, the anticipated collection of PFC Revenues, and planned uses of PFC Revenues.

3.2.4 HOUSTON AIRPORT SYSTEM FUNDS

The HAS CIP includes approximately \$603 million in HAS AIF for FY 2024 through FY 2030. The AIF funding will be applied to various improvement projects at each of the three Airports within the Airport System. Under existing and future airline agreements, a portion of the HAS funds allocated toward airline-related project costs will be recovered from the airlines through the amortization of local funds assigned to the rate base. Details regarding amortization assumptions for existing and future agreements can be found in Section 6.1.

4. DEMOGRAPHIC AND ECONOMIC ANALYSIS

The demand for air transportation at an airport is, to a large degree, dependent upon the demographic and economic characteristics of the Air Trade Area. This relationship is particularly true for O&D passenger traffic, which has historically accounted for between approximately 42 and 56 percent of passenger traffic at IAH and between approximately 63 and 74 percent of passenger traffic at HOU.⁸ For purposes of this Report, the Air Trade Area coincides with the geographic boundaries of the Houston–The Woodlands, Texas, Combined Statistical Area (CSA), and all three Airports that comprise the HAS (IAH, HOU, EFD) are within those geographic boundaries. As presented on **Exhibit 4-1**, the Air Trade Area comprises 14 counties: Austin, Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty, Montgomery, Trinity, Walker, Waller, Washington, Wharton, and Matagorda. This chapter presents data indicating that the Air Trade Area has an economic base capable of supporting increased demand for air travel during the Projection Period.

4.1 DEMOGRAPHIC ANALYSIS

4.1.1 POPULATION

There is typically a positive correlation between population growth in a local area and air travel demand. **Table 4-1** presents the historical population for the Air Trade Area, Texas, and the United States. As shown, population in the Air Trade Area increased from approximately 4.9 million in calendar year (CY) 2000 to approximately 6.1 million in CY 2010 and to approximately 7.3 million in CY 2020. As also shown, population growth in the Air Trade Area between CY 2000 and CY 2020 (CAGR of 2.0 percent) was 0.3 percentage points above Texas population growth and 1.2 percentage points above the nation's population growth during this period.

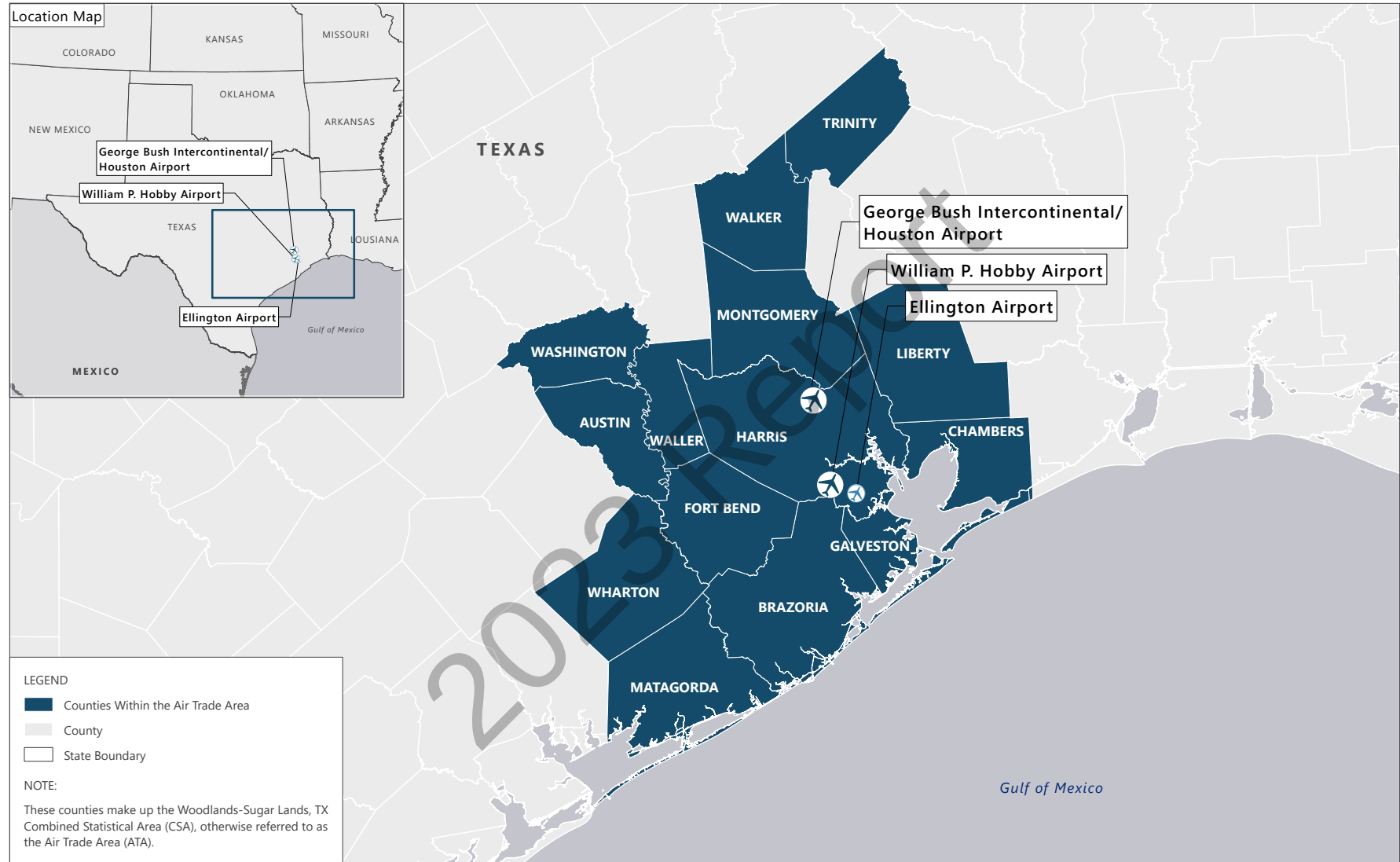
In an April 2023 Greater Houston Partnership report that analyzed the most current population data released by the U.S. Census Bureau, the Air Trade Area added nearly 125,000 residents in 2022, growth which ranked the area second among the nation's major metros in 2022 population growth.⁹ Air Trade Area population growth is up from just over 75,000 in 2021, when there was a temporary slowdown in population growth due to lingering effects of the COVID-19 pandemic. The Air Trade Area is the fifth largest metropolitan area in the United States.

Table 4-1 also presents population projections from Woods & Poole¹⁰ for the Air Trade Area, Texas, and the United States for CY 2032. Population in the Air Trade Area is expected to increase at a CAGR of 1.3 percent between CY 2020 and CY 2032, from approximately 7.3 million in CY 2020 to approximately 8.6 million in CY 2032. Projected population growth for the Air Trade Area is expected to be approximately the same as that experienced by Texas (CAGR of 1.2 percent), but more rapid than the nation (CAGR of 0.6 percent) during this period. Between CY 2020 and CY 2032, Air Trade Area population is expected to grow fastest in Fort Bend County and Montgomery County (CAGRs of 2.9 percent and 2.4 percent, respectively).

⁸ While included in the HAS, EFD has no commercial services.

⁹ Greater Houston Partnership, "Economy at a Glance - April 2023," <https://www.houston.org/houston-data/economy-glance-april-2023> (accessed May 18, 2023).

¹⁰ Woods & Poole is an independent firm specializing in long-term county demographic and economic data projections.



SOURCES: Esri, 2022 (counties), Esri, 2021 (countries), US Census Bureau, 2021 (states), Federal Aviation Administration - Aeronautical Information Services, 2020 (airports).

EXHIBIT 4-1



**HOUSTON AIRPORT SYSTEM
AIR TRADE AREA**

TABLE 4-1 HISTORICAL AND PROJECTED POPULATION

AREA	HISTORICAL			PROJECTED	COMPOUND ANNUAL GROWTH RATE			
					HISTORICAL			PROJECTED
	CY 2000	CY 2010	CY 2020	CY 2032	CY 2000 – CY 2010	CY 2010 – CY 2020	CY 2000 – CY 2020	CY 2020 – CY 2032
Austin County	23,836	28,372	30,109	33,265	1.8%	0.6%	1.2%	0.8%
Brazoria County	243,116	314,499	373,368	450,239	2.6%	1.7%	2.2%	1.6%
Chambers County	26,188	35,452	47,051	59,146	3.1%	2.9%	3.0%	1.9%
Fort Bend County	358,738	590,177	828,632	1,161,144	5.1%	3.5%	4.3%	2.9%
Galveston County	250,675	292,492	351,458	395,055	1.6%	1.9%	1.7%	1.0%
Harris County	3,414,239	4,107,542	4,732,491	5,266,895	1.9%	1.4%	1.6%	0.9%
Liberty County	70,576	75,870	92,351	106,597	0.7%	2.0%	1.4%	1.2%
Matagorda County	37,873	36,706	36,269	36,263	-0.3%	-0.1%	-0.2%	0.0%
Montgomery County	297,296	459,223	624,938	833,675	4.4%	3.1%	3.8%	2.4%
Trinity County	13,793	14,728	13,623	14,260	0.7%	-0.8%	-0.1%	0.4%
Walker County	61,768	68,239	76,543	83,586	1.0%	1.2%	1.1%	0.7%
Waller County	32,843	43,558	57,349	72,529	2.9%	2.8%	2.8%	2.0%
Washington County	30,423	33,695	35,837	38,402	1.0%	0.6%	0.8%	0.6%
Wharton County	41,220	41,280	41,550	42,090	0.0%	0.1%	0.0%	0.1%
Air Trade Area	4,902,584	6,141,833	7,341,569	8,593,146	2.3%	1.8%	2.0%	1.3%
Texas	20,944,498	25,241,896	29,217,652	33,716,035	1.9%	1.5%	1.7%	1.2%
United States	282,162,375	309,327,094	331,501,094	356,413,906	0.9%	0.7%	0.8%	0.6%

NOTES:

CY – Calendar Year

2020 is the last year of historical data available in the Woods & Poole 2022 CEDDS database (released June 2022) and is the basis for Woods & Poole's 2022 demographic and economic projections; 2021 historical data may be available from other sources at the time of this Report.

SOURCE: Woods & Poole Economics, Inc., 2022 Complete Economic and Demographic Data Source (CEDDS), June 2022.

4.1.2 AGE DISTRIBUTION AND EDUCATION

Demand for airline travel varies by age group, and the age distribution of the Air Trade Area population can influence O&D passenger activity at an airport. According to Consumer Expenditure Survey data from the US Department of Labor, Bureau of Labor Statistics, in the United States, persons between the ages of 35 and 54 account for 44.0 percent of expenditures on airfares.¹¹

Table 4-2 shows that, in 2020, residents in the Air Trade Area aged 35 to 54 accounted for 26.9 percent of the population. Thus, the age group that generates the most expenditures on airfares is represented in the Air Trade Area at a higher rate than the population in both Texas (25.9 percent) and the United States (25.1 percent).

According to Consumer Expenditure Survey data, persons with a college degree generate a high percentage of expenditures on airline travel. Data indicate that 74.0 percent of airfares are purchased by college graduates, while

¹¹ New Strategist Press, *Who's Buying for Travel*, 12th ed. Ithaca, NY: New Strategist Press, 2018. Data in *Who's Buying for Travel* are based on the US Department of Labor, Bureau of Labor Statistics' Consumer Expenditure Survey, an ongoing nationwide survey of household spending.

18.0 percent are purchased by consumers who have had some college, and 8.0 percent are purchased by consumers who never attended college.¹² As shown in Table 4-2, 40.7 percent of the Air Trade Area's population over the age of 25 has a post-secondary degree (associate, bachelor's, master's, or doctorate)—a higher percentage than the population of Texas (38.1 percent) but lower than the United States (41.6 percent). In addition to having a highly educated population, the Air Trade Area is also home to more than 100 colleges and universities. These schools, which include community colleges and technical schools, have a total enrollment of over 300,000 students.¹³ These educational institutions generate demand for airline service through academic meetings and conferences, visiting professorships, study abroad programs, and individual student and faculty travel.

TABLE 4-2 AGE DISTRIBUTION AND EDUCATIONAL ATTAINMENT (2020)

AGE DISTRIBUTION	AIR TRADE AREA	TEXAS	UNITED STATES
Total Population	7,341,569	29,217,652	331,501,094
<i>By Age Group</i>			
19 and Under	26.0%	25.3%	22.1%
20 to 24 Years	9.1%	9.7%	9.1%
25 to 34 Years	14.7%	14.7%	14.0%
35 to 44 Years	14.3%	13.7%	12.8%
45 to 54 Years	12.6%	12.2%	12.3%
55 to 64 Years	11.2%	11.2%	12.9%
65 and Above	12.0%	13.2%	16.9%
Total¹	100.0%	100.0%	100.0%
Median Age	34.6 years	34.7 years	38.1 years
EDUCATIONAL ATTAINMENT	AIR TRADE AREA	TEXAS	UNITED STATES
Population 25 Years and Over	4,762,668	18,990,966	228,035,369
<i>By Highest Level Achieved</i>			
Less than 9th Grade	8.4%	7.8%	4.9%
9th–12th Grade, No Diploma	7.3%	7.8%	6.6%
High School Graduate (includes GED/Alternative Credential)	23.1%	24.7%	26.7%
Some College, No Degree	20.5%	21.5%	20.3%
Post-Secondary Degree	40.7%	38.1%	41.6%
<i>Associate degree</i>	7.4%	7.4%	8.6%
<i>Bachelor's Degree</i>	21.1%	19.9%	20.2%
<i>Master's Degree or Doctorate</i>	12.1%	10.8%	12.7%
Total¹	100.0%	100.0%	100.0%

NOTES:

GED – General Education Development

2020 is the last year of historical data available in the Woods & Poole 2022 CEDDS database (released June 2022) and is the basis for Woods & Poole's 2022 demographic and economic projections.

¹ Sums may not total to 100.0 percent due to rounding.SOURCES: Woods & Poole Economics, Inc., *2022 Complete Economic and Demographic Data Source (CEDDS)*, June 2022; US Census Bureau, *American Community Survey (ACS)*, January 2022 (metropolitan statistical areas, states, and United States).¹² New Strategist Press, *Who's Buying for Travel*, 12th ed. Ithaca, NY: New Strategist Press, 2018.¹³ Visit Houston, "Houston Colleges & Universities," <https://www.visithoustontexas.com/about-houston/colleges-and-universities> (accessed April 27, 2023).

4.1.3 PER CAPITA PERSONAL INCOME

Table 4-3 presents historical per capita personal income (PCPI) for the Air Trade Area, Texas, and the United States between CY 2010 and CY 2020, as expressed in 2012 dollars. As shown, PCPI for the Air Trade Area was higher than equivalent measures for the nation and Texas each year between CY 2010 and CY 2020. As also shown, PCPI for the Air Trade Area increased at a CAGR of 1.2 percent between CY 2010 and CY 2020, slower than the 2.0 percent CAGR for Texas and the 2.3 percent CAGR experienced by the nation over this same period.

TABLE 4-3 PER CAPITA PERSONAL INCOME

(Per Capita Personal Income in 2012 Dollars)

YEAR	PER CAPITA PERSONAL INCOME		
	AIR TRADE AREA	TEXAS	UNITED STATES
<i>Historical</i>			
CY 2010	\$47,824	\$40,763	\$42,497
CY 2011	\$49,741	\$42,818	\$43,552
CY 2012	\$52,807	\$44,241	\$44,557
CY 2013	\$51,811	\$44,219	\$44,210
CY 2014	\$53,936	\$46,045	\$45,582
CY 2015	\$53,417	\$46,035	\$47,265
CY 2016	\$49,591	\$44,733	\$47,649
CY 2017	\$51,750	\$46,421	\$48,644
CY 2018	\$53,533	\$48,026	\$49,698
CY 2019	\$53,683	\$48,675	\$50,708
CY 2020	\$53,974	\$49,808	\$53,178
<i>Projected</i>			
CY 2032	\$66,063	\$61,617	\$63,086
<i>Compound Annual Growth Rate</i>			
CY 2010 – CY 2020	1.2%	2.0%	2.3%
CY 2020 – CY 2032	1.7%	1.8%	1.4%
PERCENTAGE OF HOUSEHOLDS IN INCOME CATEGORIES (CY 2020)			
INCOME CATEGORY (IN 2020 DOLLARS)	AIR TRADE AREA	TEXAS	UNITED STATES
Less than \$35,000	25.2%	27.2%	27.0%
\$35,000 – \$49,999	11.7%	12.3%	12.0%
\$50,000 – \$74,999	16.9%	17.6%	17.2%
\$75,000 – \$99,999	12.3%	12.5%	12.8%
\$100,000 – \$199,999	23.9%	22.6%	22.7%
\$200,000 or More	10.0%	7.8%	8.3%

NOTES:

CY – Calendar Year

2020 is the last year of historical data available in the Woods & Poole 2022 CEDDS database (released June 2022) and is the basis for Woods & Poole's 2022 demographic and economic projections.

SOURCE: Woods & Poole Economics, Inc., 2022 Complete Economic and Demographic Data Source (CEDDS), June 2022.

Table 4-3 also presents projections of PCPI for CY 2032. According to data from Woods and Poole, PCPI for the Air Trade Area is projected to increase from \$53,974 in CY 2020 to \$66,063 in CY 2032. This increase represents a CAGR of 1.7 percent, closely aligned to that projected for Texas (1.8 percent) and above the CAGR projected for the nation (1.4 percent) during the same period.

An additional indicator of the market potential for air transportation demand is the percentage of households in higher income categories. As income increases, air transportation becomes more affordable and, therefore, is generally used more frequently. Table 4-3 also presents percentages of households in selected PCPI categories for CY 2020 as expressed in 2020 inflation-adjusted dollars. As presented, 46.2 percent of households in the Air Trade Area had a PCPI of \$75,000 or more in CY 2020, which was higher than the percentage of households in these income categories for Texas (42.9 percent) and the nation (43.8 percent).

4.2 ECONOMIC ANALYSIS

4.2.1 GROSS DOMESTIC PRODUCT

Gross domestic product (GDP) for the United States and its state and Metropolitan Statistical Area (MSA) equivalent, gross regional product (GRP), are measures of the market value of all final goods and services produced within a particular area for a specific time period. These indicators are one of the broadest measures of the economic health of a particular area and, consequently, the area's potential air travel demand.

Table 4-4 presents historical GRP/GDP for the Air Trade Area, Texas, and the United States between CY 2010 and CY 2020, as expressed in 2012 dollars. As shown, despite the impact of the Great Recession, two major storms (Hurricanes Ike and Harvey), and the COVID-19 pandemic, Air Trade Area GRP increased from approximately \$376,419 million in CY 2010 to approximately \$446,516 million in CY 2020, a CAGR of 1.7 percent. In comparison, the GRP for Texas increased at a 2.1 percent CAGR over the same period, while the nation's equivalent measure, GDP, grew at a 1.8 percent CAGR.

TABLE 4-4 GROSS REGIONAL/DOMESTIC PRODUCT

(In 2012 Dollars, Amounts in Millions)

YEAR	AIR TRADE AREA (GRP)	TEXAS (GRP)	UNITED STATES (GDP)
Historical			
CY 2010	\$376,419	\$1,301,304	\$15,608,905
CY 2011	\$397,325	\$1,366,338	\$15,777,260
CY 2012	\$413,956	\$1,421,180	\$16,140,743
CY 2013	\$431,458	\$1,494,954	\$16,506,385
CY 2014	\$437,005	\$1,534,985	\$16,947,640
CY 2015	\$454,610	\$1,525,950	\$17,547,298
CY 2016	\$442,177	\$1,516,126	\$17,845,990
CY 2017	\$453,209	\$1,581,419	\$18,265,186
CY 2018	\$474,302	\$1,670,735	\$18,835,682
CY 2019	\$471,068	\$1,695,706	\$19,325,096
CY 2020	\$446,516	\$1,596,393	\$18,664,908
Projected			
CY 2032	\$636,084	\$2,289,038	\$24,492,794
Compound Annual Growth Rate			
CY 2010 – CY 2020	1.7%	2.1%	1.8%
CY 2020 – CY 2032	3.0%	3.0%	2.3%

NOTES:

CY – Calendar Year

GRP – Gross Regional Product

GDP – Gross Domestic Product

2020 is the last year of historical data available in the Woods & Poole 2022 CEDDS database (released June 2022) and is the basis for Woods & Poole's 2022 demographic and economic projections.

SOURCE: Woods & Poole Economics, Inc., 2022 Complete Economic and Demographic Data Source (CEDDS), June 2022.

Table 4-4 also presents projections of GRP/GDP for CY 2032. Woods & Poole projects GRP for the Air Trade Area to increase from \$446,516 million in CY 2020 to \$636,084 in CY 2032, reflecting a CAGR of 3.0 percent. GRP growth for Texas is projected to be equivalent to the Air Trade Area during this period. However, projected GRP growth in the Air Trade Area is higher than the projected GDP growth for the nation (2.3 percent).

4.2.2 EMPLOYMENT TRENDS

Table 4-5 presents the recent employment trends for the Air Trade Area, Texas, and the United States. As shown, the Air Trade Area's civilian labor force increased from approximately 3.0 million workers in CY 2010 to approximately 3.4 million workers in CY 2019. This increase represents a CAGR of approximately 1.4 percent in the Air Trade Area's labor force during this period, compared to an approximately 1.4 percent increase for Texas and an approximately 0.5 percent increase for the United States. The Air Trade Area's civilian labor force declined slightly (-0.1 percent) in CY 2020; the civilian labor force of Texas remained unchanged. Shifts in labor force levels were more significant nationwide, as the US labor force decreased -1.7 percent, due in part to workers leaving the labor force due to childcare duties, fear of getting COVID-19 in the workplace, and other reasons related to the COVID-19 pandemic.¹⁴ When COVID vaccines became widely available in March 2021, more contact-sensitive (restaurants, bars, shopping malls, salons) and COVID jobs were added.¹⁵ The Air Trade Area's civilian labor force saw a recovery from the pandemic in CY 2021 with a CAGR of 1.2 percent, lower than the improvement in the overall Texas civilian labor force (2.5 percent) but higher than the national recovery of civilian labor force (0.3 percent). The labor force growth accelerated in CY 2022 with a CAGR of 4.8 percent for the Air Trade Area, higher than both the Texas civilian labor force growth (3.1 percent) and the national labor force growth (1.9 percent).

Table 4-5 also shows that average annual unemployment rates (non-seasonally adjusted) for the Air Trade Area were lower than the unemployment rates for Texas and the nation from CY 2010 to CY 2015. The unemployment rate for the Air Trade Area rose above the unemployment rates of Texas and the nation starting in CY 2016; however, unemployment rates for all three areas trended downward from CY 2016 until the start of the COVID-19 pandemic. In CY 2020, the unemployment rate of the Air Trade Area, Texas and the nation increased by more than 4 percentage points due to the pandemic, but all rates declined in CY 2021 as COVID-19 vaccines became widely available and business operations were restored.¹⁶ Unemployment rates continued to decline in CY 2022, reaching close to or below pre-pandemic CY 2019 levels.

4.2.3 BUSINESS CLIMATE

In 2022, Texas ranked first in the number of US companies listed in the Fortune 500 by state, ahead of New York and California; 21 of the 53 Fortune 500 companies headquartered in Texas were in the Air Trade Area, including Exxon Mobil (ranked 6th; one of the world's largest publicly traded international oil and gas companies); Phillips 66 (ranked 29th; a diversified energy manufacturing and logistics company); Sysco Corp., (ranked 70th; global leader in food distribution); Enterprise Products Partners (ranked 89th; midstream natural gas and crude oil pipeline

¹⁴ Harvard Business Review, "The Great Resignation Didn't Start with the Pandemic," <https://hbr.org/2022/03/the-great-resignation-didnt-start-with-the-pandemic> (accessed April 20, 2023).

¹⁵ Gilmer, Robert W. "Bill," "The Economic Outlook for Houston After the Pandemic," University of Houston Bauer College of Business, <https://www.bauer.uh.edu/centers/irf/houston-updates.php> (accessed April 20, 2023).

¹⁶ Federal Reserve Bank of Dallas, "Houston Economic Indicators," <https://www.dallasfed.org/research/indicators/hou/2022/hou2201#:~:text=The%20unemployment%20rate%20in%20Houston,in%20Decemb er%20to%203.9%20percent> (accessed April 20, 2023).

company); and Hewlett Packard Enterprise (HPE) (ranked 123rd; global edge-to-cloud real-time data-driven decision-making company).¹⁷

TABLE 4-5 CIVILIAN LABOR FORCE AND UNEMPLOYMENT RATES

(Civilian Labor Force in Thousands)

CIVILIAN LABOR FORCE			
YEAR	AIR TRADE AREA	TEXAS	UNITED STATES
CY 2010	2,975	12,258	153,889
CY 2011	3,040	12,500	153,617
CY 2012	3,105	12,641	154,975
CY 2013	3,176	12,833	155,389
CY 2014	3,235	13,007	155,922
CY 2015	3,259	13,092	157,130
CY 2016	3,300	13,348	159,187
CY 2017	3,309	13,473	160,320
CY 2018	3,349	13,683	162,075
CY 2019	3,387	13,873	163,539
CY 2020	3,384	13,866	160,742
CY 2021	3,424	14,216	161,204
CY 2022	3,593	14,663	164,287
Compound Annual Growth Rate			
CY 2010 – CY 2019	1.5%	1.4%	0.7%
CY 2019 – CY 2022	2.0%	1.9%	0.2%
CY 2010 – CY 2022	1.6%	1.5%	0.5%
UNEMPLOYMENT RATES			
CY 2010	8.3%	8.2%	9.6%
CY 2011	8.1%	8.0%	8.9%
CY 2012	6.6%	6.7%	8.1%
CY 2013	6.1%	6.3%	7.4%
CY 2014	5.0%	5.2%	6.2%
CY 2015	4.7%	4.5%	5.3%
CY 2016	5.3%	4.6%	4.9%
CY 2017	5.1%	4.4%	4.4%
CY 2018	4.4%	3.9%	3.9%
CY 2019	3.8%	3.5%	3.7%
CY 2020	8.6%	7.7%	8.1%
CY 2021	6.3%	5.7%	5.3%
CY 2022	4.2%	3.9%	3.6%

NOTES:

CY – Calendar Year

n/a – not available

SOURCE: US Department of Labor, Bureau of Labor Statistics, May 2023.

¹⁷ Fortune, "2022 Fortune 500 Rankings," <https://fortune.com/ranking/fortune500/> (accessed April 20, 2023); Houston Agent, "Texas Leads Nation for Most Fortune 500 Companies," <https://houstonagentmagazine.com/2022/05/31/texas-leads-nation-for-most-fortune-500-companies> (accessed April 20, 2023).

According to the Greater Houston Partnership, a combination of the Greater Houston Chamber of Commerce, the Houston Economic Development Council, and the Houston World Trade Association, the Air Trade Area's business-friendly climate, including favorable state tax law leading to relatively low tax expenses, low corporate rent costs, and access to a young and diverse professional talent pool attracts both big corporations and small businesses to Texas.¹⁸ In 2022, Texas ranked first in the Chief Executive's Best State for Business; it has been awarded the best state in this category for the 18th consecutive year.¹⁹ Texas ranked 13th overall in the Tax Foundation's 2023 State Business Tax Climate Index.²⁰

The Houston MSA²¹ has trading activities with more than 200 countries and territories and the Port of Houston ranked as the largest port along the Gulf Coast and in the nation by weight.²² Its top 5 trading partners in 2021 were: China (\$18.5 billion), Mexico (\$12.8 billion), Brazil (\$11.5 billion), South Korea (\$8.2 billion), Japan (\$7.9 billion).²³

The City of Houston has also approved of an economic development agreement with Rice University to build a new mixed-use innovation and technology destination in Midtown Houston called The Ion District. It is intended to serve as a blueprint for smart cities of the future expected to generate significant economic growth.²⁴ Texas is a center for foreign trade; it includes 34 foreign trade zones (FTZs), of which 5 of the FTZs are in the Air Trade Area (Harris, Liberty, Galveston, Conroe, and Texas City).²⁵ The Houston-Galveston Customs District handled 40 percent more exports (\$273.1 billion in total exports) in 2021 than 2020.²⁶ This trading trend depicts the high overseas demand for crude, plastics, refined products, chemicals, oil field equipment, and exploration and production activities that Houston manufacturers produce.²⁷

The City of Houston has over 5,000 companies that take part in international business, an estimated 1,000 firms of which are owned by foreign companies.²⁸ The City ranks third in the nation by fDi Intelligence in its list of global cities of the future.²⁹ The City of Houston is also a leading hub for tech workers. Over 8,500 tech-related companies

¹⁸ Greater Houston Partnership, *Houston Business Insider*, <https://www.houston.org/sites/default/files/2022-11/2022%20Houston%20Business%20Insidre%20EDG.pdf> (accessed April 21, 2023).

¹⁹ Texas Economic Development Corporation, "Chief Executive's Best State for Business," <https://businessintexas.com/news/texas-ranked-1-best-state-for-business-for-the-18th-consecutive-time> (accessed April 21, 2023).

²⁰ Tax Foundation, "2023 State Business Tax Climate Index," <https://taxfoundation.org/2023-state-business-tax-climate-index> (accessed April 20, 2023).

²¹ The Houston MSA consists of nine counties: Austin, Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty, Montgomery, and Waller.

²² Greater Houston Partnership, *Houston Facts 2022*, https://www.houston.org/sites/default/files/2022-09/houston%20facts%202022_Digital_0.pdf (accessed April 21, 2023).

²³ Ibid.

²⁴ SmartCitiesWorld, "Smart City District Gets Green Light from City of Houston," <https://www.smartcitiesworld.net/commercial-buildings/commercial-buildings/smart-city-district-gets-green-light-from-city-of-houston-7135> (accessed April 21, 2023).

²⁵ Texas Economic Development & Tourism, *Foreign Trade Zones in Texas*, <https://gov.texas.gov/uploads/files/business/FTZ.pdf> (accessed April 21, 2023).

²⁶ Greater Houston Partnership, *Houston Business Insider*, <https://www.houston.org/sites/default/files/2022-11/2022%20Houston%20Business%20Insidre%20EDG.pdf> (accessed April 21, 2023).

²⁷ Greater Houston Partnership, *Global Houston 2022: International Trends and Their Impact on the Region*, https://www.houston.org/sites/default/files/2022-11/Global%20Houston%20-%202022_final.pdf (accessed April 21, 2023).

²⁸ City of Houston, "Mayor's Office of Trade and International Affairs," <https://www.houstontx.gov/motia/trade-intl-bus-dev.html> (accessed April 20, 2023).

²⁹ Greater Houston Partnership, *Houston Tech Report: Charting the Innovation Landscape of America's Fourth Largest City*, https://www.houston.org/sites/default/files/2022-04/Tech%20Report_2022%204.1.pdf (accessed April 20, 2023).

are in the city, contributing over \$2.0 billion in venture capital (VC) that supports more than 800 startups.³⁰ The top 3 sectors for VC funding are Information Technology (\$632.1 million), Health Care (\$518.4 million), and Materials and Resources (\$426.5 million).³¹ The Houston region also ranks as the #11 largest tech workforce (243,908 net tech employment) in the nation, with most working as programmers and system engineers.³² There are over 19 incubator and accelerator programs in the Air Trade Area, including Greentown Labs (an energy accelerator to support climate change technologies), and Texas Medical Center's (TMC) Innovation Institute (supporting Houston's biotech and life science companies).³³ TMC Helix Park, a new research campus spanning 37 acres including 5 million square feet, is under construction. Once completed, TMC Helix Park will provide research labs, office/co-working space, and IT infrastructure to academic institutions and industry partners. It is estimated to bring 22,958 permanent jobs and an ongoing annual impact of \$4,795.4 million to City of Houston and Harris County.³⁴

Table 4-6 presents the major employers in the Air Trade Area, as measured by the number of employees. As shown, there are 30 private or public entities in the Air Trade Area with 3,000 or more employees. The largest employer in the area is Walmart Super Markets, with over 34,000 local employees, followed by H-E-B (32,635 employees); Memorial Hermann Health System (29,130 employees); Houston Methodist (28,304 employees); and the University of Texas MD Anderson Cancer Center (22,088 employees).

4.2.4 EMPLOYMENT BY MAJOR INDUSTRIAL SECTOR

Sources of economic diversity in the region are discussed in this section by focusing on the following nonagricultural employment sectors, listed in order of their contribution to the Air Trade Area's employment base: professional and business services, trade, education and health services, construction/mining/logging, financial, government, leisure and hospitality, other services, transportation/utilities, manufacturing, and information.³⁵

An analysis of nonagricultural employment trends by major industry sector is presented in **Table 4-7**, which compares the Air Trade Area's employment trends to those of Texas and the nation for CY 2010, CY 2019, and CY 2022.³⁶ As shown, nonagricultural employment in the Air Trade Area increased from approximately 2.6 million workers in CY 2010 to approximately 3.2 million workers in CY 2022. This increase represents a CAGR of approximately 2.0 percent during this period, lower than Texas's growth of 2.2 percent and higher than the increase nationwide growth of 1.3 percent. The Air Trade Area and the nation's nonagricultural employment showed signs of recovery after the initial decrease as a result of the COVID-19 pandemic in CY 2020. Increases in nonagricultural employment in CY 2022 resulted in the 3-year post-COVID-19 pandemic growth rate (CY 2019 to CY 2022) of 0.9 percent for the Air Trade Area, whereas the CY 2019 to CY 2020 rate was -5.1 percent. Similar trends occurred for the nation, with 0.4 percent nonagricultural employment growth between CY 2019 and CY 2022, which includes a -5.8 percent decrease between CY 2019 and CY 2020.

³⁰ Greater Houston Partnership, *Houston Tech Report: Charting the Innovation Landscape of America's Fourth Largest City*, https://www.houston.org/sites/default/files/2022-04/Tech%20Report_2022%204.1.pdf (accessed April 20, 2023).

³¹ Ibid.

³² Ibid.

³³ Ibid.

³⁴ Texas Medical Center, <https://www.tmc.edu/tmchelixpark> (accessed April 20, 2023).

³⁵ The 11 industry sectors discussed in this section and displayed in Table 4-7 correspond to the 12 "supersectors" defined by the US Department of Labor, Bureau of Labor Statistics' grouping by North American Industry Classification System code, with one exception; due to low employment in the mining and logging supersector, it is included in the construction sector in this Report.

³⁶ Air Trade Area employment by sector data only represent the Houston MSA, because data for the full Air Trade Area are not available from the US Department of Labor, Bureau of Labor Statistics.

TABLE 4-6 MAJOR EMPLOYERS IN THE AIR TRADE AREA (2022)

EMPLOYER	INDUSTRY	# OF LOCAL EMPLOYEES ¹
Walmart	Retail	34,000
H-E-B	Retail	32,635
Memorial Hermann Health System	Health Care	29,130
Houston Methodist	Health Care	28,304
The University of Texas MD Anderson Cancer Center	Health Care	22,088
Amazon	E-commerce	20,000
Kroger	Retail	15,000
Texas Children's Hospital	Health Care	14,378
HCA Houston Healthcare	Health Care	12,614
United Airlines	Transportation	11,834
The University of Texas Medical Branch	Health Care	11,826
Exxon Mobil	Oil and Gas	11,814
The University of Texas Health Science Center at Houston (UTHealth Houston)	Health Care	11,539
Baylor College of Medicine	Health Care	9,651
Daikin Comfort Technologies North America	Manufacturing	8,819
Harris Health System	Health Care	8,659
Schlumberger	Oil and Gas	7,802
St. Luke's Health	Health Care	7,223
Shell Oil Co./Royal Dutch Shell	Oil and Gas	7,000
Chevron Corp.	Oil and Gas	7,000
Michael E. DeBakey VA Medical Center	Health Care	5,900
JPMorgan Chase	Commercial Bank	5,800
Baker Hughes	Oil and Gas	5,068
Academy Sports + Outdoors	Retail	5,030
CenterPoint Energy	Utilities	4,860
NOV	Oil and Gas	4,814
LyondellBasell Industries	Chemicals	4,810
Kelsey-Seybold Clinic	Health Care	4,512
Southwest Airlines	Transportation	4,340
Enterprise Products	Oil and Gas	3,450

NOTE:

1 Full-time and part-time employees at public and private companies in Austin, Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty, Montgomery, San Jacinto, and Waller County.

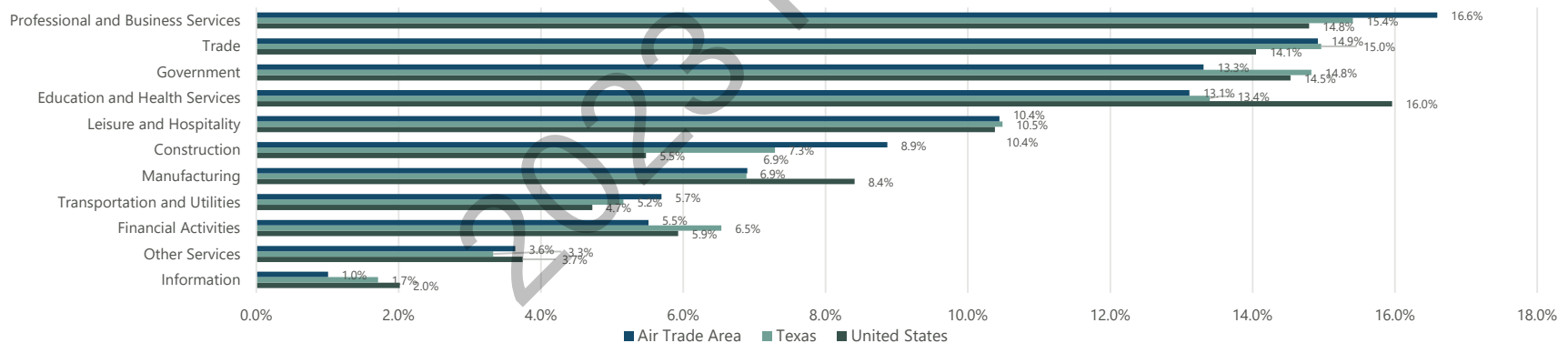
SOURCE: Houston Chronicle, "Chronicle 100: Top employers," June 19, 2022.

TABLE 4-7 EMPLOYMENT TRENDS BY MAJOR INDUSTRY SECTOR

(Employment in Thousands)

SECTOR	AIR TRADE AREA					TEXAS					UNITED STATES NONAGRICULTURAL EMPLOYMENT				
	CY 2010	CY 2019	CY 2022	CAGR		CY 2010	CY 2019	CY 2022	CAGR		CY 2010	CY 2019	CY 2022	CAGR	
				CY 2010 – CY 2022	CY 2019 – CY 2022				CY 2010 – CY 2022	CY 2019 – CY 2022				CY 2010 – CY 2022	CY 2019 – CY 2022
Professional and Business Services	378	508	539	3.0%	2.0%	1,291	1,803	2,074	4.0%	4.8%	16,783	21,274	22,572	2.5%	2.0%
Trade	400	476	484	1.6%	0.6%	1,615	1,924	2,014	1.9%	1.5%	19,833	21,509	21,438	0.7%	-0.1%
Government	387	416	432	0.9%	1.3%	1,893	1,978	1,996	0.4%	0.3%	22,490	22,613	22,171	-0.1%	-0.7%
Education and Health Services	309	404	426	2.7%	1.7%	1,381	1,742	1,803	2.2%	1.2%	19,975	24,163	24,350	1.7%	0.3%
Leisure and Hospitality	235	334	339	3.1%	0.5%	1,008	1,396	1,411	2.8%	0.4%	13,049	16,586	15,835	1.6%	-1.5%
Construction, Mining, and Logging	256	316	288	1.0%	-3.1%	771	1,023	981	2.0%	-1.4%	6,223	8,220	8,353	2.5%	0.5%
Manufacturing	215	236	224	0.3%	-1.7%	817	907	927	1.1%	0.7%	11,528	12,817	12,825	0.9%	0.0%
Transportation and Utilities	124	155	185	3.4%	6.1%	419	584	694	4.3%	6.0%	4,733	6,215	7,205	3.6%	5.1%
Finance/Insurance/Real Estate	138	167	179	2.2%	2.4%	626	802	880	2.9%	3.1%	7,695	8,754	9,045	1.4%	1.1%
Other Services ¹	94	116	118	1.9%	0.6%	363	446	448	1.8%	0.2%	5,331	5,891	5,708	0.6%	-1.0%
Information ²	33	33	33	0.0%	0.2%	195	210	230	1.4%	3.2%	2,707	2,864	3,074	1.1%	2.4%
Total	2,568	3,160	3,246	2.0%	0.9%	10,378	12,814	13,459	2.2%	1.7%	130,346	150,905	152,575	1.3%	0.4%

Percent of CY 2022 Nonagricultural Employment



NOTES:

CY – Calendar Year; CAGR – Compound Annual Growth Rate

Numbers may not sum due to rounding.

Air Trade Area employment by sector data only represents the Houston MSA because data for the full Air Trade Area is not available from BLS.

Nonagricultural employment only.

1 The nonagricultural employment for the services sector includes outsourcing from the manufacturing sector.

2 The information sector includes communications, publishing, motion picture and sound recording, and online services.

SOURCE: US Department of Labor, Bureau of Labor Statistics, May 2023.

As shown in Table 4-7, the workforce of the Air Trade Area is concentrated in four industries in CY 2022: professional and business services, trade, government, and education and health services. The highest employment growth occurred in the transportation/utilities sector between CY 2010 and CY 2022. Along with the transportation/utilities sector, the education and health services, professional and business services, and leisure and hospitality sectors led employment growth in the Air Trade Area. The most significant impact on national employment from the COVID-19 pandemic was in the construction, mining, and logging sector, where employment declined by 3.1 percent, and 1.4 percent in the Air Trade Area, and Texas, and increased by 0.5 percent in the nation, respectively, between CY 2019 and CY 2022. The worst affected employment sector in the Air Trade Area was construction, with a -3.1 percent decrease in employment between CY 2019 and CY 2022. As shown in the bar chart in Table 4-7, employment in the Air Trade Area in CY 2022 was more significantly concentrated in the professional and business services than it was in Texas and the nation. Contrarily, employment in government was less concentrated in the Air Trade Area than it was in Texas and the nation.

Changes in the Air Trade Area's nonagricultural employment sector makeup differ from the national trends that occurred between CY 2010 and CY 2022. In the Air Trade Area and Texas during that period, it was primarily government, trade, construction, manufacturing, and information employment that lost part of their share of employment to the transportation/utilities, professional and business services, and education and health services sectors, as employment in the latter sectors increased at greater CAGRs (3.4 percent, 3.0 percent, and 2.7 percent, respectively) between CY 2010 and CY 2022 than the former sectors. The remaining sectors were within a percentage point of the average for total employment in the Air Trade Area (2.0 percent) and Texas (2.2 percent). In the nation, the changes in employment makeup by sector were not as significant as the Air Trade Area, with only the transportation/utilities, construction, and professional and business services sectors increasing by more than a percentage point above the average for total employment. The government sector of the nation was the only sector with a decline in employment between CY 2010 and CY 2022. All sectors, except for manufacturing, construction, information, and transportation/utilities of the Air Trade Area, experienced higher growth than the nation during the same period. Education and health services, government, leisure and hospitality, and the other services sector experienced higher growth than both Texas and the nation during the same period.

4.2.4.1 PROFESSIONAL AND BUSINESS SERVICES

In CY 2022, the professional and business services sector accounted for approximately 539,000 employees in the Air Trade Area, the highest employment level among all sectors. The professional and business services sector is significantly more concentrated in the Air Trade Area than it is in Texas and the nation, accounting for 16.6 percent of total nonagricultural employment in CY 2022 in the Air Trade Area, compared to 15.4 and 14.8 percent in Texas and the nation respectively.

Professional and business services employment in the Air Trade Area increased at a CAGR of 3.0 percent between CY 2010 and CY 2022, compared to a 2.5 percent increase for the nation over the same period. Professional and business services employment in the Air Trade Area was equally affected by the COVID-19 pandemic than professional and business services employment in the nation, with the Air Trade Area and national professional and business services employment each increasing 2.0 percent between CY 2019 and CY 2022.

Professional services providers, while large in number, primarily employ smaller numbers of employees per firm. However, there are professional services providers within the Air Trade Area that employ large numbers of workers. Deloitte Touche Tohmatsu Limited is the largest accounting professional service provider in the Air Trade Area with

over 3,000 local accounting professionals.³⁷ PBK is the largest architecture, engineering, and consulting firm in the Air Trade Area, with approximately 650 employees.³⁸

4.2.4.2 TRADE

In CY 2022, the trade sector accounted for approximately 484,000 employees in the Air Trade Area, the second-highest employment level among all sectors. The trade sector in the Air Trade Area accounted for 14.9 percent of total nonagricultural employment in CY 2022, compared to 15.0 percent in Texas and 14.1 percent in the nation.

Trade employment in the Air Trade Area increased at a CAGR of 1.6 percent between CY 2010 and CY 2022, compared to a 1.9 and 0.7 percent increase for Texas and the nation respectively over the same period. Trade employment in the Air Trade Area was slightly less affected by the COVID-19 pandemic than trade employment in the nation, with the Air Trade Area trade employment increasing 0.6 percent, compared to a -0.1 percent decrease in national trade employment between CY 2019 and CY 2022.

One indicator of growth in the trade sector is retail sales, defined as all net sales (gross sales minus refunds and allowances for returns) for establishments engaged primarily in retail trade. **Table 4-8** presents total retail sales for the Air Trade Area, Texas, and the United States between CY 2010 and CY 2020. As shown in Table 4-8, between CY 2010 and CY 2020, total retail sales in the Air Trade Area increased at a CAGR of 2.9 percent, higher than both Texas's growth rate (2.8 percent) and the United States' growth rate (2.3 percent) during this period.

Table 4-8 also presents projections of total retail sales for CY 2032. According to data from Woods & Poole, total retail sales for the Air Trade Area are projected to increase from approximately \$115.9 billion in CY 2020 to approximately \$160.0 billion in CY 2032, reflecting a CAGR of 2.7 percent between CY 2020 and CY 2032. Growth in the Air Trade Area's total retail sales is projected to be faster than that of Texas and the nation between CY 2020 and CY 2032 (with a CAGRs of 2.6 percent and 2.1 percent respectively).

Texas was the nation's largest exporter in CY 2021 with more than \$165.2 billion worth of exports, ahead of the next three largest state exporters in combined value (California: \$86.1 billion, New York: \$42.7 billion, Louisiana: \$36.3 billion).³⁹ Total value of shipments from the Houston-Galveston Customs District was approximately \$273.1 billion and 351.5 million metric tons in goods and commodities, ranking the district as the fifth nationally in total value and first in total tonnage.⁴⁰ Overall, the oil and gas sectors typically comprise the largest share of the Air Trade Area's exported services.⁴¹

³⁷ Houston Business Journal, "2022 Largest Houston-Area Accounting Firms," <https://www.bizjournals.com/houston/subscriber-only/2021/07/09/2021-largest-houston-area-accounting.html> (accessed April 28, 2023).

³⁸ Houston Business Journal, "2022 Largest Houston-Area Architecture Firms," <https://www.bizjournals.com/houston/subscriber-only/2021/11/26/2021-largest-houston-area-architecture.html> (accessed April 28, 2023).

³⁹ Texas Economic Development Corporation, "Texas Leads in Export Trade in 2021 Due to Unique Factors," <https://businessintexas.com/ceo-blog/texas-leads-in-export-trade-in-2021-due-to-unique-factors/> (accessed April 21, 2023).

⁴⁰ Greater Houston Partnership, *Global Houston 2022: International Trends and Their Impact on the Region*, https://www.houston.org/sites/default/files/2022-11/Global%20Houston%20-%2020222_final.pdf (accessed April 21, 2023).

⁴¹ Ibid.

TABLE 4-8 TOTAL RETAIL SALES

(In 2012 Dollars, Amounts in Millions)

YEAR	TOTAL RETAIL SALES		
	AIR TRADE AREA	TEXAS	UNITED STATES
Historical			
CY 2010	\$87,111	\$362,857	\$4,385,184
CY 2011	\$92,785	\$383,887	\$4,588,529
CY 2012	\$97,591	\$400,544	\$4,732,279
CY 2013	\$100,272	\$410,178	\$4,838,638
CY 2014	\$103,663	\$422,449	\$4,969,891
CY 2015	\$106,813	\$432,949	\$5,083,799
CY 2016	\$108,689	\$441,214	\$5,183,338
CY 2017	\$110,145	\$450,790	\$5,306,643
CY 2018	\$113,070	\$463,819	\$5,425,365
CY 2019	\$115,620	\$474,984	\$5,511,795
CY 2020	\$115,886	\$476,770	\$5,481,467
Projected			
CY 2032	\$160,038	\$650,893	\$7,033,779
Compound Annual Growth Rate			
CY 2010 – CY 2020	2.9%	2.8%	2.3%
CY 2020 – CY 2032	2.7%	2.6%	2.1%

NOTE:

CY – Calendar Year

SOURCE: Woods & Poole Economics, Inc., 2022 Complete Economic and Demographic Data Source (CEDDS), June 2022.

4.2.4.3 GOVERNMENT

In CY 2022, the government sector accounted for approximately 432,000 employees in the Air Trade Area, the third-highest employment level among all sectors. The government sector accounted for 13.3 percent of total nonagricultural employment in CY 2022 in the Air Trade Area, compared to 14.8 and 14.5 percent in Texas and the nation respectively.

Government employment in the Air Trade Area increased at a CAGR of 0.9 percent between CY 2010 and CY 2022, compared to a -0.1 percent decrease for the nation over the same period. Government employment in the Air Trade Area increased by a CAGR of 1.3 percent between CY 2019 and CY 2022, whereas government employment in the nation decreased by -0.7 percent over the same period.

The NASA Johnson Space Center is located southeast of downtown Houston and occupies approximately 1,620 acres. It serves as the hub for human spaceflight activity, mission operations for the International Space Station (ISS), and is the home of the astronaut corps, Orion Program, and research programs. It has a team of scientists,

physicians, and other researchers, around 3,000 total employees and more than 12,000 contractors.⁴² The Space Center Houston serves as the official visitor center of the Johnson Space Center and includes an educational complex and museum.

The Houston Independent School District is the largest public school system in Texas and seventh largest school district in the nation. The number of employees as of January 31, 2022, was 27,040.⁴³ The largest local full-service government employer is the City of Houston with over 21,000 employees, 25 departments, and more than 700 job categories.⁴⁴

4.2.4.4 EDUCATION AND HEALTH SERVICES

In CY 2022, the education and health services sector accounted for approximately 426,000 employees in the Air Trade Area, the fourth-highest employment level among all sectors. The education and health services sector accounted for 13.1 percent of total nonagricultural employment in CY 2022 in the Air Trade Area, compared to 13.4 and 16.0 percent in Texas and the nation, respectively.

Education and health services employment in the Air Trade Area increased at a CAGR of 2.7 percent between CY 2010 and CY 2022, compared to a 2.2 and 1.7 percent increase for Texas and the nation respectively over the same period. Education and health services employment in the Air Trade Area was less negatively impacted by the COVID-19 pandemic than education and health services employment in the nation, with the Air Trade Area education and health services employment increasing at a CAGR of 1.7 percent between CY 2019 and CY 2022, compared to a 0.3 percent increase in national education and health services employment over the same period. Major subsectors in the education and health services sector are higher education and health services, which are described in the following subsections.

Higher Education

Higher education is provided in the Air Trade Area by five major universities, as well as several colleges, community colleges, and technical/vocational/business schools. Over 300,000 students are enrolled in higher education throughout the Air Trade Area.⁴⁵

The University of Houston (UH) is one of the largest public universities (based on enrollment) and among the top 100 public colleges and universities in the nation.⁴⁶ UH is classified by the Carnegie Foundation for the Advancement of Teaching in the top tier of research universities, a distinction attained by only 3.7 percent of all universities.⁴⁷ Over

⁴² Johnson Space Center, "Doing Business with Us,"

<https://www.nasa.gov/centers/johnson/business/jobs.html#:~:text=The%20JSC%20civil%20service%20workforce,these%2C%20approximately%20110%20are%20astronauts> (accessed April 21, 2023).

⁴³ 2022 Houston Independent School District Board of Education, *2021 – 2022 Facts and Figures*,

https://www.houstonisd.org/site/handlers/filedownload.ashx?moduleinstanceid=48525&dataid=362423&FileName=Pace_46017_2021-2022_Facts_Figures_proof_3.pdf (accessed April 21, 2023).

⁴⁴ City of Houston, "Human Resources Department: Grow Your Own Workforce," <https://www.houstontx.gov/hr/gyow.html> (accessed April 21, 2023).

⁴⁵ Texas Higher Education Coordinating Board, "2021 Almanac Data," <https://www.highered.texas.gov/data-reports/texas-public-higher-education-almanac> (accessed April 5, 2022).

⁴⁶ U.S. News & World Report, "Top Public Schools," <https://www.usnews.com/best-colleges/rankings/national-universities/top-public> (accessed April 28, 2023).

⁴⁷ American Council on Education, Carnegie Classification of Institutions of Higher Education, "Classification Summary Tables," <https://carnegieclassifications.iu.edu/downloads.php> (accessed April 28, 2023).

47,000 students are currently enrolled in 276 undergraduate and graduate academic programs, both on campus and online. The university operates 28 research centers and institutes, and additionally hosts 8 nationally-funded centers.⁴⁸

Rice University is a private research university located on 300 acres near the TMC. Rice had an enrollment of over 8,000 students in fall 2022. It is currently ranked among the top 20 universities in the United States by U.S. News and World Report. Rice collaborates extensively with other educational institutions as well as industry, private foundation, and governmental partners, and is particularly noteworthy for its programs in science, engineering, and technology.⁴⁹

Other universities in the Air Trade Area include Sam Houston State University, Prairie View A&M University, Texas Southern University, Houston Christian University, and the University of St. Thomas. Two-year colleges in the Air Trade Area include the Lone Star College System, the Houston Community College System, the San Jacinto Community College District, Blinn College District, and Lee College. In addition, the University of Texas (UT), Texas A&M University, Baylor College of Medicine, and the UH all have medical schools in the Air Trade Area.

Health Services

The health services industry plays a significant role in the Air Trade Area, and it will continue to become more significant as the Air Trade Area population grows. With over 20,000 licensed physicians and more than 85 hospitals (many of which were ranked on U.S. News & World Report's "America's Best Hospitals"), including over a dozen teaching hospitals, the Air Trade Area offers a wide range of advanced medical services.^{50,51} Houston is home to over 394,000 health care and social assistance workers, almost 1 in 8 workers in the City of Houston.

TMC is located 5-miles away from downtown Houston and is the largest medical complex in the world. It hosts over 60 institutions and provides health care, research and education.⁵² TMC is home to the nation's largest children's hospital in terms of number of beds and the world's top cancer hospital for years with experienced physicians to cure the rarest cancers.⁵³ It employs over 106,000 people and sees over 8 million patient encounters as well as over 180,000 surgeries per year.⁵⁴ Patients across the country and the world travel to TMC to receive treatments.⁵⁵ This contributes as a significant source of air travel demand at the Airports. As of April 2023, the annual economic benefit of TMC is valued over \$5.4 billion.⁵⁶ TMC includes the University of Texas MD Anderson Cancer Center, Baylor College

⁴⁸ University of Houston Division of Research, "About," <https://uhsystem.edu/uh-system/uh/index.php> (accessed April 28, 2023).

⁴⁹ Rice University, "About," <https://www.rice.edu/about> (accessed April 28, 2023).

⁵⁰ Greater Houston Partnership, *Houston Facts 2022*, https://www.houston.org/sites/default/files/2022-09/houston%20facts%202022_Digital_0.pdf (accessed April 28, 2023).

⁵¹ City of Houston, "About Houston – Health," <https://www.houstontx.gov/about/houston/health.html> (accessed April 28, 2023).

⁵² Texas Medical Center, "TMC at a Glance," <https://www.tmc.edu/about-tmc> (accessed April 28, 2023).

⁵³ Hospital Management, "Top Ten Largest Children's Hospitals in the US," <https://www.hospitalmanagement.net/analysis/top-ten-largest-childrens-hospitals-us-bed-size-2021/> (accessed April 28, 2023).

⁵⁴ Texas Medical Center, *TMC Facts & Figures*, https://www.tmc.edu/wp-content/uploads/2016/08/TMC_FactsFiguresOnePager_0307162.pdf (accessed April 28, 2023).

⁵⁵ Visit Houston, "Texas Medical Center," <https://www.visithoustontexas.com/about-houston/texas-medical-center/> (accessed April 28, 2023).

⁵⁶ Texas Medical Center, "Economic Impact," <https://www.tmc.edu/tmchelixpark/#:~:text=A%20%245.4%20Billion%20Economic%20Impact,impact%20of%20over%20%245.4%20billion> (accessed April 28, 2023).

of Medicine, UT Health Science Center, Memorial Hermann Hospital, Houston Methodist Hospital, Texas Children's Hospital, and UH College of Pharmacy, among other institutions.

Other hospitals and hospital systems in the Air Trade Area include the CHI St. Luke's Health, Menninger Clinic, HCA Houston Healthcare, Harris Health System, the Michael E. DeBakey Veterans Affairs Medical Center, the UT Medical Branch in Galveston, and the UT Health Science Center at Houston.

4.2.4.5 LEISURE AND HOSPITALITY

In CY 2022, the leisure and hospitality sector accounted for approximately 339,000 employees in the Air Trade Area, the fifth-highest employment level among all sectors. The leisure and hospitality sector accounted for 10.4 percent of total nonagricultural employment in CY 2022 in the Air Trade Area, compared to 10.5 percent in Texas and 10.4 percent in the nation.

Leisure and hospitality employment in the Air Trade Area increased 3.1 percent between CY 2010 and CY 2022, compared to a 2.8 percent increase for Texas and a 1.6 percent increase for the nation over the same period. Leisure and hospitality employment in the Air Trade Area was slightly less affected by the COVID-19 pandemic than leisure and hospitality employment in the nation, with the Air Trade Area leisure and hospitality employment increasing 0.5 percent between CY 2019 and CY 2022, compared to a -1.5 percent decrease in national leisure and hospitality employment over the same period.

The Air Trade Area has over 94,000 hotel rooms and more than 11,000 restaurants.⁵⁷ The growth of this industry is a significant driver of services-related employment and air travel demand at an airport. In support of leisure travel and conventions in the Air Trade Area, there are over 800 hotels in the Houston metropolitan region. According to the Greater Houston Partnership, the number of visitors to Houston was nearly 25 million in CY 2019 (latest data available), and those visitors spent approximately \$19.1 billion on tourism.⁵⁸ The Air Trade Area has two primary convention centers. The George R. Brown Convention Center in eastern downtown Houston has 1.2 million square feet of usable space.⁵⁹ NRG Park, in addition to being the home of the Houston Texans and the Houston Livestock Show and Rodeo, features over 2 million square feet of total net exhibition/meeting space. It hosts some of Houston's largest conventions and tradeshow each year.⁶⁰

The Houston Galleria has been listed among the top 10 most valuable shopping malls in the United States with an annual sales value of \$1.03 billion dollar before the pandemic.⁶¹ The future of brick-and-mortar stores is uncertain but The Houston Galleria can remain competitive in value if the stores in the shopping mall introduce omnichannel

⁵⁷ Greater Houston Partnership, *Houston Region Economic Outlook*, https://www.houston.org/sites/default/files/2022-12/Employment%20Forecast_2022_Digital.pdf (accessed April 28, 2023).

⁵⁸ Greater Houston Partnership, *2022 Houston Employment Forecast*, https://www.houstonpublicmedia.org/app/plugins/pdfjs-viewer-shortcode/pdfjs/web/viewer.php?file=https://cdn.hpm.io/wp-content/uploads/2021/12/01143637/Employment-Forecast_2021_Final-3.pdf&attachment_id=414557&dButton=true&pButton=true&oButton=false&sButton=true#zoom=auto&pagemode=none&_wpnonce=75204e3b8f (accessed April 28, 2023).

⁵⁹ Visit Houston, "George R. Brown Convention Center," <https://www.visithoustontexas.com/meetings/facilities/george-r-brown-convention-center> (accessed April 28, 2023).

⁶⁰ Visit Houston, "NRG Park," <https://www.visithoustontexas.com/listings/nrg-park/23231> (accessed April 28, 2023).

⁶¹ CNBC, "The 10 Most Valuable Malls in America Before the Coronavirus Pandemic," <https://www.cnbc.com/2020/07/03/the-10-most-valuable-malls-in-america-before-the-coronavirus-pandemic.html> (accessed April 28, 2023).

capabilities and if the shopping mall itself adapts its business model to new consumer behavior after the pandemic through customizing tenant mix, creative leasing, and repurposing of spaces.⁶²

The Port of Galveston is the fourth most popular US cruise port based on its accessibility, exceptional sailing experience to Western Caribbean destinations.⁶³ The Port of Galveston is expected to provide service to more than 1 million cruise passengers in 2023, exceeding the 2019 record, and is the only home port for US cruise ships in Texas.⁶⁴ Cruises resumed in July 2021 with Carnival Cruise Line, the first cruise sailing since March 2020. Other cruise lines operating out of Port of Galveston in CY 2023 include Royal Caribbean International, and Norwegian Cruise Line. Disney Cruise Line operates out of Port of Galveston on a seasonal basis as well.

Primary leisure and hospitality-related attractions located in the Air Trade Area are the following:

- **Museum District.** Divided over 4 walkable zones with 19 museums in total, the Museum District of Houston welcomes millions of visitors annually. It includes such institutions as the Museum of Fine Arts, the Houston Museum of Natural Science, the Children's Museum of Houston, the Menil Collection, the Holocaust Museum, and the Contemporary Arts Museum Houston, to name just a few.
- **Theater District.** Spanning 17 blocks in central Houston, the Theater District ranks second in the United States for the number of theater seats in a concentrated downtown area.⁶⁵ Houston is also one of only five cities in the United States with permanent professional resident companies in the four major performing arts disciplines: ballet, opera, symphony, and theater.⁶⁶ In addition to the performing arts, the Theater District includes Bayou Place, a large dining and entertainment complex with venues for special events.
- **Historic Sites.** The Air Trade Area includes historically significant sites that are open to visitors, including the San Jacinto Battleground State Historic Site (which includes a 567-foot-high monument and adjoining museum), as well as the Battleship Texas State Historic Park, which includes the only preserved dreadnought ship from the early 20th century.
- **Space Center Houston.** One of the most popular attractions in the Air Trade Area, and the most visited attraction for international visitors, Space Center Houston is the official visitor center of the NASA Johnson Space Center.⁶⁷
- **Houston Zoo.** The second most visited zoo in the United States, and one of the most popular cultural attractions in the Air Trade Area, the Houston Zoo features over 6,000 animals across its 55 acres.⁶⁸ *Travel + Leisure* magazine ranks the Houston Zoo among the top 10 zoos in the United States.⁶⁹

⁶² Deloitte Insights, "The Future of Shopping: Creating Customer Value with Retail Real Estate," <https://www2.deloitte.com/us/en/insights/industry/financial-services/future-of-shopping-malls.html> (accessed April 28, 2023).

⁶³ Port of Galveston, "Galveston Cruise Industry on Track to Set New Records," <https://www.portofgalveston.com/CivicAlerts.aspx?AID=235> (accessed April 28, 2023).

⁶⁴ Ibid.

⁶⁵ Visit Houston, "Theater – About," <https://www.visithoustontexas.com/theater/about> (accessed April 28, 2023).

⁶⁶ Ibid.

⁶⁷ Space Center Houston, "About Us," <https://spacecenter.org/about-us/> (accessed April 28, 2023).

⁶⁸ Houston Zoo, "About Us," <https://www.houstonzoo.org/about> (accessed April 28, 2023).

⁶⁹ Travel + Leisure, "14 of the Best Zoos in the U.S.," <https://www.travelandleisure.com/attractions/zoos-aquariums/best-zoos-in-the-us> (accessed April 28, 2023).

- **National Forest and Wildlife Refuges.** The Air Trade Area has a number of protected forests and wildlife areas within its bounds, which provide natural havens for both wildlife and visitors. These include the Sam Houston National Forest and the Anahuac, Brazoria, Trinity River, MidCoast, and San Bernard National Wildlife Refuges.
- **Beaches.** The Air Trade Area has numerous beaches, located both along the Gulf of Mexico as well as around Galveston Bay. Galveston Island and Bolivar Peninsula (both in Galveston County) together total nearly 60 miles of beach shoreline.^{70,71} Surfside Beach is another popular beach along the Gulf of Mexico, while Sylvan Beach and El Jardin Beach are popular bayside destinations closer to central Houston.⁷²

Major spectator sports/events in the Air Trade Area include the following: the Houston Astros, a Major League Baseball (MLB) franchise; the Houston Texans, a National Football League (NFL) franchise; the Houston Rockets, a National Basketball Association (NBA) franchise; the Houston Dynamo, a Major League Soccer (MLS) franchise; the Houston Dash, a National Women's Soccer League (NWSL) franchise; the Professional Golfers' Association (PGA) Tour's Houston Open; the Ladies Professional Golf Association's (LPGA) Chevron Championship; and the Grand Prix of Houston. In 2023 Houston hosted the National Collegiate Athletic Association (NCAA) Men's Basketball Championship. Houston is scheduled to host the College Football National Championship in 2024, and several matches of the FIFA World Cup in 2026.

4.2.4.6 CONSTRUCTION, MINING, AND LOGGING

In CY 2022, the construction, mining, and logging sector is the sixth-highest employment level among all sectors and accounted for approximately 288,000 employees in the Air Trade Area. In CY 2022, the construction, mining, and logging sector accounted for 8.9 percent of total nonagricultural employment in the Air Trade Area, compared to 7.3 percent in Texas and 5.5 percent in the nation. Employment in the construction, mining, and logging sector in the Air Trade Area and Texas is more heavily concentrated than it is in the nation due in part to employment in the mining sector. Texas is the top crude oil- and natural gas-producing state in the nation, and the Air Trade Area is a key center for oil and gas companies, including BP, ConocoPhillips, and Shell.

Construction, mining, and logging employment in the Air Trade Area increased by 1.0 percent between CY 2010 and CY 2022, compared to a 2.0 percent increase for Texas and 2.5 percent increase for the nation over the same period.

Both building permits and housing sales and prices are indirect indicators of employment in the residential construction sector. As shown in **Table 4-9**, Air Trade Area residential building permits and valuation experienced a lower increase than what was experienced by Texas and the United States over the CY 2010 to CY 2021 period. After rebounding from the bottom of the most recent residential real estate building cycle in CY 2009, the Air Trade Area's residential building permit units have grown significantly, at a CAGR of 8.7 percent from CY 2010 to CY 2021, compared to an increase of 10.4 percent for Texas and 10.0 percent for the United States over the same period. Building permit valuation increased at a CAGR of 11.3 percent (compared to an increase of 12.7 percent for Texas and 12.6 percent for the United States) between CY 2010 and CY 2021.

⁷⁰ City of Galveston, "Galveston Beaches," <https://www.galvestontx.gov/189/Galveston-Beaches> (accessed April 28, 2023).

⁷¹ Bolivar Peninsula Texas, "The Best Beaches Near Houston," <https://www.tripsavvy.com/best-beaches-near-houston-4172733> (accessed April 28, 2023).

⁷² TripSavvy, "The Beach," <https://www.bolivarpeninsulatexas.com/Activities/Enjoy-Bolivar-Outdoors/The-Beach> (accessed April 28, 2023).

TABLE 4-9 RESIDENTIAL BUILDING PERMITS AND VALUATION CALENDAR YEAR 2010 THROUGH CALENDAR YEAR 2021

(Dollar Amounts in Millions)

YEAR	AIR TRADE AREA		TEXAS		UNITED STATES	
	UNITS	VALUATION	UNITS	VALUATION	UNITS	VALUATION
CY 2010	27,452	\$4,175	88,461	\$13,740	604,610	\$101,943
CY 2011	31,271	\$4,831	97,450	\$14,736	624,061	\$105,269
CY 2012	43,290	\$6,439	135,514	\$19,451	829,658	\$140,425
CY 2013	51,333	\$7,402	147,460	\$22,356	990,822	\$177,656
CY 2014	63,741	\$9,251	166,982	\$26,296	1,046,363	\$193,243
CY 2015	56,901	\$8,566	175,443	\$29,087	1,182,582	\$223,611
CY 2016	44,732	\$7,396	165,853	\$29,242	1,206,642	\$237,102
CY 2017	42,395	\$7,880	175,112	\$32,514	1,281,977	\$258,505
CY 2018	57,288	\$9,172	192,878	\$34,690	1,328,827	\$271,120
CY 2019	63,672	\$9,827	209,895	\$37,413	1,386,048	\$280,534
CY 2020	68,415	\$11,889	230,503	\$42,986	1,471,141	\$307,210
CY 2021	69,053	\$13,594	261,951	\$51,422	1,729,910	\$375,212
Compound Annual Growth Rate						
CY 2010 – CY 2019	9.8%	10.0%	10.1%	11.8%	9.7%	11.9%
CY 2019 – CY 2020	7.4%	21.0%	9.8%	14.9%	6.1%	9.5%
CY 2010 – CY 2021	8.7%	11.3%	10.4%	12.7%	10.0%	12.6%

NOTES:

CY – Calendar Year

CY 2022 data not yet available from the United States Census Bureau.

SOURCE: United States Census Bureau, *Annual Building Permits*, April 2022.

Residential construction remained strong in 2022 as new permits for single-family homes were at their highest levels since 2005, the last housing peak.⁷³ Homebuilding in the Air Trade Area was particularly strong relative to the national average, which is still down by a third compared to 2005.⁷⁴ A growing population of homebuyers in the homebuying age, employment growth in well-paying manufacturing jobs, and—despite the increase in home prices and slight decline in affordability in the Air Trade Area compared to pre-COVID-19 pandemic—continued affordability relative to Dallas and Austin, all support the faster pace of homebuilding.⁷⁵

After the spike in sales and home prices during the COVID-19 pandemic, March 2023 marked the 12th consecutive month of falling sales and the second consecutive month of slightly lower prices in the Air Trade Area.⁷⁶ In March 2023, the median price was \$325,000 for the Air Trade Area, down from a peak of \$355,000 in June 2022.⁷⁷

⁷³ Moody's Analytics, Inc., "Précis U.S. Metro – Houston-The Woodlands-Sugar Land TX," May 2022.

⁷⁴ Ibid.

⁷⁵ Ibid.

⁷⁶ RISMedia, "Houston Association of Realtors Shares Market Update," <https://www.rismedia.com/2023/04/17/houston-association-realtors-shares-market-update/> (accessed May 16, 2023).

⁷⁷ Greater Houston Partnership, "Monthly Update: Home Sales," <https://www.houston.org/houston-data/monthly-update-home-sales> (accessed May 16, 2023).

Approximately 2.7 months inventory of homes for sale was available as of March 2023, up from 1.1 months a year earlier.⁷⁸

4.2.4.7 MANUFACTURING

In CY 2022, the manufacturing sector accounted for approximately 224,000 employees in the Air Trade Area. The manufacturing sector accounted for 6.9 percent of total nonagricultural employment in CY 2022 in the Air Trade Area, consistent with 6.9 percent in Texas, and lower than 8.4 percent in the nation, respectively. The Air Trade Area comprises more than 600 chemical plants and employs over 35,000 workers as of CY 2020.⁷⁹

Manufacturing employment in the Air Trade Area increased by 0.3 percent between CY 2010 and CY 2022, compared to an increase of 1.1 percent in Texas and 0.9 percent in the nation over the same period. Manufacturing employment in the Air Trade Area was more affected in CY 2020 through CY 2022 by the COVID-19 pandemic than manufacturing employment in the nation (decreasing at a CAGR of -1.7 percent between CY 2019 and CY 2022).

As of CY 2019, manufacturing accounted for 16.8 percent of the Air Trade Area's GDP.⁸⁰ Despite smaller gains in manufacturing employment between CY 2010 and CY 2022 relative to other sectors, manufacturing continues to be an important component of the Air Trade Area's economy. Petrochemicals manufacturing capacity in Texas accounted for 43 percent of the total national capacity in CY 2021.⁸¹ The Air Trade Area also produces computer and electronic products, plastics and rubber products, electrical equipment and appliances, and transportation equipment.⁸² The manufacturing sector continues to recover in CY 2023 but is facing difficulty hiring workers to operate machines.⁸³

The Spaghetti Bowl is a product pipeline that links chemical plants, refineries, salt domes and fractionation plants along the Texas Gulf Coast. This pipeline provides the Air Trade Area a productive and cost-efficient energy-related manufacturing process.⁸⁴ Included in the list of major employers in the Air Trade Area in Table 4-6, ExxonMobil is the largest oil and gas industry employer in the Air Trade Area, employing 11,814 in CY 2021. Marathon Petroleum Co is the largest petroleum refinery in terms of refinery capacity in the Air Trade Area.⁸⁵

⁷⁸ RISMedia, "Houston Association of Realtors Shares Market Update," <https://www.rismedia.com/2023/04/17/houston-association-realtors-shares-market-update/> (accessed May 16, 2023).

⁷⁹ Greater Houston Partnership, *Houston Facts 2021*, https://www.houston.org/sites/default/files/2021-09/houston%20facts%202021_digital_Final.pdf (accessed April 28, 2023).

⁸⁰ Greater Houston Partnership, *Manufacturing Overview*, <https://www.lonestar.edu/economicdevelopment/documents/16A%20W010%20Manufacturing%20Overview.pdf> (accessed June 28, 2023).

⁸¹ US Energy Information Administration, "Texas State Energy Profile," <https://www.eia.gov/state/print.php?sid=TX> (accessed April 28, 2023).

⁸² Greater Houston Partnership, *Houston Facts 2022*, https://www.houston.org/sites/default/files/2022-09/houston%20facts%202022_Digital_0.pdf (accessed April 28, 2023).

⁸³ Deloitte, "2023 Manufacturing Industry Outlook," <https://www2.deloitte.com/us/en/pages/energy-and-resources/articles/manufacturing-industry-outlook.html> (accessed April 2023).

⁸⁴ Greater Houston Partnership, *Houston Facts 2021*, https://www.houston.org/sites/default/files/2021-09/houston%20facts%202021_digital_Final.pdf (accessed April 28, 2023).

⁸⁵ Greater Houston Partnership, *Houston Facts 2021*, https://www.houston.org/sites/default/files/2021-09/houston%20facts%202021_digital_Final.pdf (accessed April 28, 2023).

Also included in the list of major employers in the Air Trade Area in Table 4-6, Daikin Comfort Technologies North America is the largest employer in heating, ventilation, and air conditioning (HVAC) manufacturing, with 8,819 employees in CY 2021.

4.2.4.8 TRANSPORTATION/UTILITIES

In CY 2022, the transportation/utilities sector accounted for approximately 185,000 employees in the Air Trade Area. The transportation/utilities sector accounted for 5.7 percent of total nonagricultural employment in CY 2022 in the Air Trade Area, compared to 5.2 and 4.7 percent in Texas and the nation, respectively.

Transportation/utilities employment in the Air Trade Area increased at a CAGR of 3.4 percent between CY 2010 and CY 2022, compared to a 3.6 percent increase for the nation over the same period. Transportation/utilities employment in the Air Trade Area was similarly affected in CY 2020 and CY 2022 by the COVID-19 pandemic than transportation/utilities employment in the nation, with the Air Trade Area transportation/utilities employment increasing at a CAGR of 6.1 percent between CY 2019 and CY 2022, compared to a 5.1 percent increase in national transportation/utilities employment over the same period.

IAH and HOU service the air transportation demand in the Air Trade Area, which is also supported by additional transportation infrastructure providing both passenger and freight access:

- The Air Trade Area is directly connected to major US markets by an integrated network of interstate highways. It lies at the intersection of Interstate 10 (I-10), which is the major east–west interstate in the southern United States, and Interstate 45 (I-45), which connects Galveston with Dallas via Houston. I-69/US Highway 59, US Highway 90, and US Highway 290 are additional spokes that cross the Air Trade Area. There are three outer loop highway systems that encircle the area and form concentric circles: Interstate 610 (I-610), Beltway 8, and Texas State Highway 99 (SH 99). Texas manages various other state highways and farm-to-market roads, with various other new highways and spurs planned. Finally, the Harris County Toll Road Authority (HCTRA) and Fort Bend County Toll Road Authority (FBCTRA) operate a collection of toll roads, such as the Sam Houston Tollway, the Fort Bend Parkway Toll Road, the Hardy Toll Road, and the Westpark Tollway, that provide additional options for residents and visitors.
- Ocean shipping is facilitated by the Greater Port of Houston that extends along the 52-mile-long Houston Ship Channel and is the largest port in the United States in terms of total cargo tonnage.⁸⁶ The Houston Ship Channel handled over 275 million short tons of cargo in 2020; the goods that flow through the Greater Port of Houston sustain nearly 70,000 direct jobs and contribute over \$800 billion to the national economy.⁸⁷ The Bayport Terminal and Barbour’s Cut Terminal are the two primary container terminals of the Port of Houston.
- As discussed in Section 4.2.4.5, the Air Trade Area is also served by the Port of Galveston. The Port of Galveston does not focus on cargo shipping, but rather the cruise ship industry. The Port of Galveston is the fourth most popular US cruise port and the only home port for US cruise ships in Texas.⁸⁸

⁸⁶ Port Houston, *Port Houston Facts and Figures*, <https://porthouston.com/wp-content/uploads/Dec-2021-Houston-Ship-Channel-Still-Ranked-No.1-FINAL.pdf> (accessed April 28, 2023).

⁸⁷ Port of Houston, *2018 Economic Impact of Marine Cargo Activity at the Port of Houston: Executive Summary*, <https://porthouston.com/wp-content/uploads/Port-of-Houston-EIS-Executive-Summary-4-5-2019-1.pdf> (accessed April 28, 2023); Port Houston, *Port Houston Facts and Figures*, <https://porthouston.com/wp-content/uploads/Dec-2021-Houston-Ship-Channel-Still-Ranked-No.1-FINAL.pdf> (accessed April 28, 2023).

⁸⁸ Port of Galveston, “About Us,” <https://www.portofgalveston.com/8/About-Us> (accessed April 28, 2023).

- There are three Class 1 railroad companies that serve the Air Trade Area: Burlington Northern Santa Fe (BNSF) Railway, Kansas City Southern (KCS) Railway, and Union Pacific Railroad (UP). Eight mainline tracks and five branch line tracks radiate from the Air Trade Area.⁸⁹
- Passenger rail service is provided to and from the Air Trade Area by Amtrak. Texas Central is a rail project that plans to build high-speed rail between Houston and Dallas. The agency is in the process of acquiring the right-of-way for the future connection between the two cities, a trip that would take approximately 90 minutes. The \$20 billion project is proposed to open as early as 2026, which will create jobs and draw both business and leisure travelers to the Air Trade Area.⁹⁰
- Public transit in the Air Trade Area is primarily provided by the Metropolitan Transit Authority of Harris County, Texas (METRO), which provides a variety of traditional bus transit services, as well as bus rapid transit, paratransit, and light rail (METRORail) services. In addition, Island Transit serves the City of Galveston, and the Gulf Coast Transit District serves Brazoria and Galveston Counties with fixed-route, paratransit and trolley services. Conroe Connection serves the City of Conroe and Southern Brazoria County Transit System serves several towns in the Air Trade Area with fixed-route bus services.

The primary utility company serving the Air Trade Area is CenterPoint Energy, an electric and natural gas utility serving several states in the Midwest and South; headquartered in Houston, CenterPoint Energy has over 5,000 employees in the Air Trade Area.

4.2.4.9 FINANCIAL

The financial sector comprises financial, insurance, and real estate services. In CY 2022, the financial sector accounted for approximately 179,000 employees in the Air Trade Area. The financial sector accounted for 5.5 percent of total nonagricultural employment in CY 2022 in the Air Trade Area, compared to 6.5 and 5.9 percent in Texas and the nation respectively.

Financial employment in the Air Trade Area increased by 2.2 percent between CY 2010 and CY 2022, compared to a 1.4 percent increase for the nation over the same period. Financial employment in the Air Trade Area was less affected by the COVID-19 pandemic and has a higher positive growth than financial employment in the nation, with the Air Trade Area financial employment increasing 2.4 percent between CY 2019 and CY 2022, compared to a 1.1 percent increase in national financial employment during the same period.

The City of Houston is a center of international finance with 16 foreign banks from 9 nations.⁹¹ As shown in Table 4-7, JPMorgan Chase Bank was the largest financial services employer in the Air Trade Area, with approximately 6,000 employees.

Table 4-10 presents total bank deposits for the Air Trade Area, Texas, and the United States between the year ending June 30, 2010, and the year ending June 30, 2022. Total bank deposits are an indication of the economic activity of the financial sector. As shown, total bank deposits in the Air Trade Area increased from approximately

⁸⁹ Greater Houston Partnership, *Houston Facts 2022*, https://www.houston.org/sites/default/files/2022-09/73houston%20facts%202022_Digital_0.pdf (accessed April 28, 2023).

⁹⁰ Texas Central, "Learn the Facts," <https://www.texascentral.com/facts/#:~:text=What%20will%20the%20project%20cost,stations%20and%20three%20passenger%20stations> (accessed April 28, 2023).

⁹¹ Greater Houston Partnership, *Houston Facts 2022*, https://www.houston.org/sites/default/files/2022-09/houston%20facts%202022_Digital_0.pdf (accessed April 28, 2023).

\$137,113 million in the year ending June 30, 2010, to approximately \$374,809 million in the year ending June 30, 2022. This increase represents a CAGR of 8.7 percent during this period, which was higher than that for nation and lower than that for Texas (CAGRs of 7.4 percent and 10.9 percent, respectively) during this same period. There was a surge in bank deposits in the first few months of the pandemic, which can be seen in a significant increase in bank deposits between the year ending June 30, 2019, and the year ending June 30, 2020. Numerous factors contributed to the surge, including the billions of dollars the government provided to small businesses via Paycheck Protection Program loans and individuals via stimulus checks and unemployment benefits; the Federal Reserve's efforts to support financial markets, including an unlimited bond-buying program; and the uncertainty that prompted an approach by individuals and corporations to keep more cash on hand.⁹² Bank deposits have declined since the start of the current monetary policy tightening cycle in March 2022 and the outflow of deposits increased during March 2023, following the run on Silicon Valley Bank.⁹³

TABLE 4-10 TOTAL BANK DEPOSITS

(Dollar Amounts in Millions)

YEAR	TOTAL BANK DEPOSITS		
	AIR TRADE AREA	TEXAS	UNITED STATES
Historical			
2010	\$137,113	\$499,211	\$7,676,878
2011	\$153,976	\$543,733	\$8,249,403
2012	\$179,099	\$599,031	\$8,947,244
2013	\$208,033	\$652,053	\$9,433,522
2014	\$242,540	\$719,813	\$10,112,724
2015	\$215,215	\$730,504	\$10,657,721
2016	\$219,160	\$769,160	\$11,280,518
2017	\$240,933	\$818,120	\$11,859,860
2018	\$245,688	\$840,122	\$12,307,880
2019	\$249,551	\$878,164	\$12,813,120
2020	\$305,954	\$1,366,567	\$15,590,139
2021	\$333,722	\$1,572,292	\$17,235,467
2022	\$374,809	\$1,728,401	\$18,141,585
Compound Annual Growth Rate			
2010 – 2019	6.9%	6.5%	5.9%
2019 – 2022	14.5%	25.3%	12.3%
2010 – 2022	8.7%	10.9%	7.4%

NOTES:

Year ending June 30.

Air Trade Area bank deposit data only represents the Houston MSA because data for the full Air Trade Area is not available from Federal Deposit Insurance Corporation.

SOURCE: Federal Deposit Insurance Corporation, *Summary of Deposits Report*, May 2023.

⁹² Son, Hugh, "U.S. Banks Are 'Swimming in Money' as Deposits Increase by \$2 Trillion Amid the Coronavirus," *CNBC*, <https://www.cnbc.com/2020/06/21/banks-have-grown-by-2-trillion-in-deposits-since-coronavirus-first-hit.html> (accessed April 28, 2023).

⁹³ Luck, Stephen, Matthew Plosser and Josh Younger, "Bank Funding during the Current Monetary Policy Tightening Cycle," *Federal Reserve Bank of New York*, <https://libertystreeteconomics.newyorkfed.org/2023/05/bank-funding-during-the-current-monetary-policy-tightening-cycle/> (accessed May 15, 2023).

4.2.4.10 OTHER SERVICES

Other services employment includes personal services (e.g., dry cleaning and laundry services; repair and maintenance services; religion, grant making, civic, professional, and similar organizations) and private household employment.⁹⁴ In CY 2022, the other services sector accounted for approximately 118,000 employees in the Air Trade Area. The other services sector accounted for 3.6 percent of total nonagricultural employment in CY 2022 in the Air Trade Area, compared to 3.3 and 3.7 percent in Texas and in the nation, respectively.

Other services employment in the Air Trade Area increased at a CAGR of 1.9 percent between CY 2010 and CY 2022, compared to a 1.8 and 0.6 percent increase for Texas and the nation, respectively, over the same period. Other services employment in the Air Trade Area was less affected in CY 2022 by the COVID-19 pandemic than other services employment in the nation, with the Air Trade Area other services employment increasing 0.6 percent between CY 2019 and CY 2022, compared to an -1.0 percent decrease in national other services employment.

Because the demand for other services is on an individual or household level, trends in other services employment do not independently drive economic growth, but rather tend to reflect growth in other industry sectors, which results in an increased demand for other services by individuals and households.

4.2.4.11 INFORMATION

The information sector combines telecommunications service providers, traditional publishing, motion picture and sound recording, broadcasting, software, online services, and data processing. In CY 2022, the information sector accounted for approximately 33,000 employees in the Air Trade Area. The information sector accounted for 1.0 percent of total nonagricultural employment in CY 2022 in the Air Trade Area, compared to 1.7 and 2.0 percent in Texas and the nation, respectively.

Information employment in the Air Trade Area remained unchanged between CY 2010 and CY 2022, compared to a 1.1 percent increase for the nation over the same period. Information employment in the Air Trade Area was more affected in CY 2020 through CY 2022 by the COVID-19 pandemic than information employment in the nation, with the Air Trade Area information employment increasing at a CAGR of 0.2 percent, compared to a 2.4 percent increase in national information employment over the same period.

The combination of being one of the leading tech hubs, having NASA's Johnson Space Center, and home to more than 20 Fortune 500 company headquarters, the Air Trade Area enjoys one of the most state-of-the-art communications networks globally.⁹⁵ The Air Trade Area hosts approximately 24 carriers to provide fiber service and was also the first metropolitan area in the United States to install Verizon 5G broadband in October 2018.⁹⁶ The Air Trade Area contains over 500 digital technology companies.⁹⁷

Hewlett Packard, one of the Fortune 500 companies headquartered in the Air Trade Area, is a leading software, cloud computing, and data processing information technology company. The new Hewlett Packard headquarters in the Air Trade Area has completed its construction in April 2022 and the campus includes 440,000 square feet of

⁹⁴ US Department of Labor, Bureau of Labor Statistics, "Industries at a Glance – Other Services," <https://www.bls.gov/iag/tgs/iag81.htm> (accessed April 28, 2023).

⁹⁵ Greater Houston Partnership, "2021 Telecommunications," <https://www.houston.org/houston-data/telecommunications> (accessed April 28, 2023).

⁹⁶ Ibid.

⁹⁷ Greater Houston Partnership, "Digital Tech – Practice Areas," <https://www.houston.org/houston-data/digital-tech-practice-areas> (accessed June 30, 2022).

leasable area.⁹⁸ In CY 2021, Hewlett Packard had 3,050 employees in the Air Trade Area to deliver intuitive and effective technology solutions for businesses in multiple industries.⁹⁹ Other large tech employers with information-related businesses and more than 1,000 employees in the Air Trade Area are NASA – Johnson Space Center, Boeing, IBM, Honeywell, Siemens, and Dell.¹⁰⁰

4.3 ECONOMIC OUTLOOK

4.3.1 SHORT-TERM ECONOMIC OUTLOOK

With respect to the national economy, the Congressional Budget Office (CBO) outlook released in February 2023 projects a 0.3 percent year-over-year increase in real GDP for 2023. This would be a decline from real GDP growth in 2022, which was 1.9 percent. The real GDP growth rate is projected to increase to 1.8 percent in 2024, peak at 2.7 percent in 2025, and then gradually fall to 1.7 percent in 2033 (latest year of CBO outlook available).¹⁰¹ The International Monetary Fund (IMF) outlook released in April 2023 projects a 1.6 percent year-over-year increase in real US GDP for 2023. 2024 is then projected to see year-over-year US GDP growth of 1.1 percent.¹⁰² The CBO projects the national unemployment rate to rise to 4.7 percent in 2023 and 4.9 percent in 2024 before a gradual decline to 4.5 percent in 2027, at which it remains through 2033.¹⁰³

At the time of this Report (June 2023), the Russian invasion of Ukraine has been ongoing for more than 16 months.¹⁰⁴ While the economic outlooks cited in this Report consider the Russian invasion's current and future impact on the national and local economy, the Russian invasion is likely to further exacerbate existing economic uncertainty, which could impact both travel and commerce—not only at a global level, but also within the United States.¹⁰⁵ As a result of the invasion, sanctions have been imposed on Russia, which creates regulatory barriers that can hinder economic growth.¹⁰⁶ In particular, a variety of US energy firms with headquarters in the Air Trade Area announced that they would discontinue operations in Russia; however, these operations represent only a small amount of total activity.¹⁰⁷ On the other hand, the Russian invasion has led to increased export, at least temporarily, of crude from the Air Trade Area to Northwest Europe to replace the region's loss of access to Russian crude.¹⁰⁸ Additionally, the increase in oil prices as a result of the Russian invasion emphasize the need for renewable energy and the execution

⁹⁸ Community Impact, "Hewlett Packard Enterprise Opens New Headquarters in City Place in Spring," <https://communityimpact.com/houston/spring-klein/impacts/2022/05/19/hewlett-packard-enterprise-opens-new-headquarters-in-city-place-in-spring/> (accessed April 28, 2023).

⁹⁹ Greater Houston Partnership, *Houston Tech Report: Charting the Innovation Landscape of America's Fourth Largest City*, https://www.houston.org/sites/default/files/2022-04/Tech%20Report_2022%204.1.pdf (accessed April 28, 2023).

¹⁰⁰ Ibid.

¹⁰¹ Congressional Budget Office, *The Budget and Economic Outlook: 2023 to 2033*, February 2023.

¹⁰² International Monetary Fund, *World Economic Outlook Update: A Rocky Recovery*, April 2023.

¹⁰³ Congressional Budget Office, *The Budget and Economic Outlook: 2023 to 2033*, February 2023.

¹⁰⁴ CNN, "Zelensky Says 'Fierce Battles' Rage in Eastern Ukraine, with Russian Forces Suffering Large-Scale Losses," <https://www.cnn.com/europe/live-news/russia-ukraine-war-news-11-08-22/index.html> (accessed May 18, 2023).

¹⁰⁵ Prior to the Russian invasion, the December 2021 consumer price index (CPI) showed US inflation reached 7 percent for CY 2021, the highest rate in nearly 40 years.

¹⁰⁶ Department of the Treasury, "Ukraine/Russia-Related Sanctions Program," <https://ofac.treasury.gov/sanctions-programs-and-country-information/ukraine-russia-related-sanctions> (accessed May 18, 2023).

¹⁰⁷ Moody's Analytics, Inc., "Précis U.S. Metro – Houston-The Woodlands-Sugar Land," May 2022.

¹⁰⁸ Houston Public Media, "Russia's Invasion of Ukraine Has Prompted an Increase in Crude Oil Exports from Texas Ports," <https://www.houstonpublicmedia.org/articles/news/energy-environment/2022/03/29/422134/russias-invasion-of-ukraine-has-prompted-an-increase-in-crude-oil-exports-from-texas-ports-analysts-say/> (accessed May 18, 2023).

of extensive energy efficiency measures.¹⁰⁹ As a leading partner of the Environmental Protection Agency, with high annual green power usage, the City of Houston can benefit from the extensive renewable energy implementation.¹¹⁰

4.3.2 LONG-TERM ECONOMIC ASSUMPTIONS INCORPORATED IN PASSENGER DEMAND FORECASTS

As described in more detail in Chapter 5, the methodologies used in developing forecasts of enplaned passengers at IAH and HOU included (among other methodologies) statistical linear regression modeling, with local and national socioeconomics and demographics as independent variables and O&D passengers as the dependent variable. Independent variables considered for this analysis included population, employment, earnings, personal income (per capita and total), and GRP/GDP for the Air Trade Area and the United States. For each socioeconomic and demographic variable, regression modeling produced a coefficient that was applied to the corresponding variable projection developed by Woods & Poole to provide a forecast of enplaned passengers. **Table 4-11** presents the CY 2020 and CY 2032 figures used in the modeling, as well as the CAGR for each independent variable in CY 2020 and CY 2032. As previously stated, the demand for air transportation at an airport is, to a large degree, dependent upon the demographic and economic characteristics of an airport's air trade area. The projected growth during the Projection Period in the economic indicators in Table 4-10 supports the underlying assumptions that drive the airline activity forecasts discussed in Chapter 5.

TABLE 4-11 PROJECTION OF ECONOMIC VARIABLES USED IN PASSENGER DEMAND FORECASTS

VARIABLE	CY 2020	CY 2032	COMPOUND ANNUAL GROWTH RATE
			CY 2020 – CY 2032
Air Trade Area Population	7,341,569	8,593,146	1.3%
US Population	331,501,094	356,413,906	0.6%
Air Trade Area Total Employment (jobs) ¹	4,230,366	5,560,960	2.3%
US Total Employment (jobs) ¹	186,274,766	232,916,601	1.9%
Air Trade Area Total Personal Income ²	\$396,257	\$567,690	3.0%
US Total Personal Income ²	\$17,628,632	\$22,484,638	2.0%
Air Trade Area Per Capita Personal Income ³	\$53,974	\$66,063	1.7%
US Per Capita Personal Income ³	\$53,178	\$63,086	1.4%
Air Trade Area Gross Regional Product (GRP) ²	\$446,516	\$636,084	3.0%
US Gross Domestic Product (GDP) ²	\$18,664,908	\$24,492,794	2.3%
Air Trade Area per Capita Gross Regional Product (GRP) ³	\$60,820	\$74,022	1.7%
US Gross per Capita Domestic Product (GDP) ³	\$56,304	\$68,720	1.7%

NOTES:

All dollar amounts are in 2020 dollars. 2032 data are Woods & Poole Economics, Inc., projections.

CY – Calendar Year

GDP – Gross Domestic Product

GRP – Gross Regional Product

1 Employment data include wage and salary workers, proprietors, private household employees, and miscellaneous workers.

2 Figures displayed in millions of 2012 dollars.

3 Figures displayed in 2012 dollars.

SOURCE: Woods & Poole Economics, Inc., 2022 Complete Economic and Demographic Data Source (CEDDS), June 2022.

¹⁰⁹ The World Bank, "Russian Invasion to Shrink Ukraine Economy by 45 Percent this Year," <https://www.worldbank.org/en/news/press-release/2022/04/10/russian-invasion-to-shrink-ukraine-economy-by-45-percent-this-year> (accessed May 18, 2023).

¹¹⁰ Greater Houston Partnership, "City of Houston No. 1 in Green Energy Usage," <https://www.houston.org/news/epa-city-houston-no-1-green-energy-usage> (accessed May 18, 2023).

4.4 CONCLUSIONS

The historical and future projected socioeconomic data cited in this chapter, including Air Trade Area employment, GRP, population, and PCPI data, support the conclusion that the Air Trade Area can support increased airline traffic demand through the Projection Period (ending CY 2032).

The Air Trade Area population was approximately 7.34 million in CY 2020, and it is projected by Woods & Poole to increase to approximately 8.59 million by CY 2032. This represents a 1.3 percent CAGR for the Air Trade Area, which is approximately the same as that experienced by Texas and higher than the United States during the same period (1.2 percent and 0.6 percent, respectively).

PCPI in the Air Trade Area was slightly higher than in the United States between CY 2010 and CY 2020. The Air Trade Area's PCPI in CY 2020 (approximately \$54,000) was 1.5 percent higher than PCPI in the United States (approximately \$53,200) and 8.4 percent higher than PCPI in Texas (approximately \$49,800). PCPI in the Air Trade Area is projected by Woods & Poole to increase at a CAGR of 1.7 percent between CY 2020 and CY 2032, which is higher than the projected CAGR of 1.4 percent for the United States and comparable to the projected CAGR of 1.8 percent for Texas.¹¹¹

Between CY 2010 and CY 2020, the Air Trade Area's GRP grew at a CAGR of approximately 1.7 percent; this is lower than Texas but comparable to the United States during the same period, which grew at CAGRs of 2.1 percent and 1.8 percent, respectively. GRP in the Air Trade Area is projected by Woods & Poole to increase at a CAGR of 3.0 percent between CY 2020 and CY 2032; Texas GRP and US GDP are projected to increase at CAGRs of 3.0 percent and 2.3 percent, respectively, over the same period.

Between CY 2010 and CY 2022, the Air Trade Area's labor force grew at a CAGR of approximately 1.6 percent; this is comparable to that experienced by Texas and higher than the United States during the same period, which grew at CAGRs of 1.5 percent and 0.5 percent, respectively.

In terms of percentages of industry sector shares, CY 2022 employment in the following industry sectors in the Air Trade Area exceeded employment in the United States: professional and business services, construction/mining/logging, transportation/utilities, and trade. During the same period, the following industry sectors in the Air Trade Area exceeded employment in Texas: professional and business services, construction/mining/logging, transportation/utilities, and other services.

The Air Trade Area's business-friendly climate, including favorable state tax law leading to relatively low tax expenses, low corporate rent costs, and access to a young and diverse professional talent pool attracts both big corporations and small businesses to Texas.¹¹² The Air Trade Area's economic strength is in part attributable to its' highly skilled workforce and position as a major transportation hub.

In conclusion, the Air Trade Area has a large and diverse economy, large and growing population base, and attractive business climate which favorably impacts future airline traffic demand.

¹¹¹ Amounts are in 2012 dollars.

¹¹² Greater Houston Partnership, *Houston Business Insider*, <https://www.houston.org/sites/default/files/2022-11/2022%20Houston%20Business%20Insider%20EDG.pdf> (accessed April 21, 2023).

5. AIR TRAFFIC

This section describes the airlines serving the Airport System, historical activity, factors affecting aviation demand, and the forecast of Airport System activity.

5.1 NATIONAL AND GLOBAL PERSPECTIVE OF THE AIRPORT SYSTEM

Based on airline bookings data, in the year ending June 2022 the Houston market was ranked thirteenth in the nation in terms of total O&D passengers. **Table 5-1** presents the top 20 cities in the United States ranked by total O&D passengers for the year ending June 2019 through year ending June 2022. **Table 5-2** presents the top 20 airports in the United States ranked on domestic enplaned passengers for the year ending June 2019 through year ending June 2022. IAH ranked 11th for the year ending June 2022, HOU (not shown) ranked 35th. **Table 5-3** presents the top 20 airports in the United States ranked on international enplaned passengers for the year ending June 2019 through year ending June 2022. IAH ranked 5th for the year ending June 2022, HOU (not shown) ranked 23rd.

Houston's large population base and geographic position support domestic and international connectivity and make it a natural location for airline hub and focus city operations. The status of IAH as a hub for United and HOU as a focus city for Southwest have established the positions of IAH and HOU as key components of the national air transportation system.

5.2 AIRLINES SERVING THE AIRPORT SYSTEM

As of April 2023, 52 airlines served IAH and HOU. Currently no airlines operate scheduled passenger or cargo flights to EFD. **Table 5-4** presents the 49 airlines serving IAH and 9 airlines currently serving HOU during 2023. There are 6 airlines that serve both Airports.

Table 5-5 presents the US scheduled passenger airlines that have served IAH and HOU since 2010. Both Airports are served by a large and stable base of airlines. Alaska, American, Delta, and United have served IAH during every year of this period, with Spirit initiating service in 2012. Frontier transferred all service at HOU to IAH in 2012. In 2022 Frontier resumed service at HOU while maintaining service at IAH. In 2019 JetBlue transferred all service at HOU to IAH. Two US airlines launched service from IAH in 2021: Southwest, which maintained service at HOU, and Sun Country. American, Delta, and Southwest have consistently served HOU during this period. Allegiant launched service from HOU in 2020.

Table 5-6 presents the foreign-flag scheduled passengers airlines that have served IAH since 2010. While Southwest has provided international service from HOU since 2015, no foreign-flag passenger airlines have served HOU on a regularly scheduled basis during this period; 11 foreign-flag airlines representing Canada, Latin America, Europe, Asia, and the Middle East have served IAH every year during this period. By 2017 the number of foreign-flag airlines had increased to 21. The number fell to 16 in 2021 as airlines suspended service during the COVID-19 pandemic, with two additional foreign-flag airlines adding or resuming service in 2022. Of the 19 foreign-flag airlines serving IAH in 2023, 9 are members of Star Alliance along with United. Alliance cooperation between United and its Star Alliance partners has supported growth of international O&D and connecting passenger itineraries at IAH.

TABLE 5-1 TOP 20 US CITIES RANKED ON TOTAL O&D PASSENGERS(IN MILLIONS)

CITY	YE JUNE 2019		YE JUNE 2020		YE JUNE 2021		YE JUNE 2022	
	RANK	PASSENGERS	RANK	PASSENGERS	RANK	PASSENGERS	RANK	PASSENGERS
New York City ¹	1	58.7	1	43.1	1	18.6	1	43.6
Los Angeles ²	2	46.2	2	33.8	3	17.4	2	36.1
Miami ³	4	32.8	3	25.0	2	18.1	3	30.7
Chicago ⁴	5	29.3	5	21.7	5	12.6	4	23.6
Orlando ⁵	7	24.3	7	18.6	4	13.0	5	22.7
San Francisco ⁶	3	34.3	4	24.5	12	9.3	6	21.9
Washington DC ⁷	6	27.3	6	19.7	11	9.5	7	20.4
Las Vegas ⁸	8	21.3	9	16.0	8	11.0	8	19.8
Denver ⁹	9	20.9	8	16.2	6	11.9	9	18.9
Dallas ¹⁰	10	20.5	10	15.8	7	11.3	10	18.8
Atlanta ¹¹	11	19.4	11	14.5	9	10.3	11	17.3
Phoenix ¹²	15	15.6	14	12.2	10	9.7	12	15.9
Houston ¹³	14	15.6	15	11.9	13	8.5	13	14.4
Boston ¹⁴	12	19.2	12	13.8	16	5.7	14	14.0
Seattle ¹⁵	13	17.2	13	13.0	14	7.0	15	13.7
Tampa ¹⁶	18	11.4	17	8.8	15	6.7	16	11.0
San Diego ¹⁷	16	11.8	16	8.8	20	4.8	17	9.5
Minneapolis ¹⁸	17	11.4	18	8.6	17	5.2	18	9.3
Philadelphia ¹⁹	19	10.5	19	7.9	19	5.0	19	8.8
Detroit ²⁰	20	10.3	20	7.7	18	5.1	20	8.6

NOTES:

YE = Year Ending.

1 Includes Newark Liberty International Airport (EWR), John F. Kennedy International Airport (JFK), LaGuardia Airport (LGA), Long Island MacArthur Airport (ISP), and Westchester County Airport (HPN).

2 Includes Los Angeles International Airport (LAX), Hollywood Burbank Airport (BUR), Ontario International Airport (ONT), Long Beach Airport (LGB), and John Wayne Airport (SNA).

3 Includes Miami International Airport (MIA), Fort Lauderdale-Hollywood International Airport (FLL), and Palm Beach International Airport (PBI).

4 Includes O'Hare International Airport (ORD) and Midway International Airport (MDW).

5 Includes Orlando International Airport (MCO) and Sanford International Airport (SFB).

6 Includes San Francisco International Airport (SFO), Oakland International Airport (OAK) and Norman Y. Mineta San Jose International Airport (SJC).

7 Includes Ronald Reagan Washington National Airport (DCA), Dulles International Airport (IAD), and Baltimore / Washington International Airport (BWI).

8 Includes Harry Reid International Airport (LAS).

9 Includes Denver International Airport (DEN).

10 Includes Dallas Fort Worth International Airport (DFW) and Dallas Love Field (DAL).

11 Includes Hartsfield-Jackson Atlanta International Airport (ATL).

12 Includes Phoenix Sky Harbor International Airport (PHX) and Phoenix-Mesa Gateway Airport (AZA).

13 Includes George Bush Intercontinental/Houston Airport (IAH) and William P. Hobby Airport (HOU).

14 Includes Boston Logan International Airport (BOS).

15 Includes Seattle-Tacoma International Airport (SEA) and Paine Field (PAE).

16 Includes Tampa International Airport (TPA) and St. Pete-Clearwater International Airport (PIE).

17 Includes San Diego International Airport (SAN).

18 Includes Minneapolis-Saint Paul International Airport (MSP).

19 Includes Philadelphia International Airport (PHL).

20 Includes Detroit Metropolitan Wayne County International Airport (DTW).

SOURCE: Sabre Market Intelligence, April 2023.

TABLE 5-2 TOP 20 US AIRPORTS RANKED ON DOMESTIC ENPLANED PASSENGERS (IN MILLIONS)

AIRPORT	YE JUNE 2019		YE JUNE 2020		YE JUNE 2021		YE JUNE 2022	
	RANK	PASSENGERS	RANK	PASSENGERS	RANK	PASSENGERS	RANK	PASSENGERS
Hartsfield-Jackson Atlanta International Airport (ATL)	1	46.9	1	34.5	1	22.6	1	39.8
Denver International Airport (DEN)	3	31.1	3	24.4	3	20.2	2	31.3
Dallas Fort Worth International Airport (DFW)	5	29.6	4	24.1	2	20.7	3	30.2
Chicago "Hare International Airport (ORD)	2	33.7	2	24.9	5	14.8	4	27.8
Los Angeles International Airport (LAX)	4	30.5	5	22.0	9	12.2	5	24.1
Harry Reid International Airport (LAS)	6	22.5	7	17.0	8	12.5	6	22.4
Orlando International Airport (MCO)	10	20.7	10	15.9	7	12.7	7	21.2
Charlotte Douglas International Airport (CLT)	8	21.4	6	17.5	4	15.5	8	21.0
Phoenix Sky Harbor International Airport (PHX)	9	21.1	9	16.1	6	12.7	9	20.9
Seattle-Tacoma International Airport (SEA)	7	21.8	8	16.6	10	10.6	10	19.2
George Bush Intercontinental/Houston Airport (IAH)	14	16.5	14	12.1	12	8.5	11	15.1
Newark Liberty International Airport (EWR)	15	15.9	16	11.8	17	6.8	12	14.5
Miami International Airport (MIA)	25	10.7	24	8.2	15	7.3	13	13.9
Minneapolis–Saint Paul International Airport (MSP)	12	17.2	12	12.8	13	7.8	14	13.9
San Francisco International Airport (SFO)	11	20.7	11	14.5	21	5.7	15	13.9
Boston Logan International Airport (BOS)	13	16.7	13	12.1	22	5.4	16	13.1
Detroit Metropolitan Wayne County Airport (DTW)	16	15.9	15	12.0	14	7.4	17	12.7
Fort Lauderdale–Hollywood International Airport (FLL)	19	13.8	17	10.3	11	8.6	18	12.4
John F. Kennedy International Airport (JFK)	17	14.4	20	10.1	27	4.4	19	12.3
Salt Lake City International Airport (SLC)	22	12.1	22	9.3	16	7.2	20	12.0

NOTE:

YE – Year Ending

SOURCE: US Department of Transportation, T-100 Database, April 2023.

TABLE 5-3 TOP 20 US AIRPORTS RANKED ON INTERNATIONAL ENPLANED PASSENGERS (IN MILLIONS)

AIRPORT	YE JUNE 2019		YE JUNE 2020		YE JUNE 2021		YE JUNE 2022	
	RANK	PASSENGERS	RANK	PASSENGERS	RANK	PASSENGERS	RANK	PASSENGERS
John F. Kennedy International Airport (JFK)	2	16.9	2	11.7	2	3.4	1	7.4
Miami International Airport (MIA)	4	10.5	4	7.4	3	3.3	2	6.5
Los Angeles International Airport (LAX)	3	13.0	3	8.8	4	2.2	3	4.4
Newark Liberty International Airport (EWR)	6	7.1	6	4.9	7	1.6	4	3.7
George Bush Intercontinental/Houston Airport (IAH)	9	5.4	9	3.9	6	1.9	5	3.2
Hartsfield-Jackson Atlanta International Airport (ATL)	8	6.2	8	4.2	9	1.5	6	3.1
Chicago "Hare International Airport (ORD)	7	6.9	7	4.6	8	1.5	7	3.0
Dallas Fort Worth International Airport (DFW)	10	4.3	10	3.3	5	1.9	8	2.9
San Francisco International Airport (SFO)	5	7.3	5	5.1	12	0.8	9	2.1
Fort Lauderdale-Hollywood International Airport (FLL)	11	4.3	11	2.9	10	1.3	10	2.1
Washington Dulles International Airport (IAD)	12	4.0	12	2.8	11	0.8	11	1.9
Boston Logan International Airport (BOS)	13	3.8	13	2.6	15	0.5	12	1.4
Orlando International Airport (MCO)	14	3.4	14	2.4	18	0.3	13	1.3
Denver International Airport (DEN)	21	1.5	22	1.1	14	0.5	14	1.0
Seattle-Tacoma International Airport (SEA)	15	2.7	15	1.9	17	0.4	15	1.0
Charlotte Douglas International Airport (CLT)	20	1.7	20	1.2	13	0.7	16	1.0
Philadelphia International Airport (PHL)	17	2.0	17	1.3	20	0.3	17	0.7
Phoenix Sky Harbor International Airport (PHX)	25	1.1	25	0.7	16	0.4	18	0.7
Minneapolis-Saint Paul International Airport (MSP)	22	1.5	21	1.2	24	0.2	19	0.6
Detroit Metropolitan Wayne County Airport (DTW)	18	1.9	18	1.3	19	0.3	20	0.6

NOTE:

YE – Year Ending

SOURCE: US Department of Transportation, T-100 Database, April 2023.

TABLE 5-4 AIRLINES SERVING IAH AND HOU

AIRLINES SERVING IAH			
SCHEDULED US PASSENGER	FOREIGN FLAG	NON-SCHEDULED PASSENGER	ALL-CARGO
Alaska Airlines	Aeroméxico		Air France Cargo
American Airlines	Aeroméxico Connect		Air Transport Services Group
CommutAir (United)	Air Canada		Antonov Airlines
Delta Air Lines	Air France		Atlas Air
Endeavor Air (Delta)	Air New Zealand		C.A.L. Cargo Airlines Ltd.
Envoy Air (American)	All Nippon Airways		Cargolux Airlines International S.A.
Frontier Airlines	Avianca		Cathay Cargo
JetBlue Airways	British Airways		DHL
Mesa Airlines (American, United)	Emirates		Emirates SkyCargo
Republic Airline (American)	EVA Air		FedEx
SkyWest (American, Delta, United)	Jazz (Air Canada)		Lufthansa Cargo
Southwest Airlines	KLM Royal Dutch Airlines		Qatar Airways Cargo
Spirit Airlines	Lufthansa		Silk Way West
Sun Country Airlines	Qatar Airways		Turkish Airlines Cargo
United Airlines	Singapore Airlines		UPS
	Turkish Airlines		
	VivaAerobus		
	Volaris		
	WestJet		
AIRLINES SERVING HOU			
SCHEDULED US PASSENGER	FOREIGN FLAG	NON-SCHEDULED PASSENGER	ALL-CARGO
Allegiant Air		JSX	Ameristar Air Cargo
Delta Air Lines			
Envoy Air (American)			
Frontier Airlines			
Mesa Airlines (American)			
SkyWest Airlines (American)			
Southwest Airlines			

SOURCES: Innovata, April 2023 (published airline schedules); Houston Airport System, April 2023.

TABLE 5-5 SCHEDULED US PASSENGER AIRLINE BASE

US AIRLINES SERVING IAH														
AIRLINE ¹	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Alaska Airlines	•	•	•	•	•	•	•	•	•	•	•	•	•	•
American Airlines ²	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Delta Air Lines ³	•	•	•	•	•	•	•	•	•	•	•	•	•	•
United Airlines ⁴	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Frontier Airlines	•		•	•	•	•	•	•	•	•	•	•	•	•
Spirit Airlines			•	•	•	•	•	•	•	•	•	•	•	•
JetBlue Airways										•	•	•	•	•
Southwest Airlines												•	•	•
Sun Country Airlines												•	•	•
SeaPort Airlines						•	•							
Great Lakes Airlines							•							
Boutique Air									•	•	•			
Total US Airlines	5	4	6	6	6	7	8	6	7	8	8	9	9	9
US AIRLINES SERVING HOU														
AIRLINE ¹	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
American Airlines	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Delta Air Lines	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Southwest Airlines ⁵	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Allegiant Air											•	•	•	•
Frontier Airlines	•	•	•										•	•
JetBlue Airways	•	•	•	•	•	•	•	•	•	•	•			
Branson Air Express	•				•	•	•							
Southern Airways Express						•	•							
Via Airlines								•						
Total US Airlines	6	5	5	4	5	6	6	5	4	4	5	4	5	5

NOTES:

1 Where applicable, includes affiliated and regional carriers.

2 Includes US Airways, which served IAH from 2010 to 2015.

3 Includes Northwest Airlines, which served IAH in 2010.

4 Includes Continental Airlines, which served IAH from 2010 to 2012.

5 Includes AirTran Airways, which served HOU from 2010 to 2014.

SOURCES: Innovata, April 2023 (published airline schedules); Houston Airport System, April 2023.

TABLE 5-6 SCHEDULED FOREIGN-FLAG PASSENGER AIRLINE BASE

FOREIGN-FLAG AIRLINES SERVING IAH														
AIRLINE ¹	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Aeroméxico	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Air Canada	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Air France	•	•	•	•	•	•	•	•	•	•	•	•	•	•
British Airways	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Emirates	•	•	•	•	•	•	•	•	•	•	•	•	•	•
KLM Royal Dutch Airlines	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Lufthansa	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Qatar Airways	•	•	•	•	•	•	•	•	•	•	•	•	•	•
VivaAerobus	•	•	•	•	•	•	•	•	•	•	•	•	•	•
AVIANCA ²	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Singapore Airlines	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Turkish				•	•	•	•	•	•	•	•	•	•	•
All Nippon Airways						•	•	•	•	•	•	•	•	•
Volaris						•	•	•	•	•	•	•	•	•
WestJet						•	•	•	•	•	•	•	•	•
EVA Air							•	•	•	•	•	•	•	•
Air New Zealand						•	•	•	•	•	•		•	•
Caribbean Airlines													•	
Air China				•	•	•	•	•	•	•	•			
Interjet					•	•	•	•	•	•	•			
Korean Air					•	•	•	•						
Scandinavian Airlines System					•	•								
BahamasAir								•	•	•				
Ethiopian										•	•			
Saudia											•			
Total Foreign-Flag Airlines	11	11	11	13	16	20	20	21	20	21	21	16	18	17

NOTES:

1 Where applicable, includes affiliated carriers.

2 Includes TACA, which served IAH from 2010 to 2014.

SOURCES: Innovata, April 2023 (published airline schedules); Houston Airport System, April 2023.

5.3 HISTORICAL ACTIVITY

The following subsections review the historical passenger activity, air service, and operations at IAH and HOU.

Table 5-7 presents the historical domestic, international, and total enplaned passengers at IAH and HOU from FY 2013 through FY 2023 year to date (YTD) as well as each airport's share of enplaned passengers. Between FY 2013 and FY 2022, domestic enplaned passengers at IAH increased by a CAGR of 0.2 percent compared to a CAGR of 0.9 percent at HOU, resulting in the IAH share of the Airport System's domestic enplaned passengers decreasing from 74.1 percent to 72.5 percent during this period. The CAGR for IAH international enplaned passengers was -0.5 percent between FY 2013 and FY 2022. Prior to FY 2015 there was no nonstop service from HOU to international destinations. Southwest operated its first flights to international destinations from HOU in March 2015. As of FY 2022, HOU represented 9.1 percent of the Airport System's international enplaned passengers. Between FY 2013 and FY 2020 the CAGR for IAH total enplaned passengers was 0.0 percent, 1.8 percent for HOU total enplaned passengers, and 0.4 percent for combined Airport System enplaned passengers. During this period, the IAH share of total enplaned passengers decreased 2.8 percentage points from 78.6 percent to 75.8 percent while HOU's share increased from 21.4 percent to 24.2 percent.

5.3.1 GEORGE BUSH INTERCONTINENTAL/HOUSTON AIRPORT HISTORICAL ACTIVITY

5.3.1.1 IAH ENPLANED PASSENGERS

Table 5-8 presents the historical domestic, international, and total enplaned passengers and annual growth at IAH from FY 2013 to FY 2023 YTD. Total enplaned passengers increased from 19.8 million in FY 2013 to 22.5 million in FY 2019, which represents a CAGR of 2.2 percent. The CAGR for domestic enplaned passengers was 1.7 percent and 3.8 percent for international enplaned passengers. Enplaned passenger activity decreased substantially in FY 2020 and FY 2021 due to the impacts of the COVID-19 pandemic, which are presented in more detail in Section 5.4.1. Enplaned passengers increased 82.4 percent in FY 2022 as demand recovered from the low point experienced in FY 2021. For the period from FY 2013 to FY 2022, total enplaned passengers were virtually unchanged. Domestic enplaned passengers increased from 15.4 million in FY 2013 to 15.6 million in FY 2022, which represents a CAGR of 0.2 percent. During the same period international enplaned passengers decreased from 4.4 million to 4.2 million, which represents a CAGR of -0.4 percent.

The following factors influenced passenger activity at IAH between 2013 and 2022:

- In October 2010 United merged with Continental Airlines (Continental), which prior to the merger operated its largest hub at IAH. Between 2010 and 2013 the consolidated airline reduced capacity at IAH and other hubs as it integrated route networks and rationalized capacity. During this period, United and other US airlines adopted the capacity discipline business model in the domestic market, reducing less profitable capacity with the objective of increasing unit revenues and improving financial performance.
- Growth resumed in FY 2014 as United increased international capacity, launching new nonstop service to Munich, Germany (MUC) and increasing capacity to London Heathrow (LHR) and Tokyo Narita, Japan (NRT). Foreign-flag airlines China Airlines and Korean Airlines launched service from IAH in FY 2015.
- International growth continued in 2015 with United launching nonstop service to Santiago, Chile (SCL) and five foreign-flag airlines, Interjet, EVA Airways, All Nippon Airways, Volaris, and SAS (operated by Privatair) initiating service from IAH.

TABLE 5-7 IAH AND HOU HISTORICAL ENPLANED PASSENGERS AND SHARE OF SYSTEM

YEAR	DOMESTIC ENPLANED PASSENGERS					INTERNATIONAL ENPLANED PASSENGERS					TOTAL ENPLANED PASSENGERS				
	IAH	HOU	TOTAL	IAH SHARE	HOU SHARE	IAH	HOU	TOTAL	IAH SHARE	HOU SHARE	IAH	HOU	TOTAL	IAH SHARE	HOU SHARE
FY 2013	15,364,525	5,376,588	20,741,113	74%	26%	4,391,678	0	4,391,678	100%	0%	19,756,203	5,376,588	25,132,791	79%	21%
FY 2014	15,379,889	5,835,891	21,215,780	72%	28%	4,725,401	0	4,725,401	100%	0%	20,105,290	5,835,891	25,941,181	78%	22%
FY 2015	15,962,984	5,943,358	21,906,342	73%	27%	4,995,571	2,055	4,997,626	100%	0%	20,958,555	5,945,413	26,903,968	78%	22%
FY 2016	15,992,394	6,117,464	22,109,858	72%	28%	5,439,302	265,871	5,705,173	95%	5%	21,431,696	6,383,335	27,815,031	77%	23%
FY 2017	15,399,661	6,219,751	21,619,412	71%	29%	5,330,479	440,506	5,770,985	92%	8%	20,730,140	6,660,257	27,390,397	76%	24%
FY 2018	15,553,497	6,444,575	21,998,072	71%	29%	5,222,231	492,486	5,714,717	91%	9%	20,775,728	6,937,061	27,712,789	75%	25%
FY 2019	16,981,448	6,833,766	23,815,214	71%	29%	5,497,006	495,379	5,992,385	92%	8%	22,478,454	7,329,145	29,807,599	75%	25%
FY 2020	12,554,409	5,005,616	17,560,025	71%	29%	3,972,819	295,936	4,268,755	93%	7%	16,527,228	5,301,552	21,828,780	76%	24%
FY 2021	8,901,097	3,893,713	12,794,810	70%	30%	1,960,251	214,048	2,174,299	90%	10%	10,861,348	4,107,761	14,969,109	73%	27%
FY 2022	15,586,784	5,840,311	21,427,095	73%	27%	4,225,608	427,393	4,653,001	91%	9%	19,812,392	6,267,704	26,080,096	76%	24%
FY 2023 YTD	12,372,241	4,659,181	17,031,422	73%	27%	3,834,411	357,312	4,191,723	91%	9%	16,206,652	5,016,493	21,223,145	76%	24%
CAGR															
FY 2013 – FY 2019	1.7%	4.1%	2.3%			3.8%	NA	5.3%			2.2%	5.3%	2.9%		
FY 2013 – FY 2022	0.2%	0.9%	0.4%			-0.4%	NA	0.6%			0.0%	1.7%	0.4%		

NOTES:

CAGR – Compound Annual Growth Rate

FY 2023 YTD – July 2022 through March 2023.

SOURCE: Houston Airport System, April 2023.

TABLE 5-8 IAH HISTORICAL ANNUAL ENPLANED PASSENGER GROWTH

YEAR	DOMESTIC		INTERNATIONAL		TOTAL	
	ENPLANED PASSENGERS	ANNUAL GROWTH	ENPLANED PASSENGERS	ANNUAL GROWTH	ENPLANED PASSENGERS	ANNUAL GROWTH
FY 2013	15,364,525	-3.1%	4,391,678	1.7%	19,756,203	-2.1%
FY 2014	15,379,889	0.1%	4,725,401	7.6%	20,105,290	1.8%
FY 2015	15,962,984	3.8%	4,995,571	5.7%	20,958,555	4.2%
FY 2016	15,992,394	0.2%	5,439,302	8.9%	21,431,696	2.3%
FY 2017	15,399,661	-3.7%	5,330,479	-2.0%	20,730,140	-3.3%
FY 2018	15,553,497	1.0%	5,222,231	-2.0%	20,775,728	0.2%
FY 2019	16,981,448	9.2%	5,497,006	5.3%	22,478,454	8.2%
FY 2020	12,554,409	-26.1%	3,972,819	-27.7%	16,527,228	-26.5%
FY 2021	8,901,097	-29.1%	1,960,251	-50.7%	10,861,348	-34.3%
FY 2022	15,586,784	75.1%	4,225,608	115.6%	19,812,392	82.4%
FY 2023 YTD	12,372,241	7.1%	3,834,411	31.9%	16,206,652	12.1%
CAGR						
FY 2013 – FY 2019	1.7%		3.8%		2.2%	
FY 2013 – FY 2022	0.2%		-0.4%		0.0%	

NOTES:

CAGR – Compound Annual Growth Rate

FY 2023 YTD – July 2022 through March 2023.

SOURCE: Houston Airport System, April 2023.

- In 2016 domestic enplaned passengers were virtually unchanged from FY 2015 as United reduced domestic capacity at IAH as a decrease in the price of oil resulted in job losses in the Houston area and a short-term decrease in regional economic activity. The decrease in United's domestic capacity was offset by Spirit, which grew from serving 4 domestic destinations from IAH in 2014 to 17 domestic destinations in 2016. International enplaned passengers increased 8.9 percent in FY 2016 as Spirit completed its first full year of service from IAH to 7 international destinations in Mexico and Central America. United increased capacity to most of the destinations served by Spirit. Air New Zealand and WestJet initiated service from IAH in FY 2016.
- Enplaned passengers decreased in FY 2017 as United continued to reduce domestic capacity and discontinued service to Lagos, Nigeria (LOS) and Montreal, Canada (YUL). Spirit discontinued service to 4 out of 7 international destinations, resulting in a 44 percent decrease in international departing seats compared to FY 2016. Emirates transitioned from A380 service to 777-300ER, resulting in an 18 percent decrease in departing seats.
- United represented the largest driver of domestic enplaned passenger growth in FY 2018 due in large part to a 3.6 percent increase in average seats per departure. Spirit's domestic departing seats increased 22.0 percent in FY 2018 on more frequencies on existing routes coupled with a 12.9 percent increase in average seats per departure. International enplaned passengers decreased as Aeroméxico discontinued service to Monterrey, Mexico (MTY) and reduced service to Mexico City, Mexico (MEX). Volaris discontinued service to MEX and reduced service to Guadalajara, Mexico (GDL). Korean Air discontinued all service from IAH during FY 2018.
- FY 2019 was a record year for IAH for both domestic and international enplaned passengers. United represented most of the domestic growth, increasing domestic departing seats 7.0 percent compared to FY 2018 as it implemented a strategy that prioritized growth at its midcontinent hubs (IAH, DEN and ORD) to improve connectivity. American, Delta, Spirit, and Alaska also increased capacity at IAH in FY 2019. International enplaned

passengers increased as several incumbent airlines increased capacity to international destinations. Spirit's international capacity increased 44 percent as it launched nonstop service to Guatemala City, Guatemala (GUA) and reinstated service to San Salvador, El Salvador (SAL). VivaAerobus transitioned from 3 weekly flights to Monterrey, Mexico (MTY) in FY 2018 to daily service in FY 2019, driving a 71 percent increase in departing seats. Emirates departing seat capacity increased 18 percent as it transitioned from 777-300ER operations back to A380 operations. Air China increased service to Beijing Capital, China (PEK) from 5 to 6 days a week and added a once weekly continuing flight to Panama City, Panama (PTY), driving a 41 percent increase in departing seats.

- Enplaned passengers decreased in FY 2020 and FY 2021 due to the impact of the COVID-19 pandemic on demand for air travel. Enplaned passengers increased 82.4 percent in FY 2022 compared to FY 2021 as demand recovered from the low point of the pandemic. FY 2023 YTD (July 2022 through March 2023) total enplaned passengers increased 12.1 percent compared to the same months in FY 2022 as airlines continued to restore capacity. The impact of the COVID-19 pandemic on airport activity is presented in more detail in Section 5.4.1.

Table 5-9 presents the historical connecting and O&D passengers at IAH from FY 2013 through FY 2023 YTD. Connecting passengers decreased from 10.5 million in FY 2013 to 10.1 million in FY 2019, which represents a CAGR of -0.7 percent. O&D passengers increased from 9.2 million in FY 2013 to 12.4 million in FY 2019, which represents a CAGR of 5.0 percent. During this period O&D passengers share of total passengers increased from 46.7 percent to 55.2 percent. The faster rate of growth of O&D passengers was due in part to the growth of Ultra-Low-Cost Carriers (ULCCs) Spirit and Frontier, which employ a point-to-point business model and accommodate very few connecting passengers. For the period FY 2013 to FY 2022, the CAGR was -2.6 percent for connecting passengers and 2.5 percent for O&D passengers, with O&D passengers share of 58.1 percent of total passengers in FY 2022.

TABLE 5-9 IAH HISTORICAL CONNECTING AND O&D PASSENGERS

YEAR	ENPLANED PASSENGERS				
	CONNECTING	CONNECTING PERCENT OF TOTAL	O&D	O&D PERCENT OF TOTAL	TOTAL
FY 2013	10,521,105	53.3%	9,235,098	46.7%	19,756,203
FY 2014	10,452,170	52.0%	9,653,120	48.0%	20,105,290
FY 2015	10,504,885	50.1%	10,453,670	49.9%	20,958,555
FY 2016	10,301,326	48.1%	11,130,370	51.9%	21,431,696
FY 2017	9,602,708	46.3%	11,127,432	53.7%	20,730,140
FY 2018	9,443,423	45.5%	11,332,305	54.5%	20,775,728
FY 2019	10,067,653	44.8%	12,410,801	55.2%	22,478,454
FY 2020	7,252,407	43.9%	9,274,821	56.1%	16,527,228
FY 2021	4,444,726	40.9%	6,416,622	59.1%	10,861,348
FY 2022	8,300,608	41.9%	11,511,784	58.1%	19,812,392
FY 2023 YTD	6,373,124	39.3%	9,833,528	60.7%	16,206,652
CAGR					
FY 2013 – FY 2019	-0.7%		5.0%		2.2%
FY 2013 – FY 2022	-2.6%		2.5%		0.0%

NOTES:

CAGR – Compound Annual Growth Rate

FY 2023 YTD – July 2022 through March 2023.

SOURCE: Houston Airport System, April 2023.

Table 5-10 presents IAH enplaned passengers by airline from FY 2018 through FY 2022. United, inclusive of its regional subsidiaries, operates a hub at IAH and has maintained over 73 percent of total enplaned passengers during this period. Spirit was the second largest airline (excluding regional affiliates) in terms of enplaned passengers in FY 2022, growing its share from 5.2 percent in 2018 to 6.6 percent in FY 2022.

5.3.1.2 IAH AIR SERVICE

An important characteristic of airport activity is the distribution of an airport's O&D markets, which is a function of air travel demand and available services and facilities. **Table 5-11** presents data on the top 30 domestic O&D markets from IAH in FY 2022, as measured by the number of total O&D passengers. Given IAH's central location in the United States, the largest domestic O&D markets by total passenger volume are predominately medium-haul markets between 601 and 1,800 miles in length. Only 4 of the top 50 O&D domestic markets from IAH are long-haul (Seattle, Portland, San Juan, and Honolulu), with an additional 7 of IAH's top 50 domestic markets classified as short-haul. The remaining 39 of the top 50 domestic O&D markets are medium-haul, including all of the top 10 O&D domestic markets. In October 2022, all top 50 domestic O&D markets had at least seven or more weekly nonstop flights to/from IAH. The top 50 Domestic O&D markets had an average stage length (i.e., passenger trip distance) of 1,042 miles, compared to an average stage length of 1,152 miles nationwide. The average stage length for IAH has historically been relatively equal to that for the nation, reflecting IAH's central US location and the strong demand for service to East Coast markets, such as New York/Newark, Washington, DC, Orlando, and Boston, as well as to West Coast markets, such as Los Angeles, Phoenix, and Las Vegas.

Exhibit 5-1 illustrates the domestic markets served nonstop from IAH. During CY 2023 airlines have scheduled 423 average daily departures to 113 domestic destinations. **Exhibit 5-2** illustrates the international markets served nonstop from IAH. During CY 2023 airlines have scheduled an 111 average daily departures to 66 international destinations served nonstop.

5.3.1.3 UNITED AIRLINES HUB AT IAH

IAH has played a critical and strategic role in the route network of United Airlines, which is the second largest airline globally in terms of scheduled available seat miles (ASMs) in the calendar year 2022. In FY 2022, United represented 74.1 percent of total IAH enplaned passengers. As presented in **Table 5-12**, United operates its third largest hub at IAH in terms of scheduled average daily departures in FY 2023. IAH ranks fourth in terms of scheduled average daily departing seats. **Table 5-13** presents the number of domestic, international, and total destinations served from each of United's hubs in FY 2023. IAH ranks third in domestic destinations served, second in international destinations served, and third in terms of total destinations served.

IAH is a critical international gateway for United. As presented in **Exhibit 5-3**, IAH ranks second among United's hubs in terms of scheduled departing seats to international destinations in FY 2023. It is United's largest gateway to Latin America, with more than twice as many scheduled departing seats to that region as the Newark Liberty International Airport (EWR), the second largest hub in terms of scheduled departing seats to Latin America and the Caribbean. United also serves transatlantic, transpacific, and Canadian destinations nonstop from IAH.

TABLE 5-10 IAH ENPLANED PASSENGERS BY AIRLINE

RANK	AIRLINE	FY 2018		FY 2019		FY 2020		FY 2021		FY 2022	
		ENPLANED PASSENGERS	SHARE	ENPLANED PASSENGERS	SHARE	ENPLANED PASSENGERS	SHARE	ENPLANED PASSENGERS	SHARE	ENPLANED PASSENGERS	SHARE
	United Airlines Combined	16,071,105	77.4%	17,418,906	77.5%	12,532,207	75.8%	7,982,612	73.5%	14,687,040	74.1%
1	United	11,429,068	55.0%	12,184,231	54.2%	8,466,184	51.2%	5,118,917	47.1%	10,596,104	53.5%
2	Mesa (American Eagle, and United Express)	2,048,829	9.9%	2,608,813	11.6%	2,024,665	12.3%	1,655,752	15.2%	2,125,489	10.7%
3	Spirit	1,077,502	5.2%	1,219,239	5.4%	1,019,630	6.2%	982,963	9.1%	1,303,551	6.6%
4	SkyWest (American Eagle, Delta Connection, and United Express)	437,048	2.1%	436,142	1.9%	440,430	2.7%	657,002	6.0%	1,017,161	5.1%
5	American	836,110	4.0%	1,061,263	4.7%	746,683	4.5%	476,587	4.4%	874,612	4.4%
6	Delta	394,862	1.9%	572,626	2.5%	643,049	3.9%	404,232	3.7%	813,897	4.1%
7	Southwest	0	0.0%	0	0.0%	0	0.0%	94,128	0.9%	546,955	2.8%
8	VivaAerobus	19,472	0.1%	42,044	0.2%	45,160	0.3%	141,745	1.3%	180,000	0.9%
9	Frontier	142,742	0.7%	96,246	0.4%	148,371	0.9%	160,355	1.5%	167,854	0.8%
10	Aeroméxico	77,931	0.4%	71,472	0.3%	58,603	0.4%	79,694	0.7%	141,009	0.7%
11	Volaris	18,669	0.1%	29,106	0.1%	27,821	0.2%	72,501	0.7%	106,213	0.5%
12	Alaska	91,521	0.4%	93,278	0.4%	81,364	0.5%	50,676	0.5%	91,560	0.5%
13	Qatar	76,809	0.4%	78,054	0.3%	64,619	0.4%	30,867	0.3%	86,537	0.4%
14	Turkish	93,926	0.5%	97,288	0.4%	71,249	0.4%	44,540	0.4%	84,111	0.4%
15	Lufthansa	137,381	0.7%	143,571	0.6%	88,713	0.5%	27,508	0.3%	80,762	0.4%
	Other	3,893,858	18.7%	0	0.0%	36,086	0.2%	36,731	0.3%	80,672	0.4%
	Airport Total	20,775,728	100.0%	22,478,454	100.0%	16,527,228	100.0%	10,861,348	100.0%	19,812,392	100.0%

SOURCE: Houston Airport System, April 2023.

TABLE 5-11 IAH TOP 30 DOMESTIC O&D MARKETS IN FY 2022

RANK	MARKET	TOTAL O&D PASSENGERS ¹	WEEKLY NONSTOP DEPARTURES ²	NUMBER OF AIRLINES ³	AIRLINES ⁴
1	New York City ⁵	1,381,713	159	5	AA, B6, DL, NK, UA
2	Los Angeles ⁶	1,112,954	130	4	AA, DL, NK, UA
3	Miami ⁷	854,503	111	3	AA, NK, UA
4	Chicago ⁸	849,814	102	4	AA, NK, UA, WN
5	Denver	762,720	99	4	F9, NK, UA, WN
6	Las Vegas	761,458	77	5	F9, NK, SY, UA, WN
7	Orlando	717,924	77	4	F9, NK, UA, WN
8	Washington DC ⁹	605,101	98	2	NK, UA
9	Atlanta	565,517	86	4	DL, F9, NK, UA
10	San Francisco ¹⁰	453,036	67	1	UA
11	Boston ¹¹	389,697	32	2	B6, UA
12	Detroit	359,906	54	3	DL, NK, UA
13	Seattle ¹²	346,742	36	2	AS, UA
14	Dallas ¹³	310,794	143	3	AA, UA, WN
15	Philadelphia	309,758	36	4	AA, F9, NK, UA
16	Phoenix	293,892	53	3	AA, UA, WN
17	New Orleans	254,126	73	3	NK, UA, WN
18	Charlotte	243,583	46	2	AA, UA
19	Tampa	242,057	34	3	NK, UA, WN
20	Nashville	240,373	63	2	UA, WN
21	Salt Lake City	234,279	50	2	DL, UA
22	Minneapolis	230,832	46	3	DL, SY, UA
23	San Diego	227,857	30	2	NK, UA
24	Pittsburgh	149,510	22	1	UA
25	Portland	138,845	15	1	UA
26	Raleigh	136,711	20	1	UA
27	Cleveland	133,003	20	1	UA
28	San Juan	127,784	19	1	UA
29	Midland/Odessa	118,028	39	1	UA
30	Kansas City	113,934	28	1	UA
	Other Markets	4,097,164			
	Total	16,763,616			

NOTES:

1 Represents passengers traveling in both directions.

2 Weekly nonstop departures rounded to nearest integer value.

3 Regional affiliates are counted as part of their mainline carrier.

4 AA – American Airlines; AS – Alaska Airlines; B6 – JetBlue Airways; DL – Delta Air Lines; F9 – Frontier Airlines; NK – Spirit Airlines; UA – United Airlines; WN – Southwest Airlines

5 Includes John F. Kennedy International (JFK), Newark Liberty International (EWR), LaGuardia (LGA), Westchester County (HPN), and Long Island MacArthur (ISP) Airports.

6 Includes Los Angeles International (LAX), John Wayne (Orange County) (SNA), Ontario International (ONT), Hollywood Burbank (BUR), and Long Beach (LGB) Airports.

7 Includes Miami (MIA), Fort Lauderdale–Hollywood (FLL), and Palm Beach (PBI) International Airports.

8 Includes O'Hare (ORD) and Midway (MDW) International Airports.

9 Includes Washington Dulles International (IAD), Ronald Reagan Washington National (DCA), and Baltimore/Washington International Thurgood Marshall (BWI) Airports.

10 Includes San Francisco (SFO), Oakland (OAK), and Norman Y. Mineta San Jose (SJC) International Airports.

11 Includes Boston Logan International (BOS), Rhode Island T. F. Green International (PVD), and Manchester-Boston Regional (MHT) Airports.

12 Includes Seattle-Tacoma International Airport (SEA) and Paine Field (PAE).

13 Includes Dallas Fort Worth International Airport (DFW) and Dallas Love Field (DAL).

SOURCES: US Department of Transportation, O&D Survey, November 2022; Innovata, November 2022 (published airline schedules).



SOURCES: Esri, 2010 (continent boundary); US Census Bureau, 2022 (state boundary); Esri, 2021 (airports); Cirium, Diio Miles per Hour Report, May 2023 (airline schedule data); Ricondo & Associates, Inc., May 2023 (routes).



NORTH

0 600 mi

EXHIBIT 5-1

GEORGE BUSH INTERCONTINENTAL AIRPORT NONSTOP DOMESTIC MARKETS



SOURCES: Esri, 2010 (continent boundary); US Census Bureau, 2022 (state boundary); Esri, 2022 (airports); Cirium, Diio Mi Schedule Dynamic Table Report, May 2023 (airline schedule data); Ricondo & Associates, Inc., May 2023 (routes).



EXHIBIT 5-2

GEORGE BUSH INTERCONTINENTAL AIRPORT
NONSTOP INTERNATIONAL MARKETS

TABLE 5-12 UNITED AIRLINES AVERAGE DAILY DEPARTURES AND DEPARTING SEATS BY HUB IN FISCAL YEAR 2023

HUB	AVERAGE DAILY DEPARTURES		AVERAGE DAILY DEPARTING SEATS	
	DEPARTURES	HUB RANKING	SEATS	HUB RANKING
Chicago O'Hare International	448	1	53,490	2
Denver International	425	2	53,661	1
George Bush Intercontinental/Houston	398	3	50,582	4
Newark Liberty International	379	4	52,719	3
San Francisco International	212	5	34,695	5
Washington Dulles International	198	6	25,179	6
Los Angeles International	102	7	17,237	7

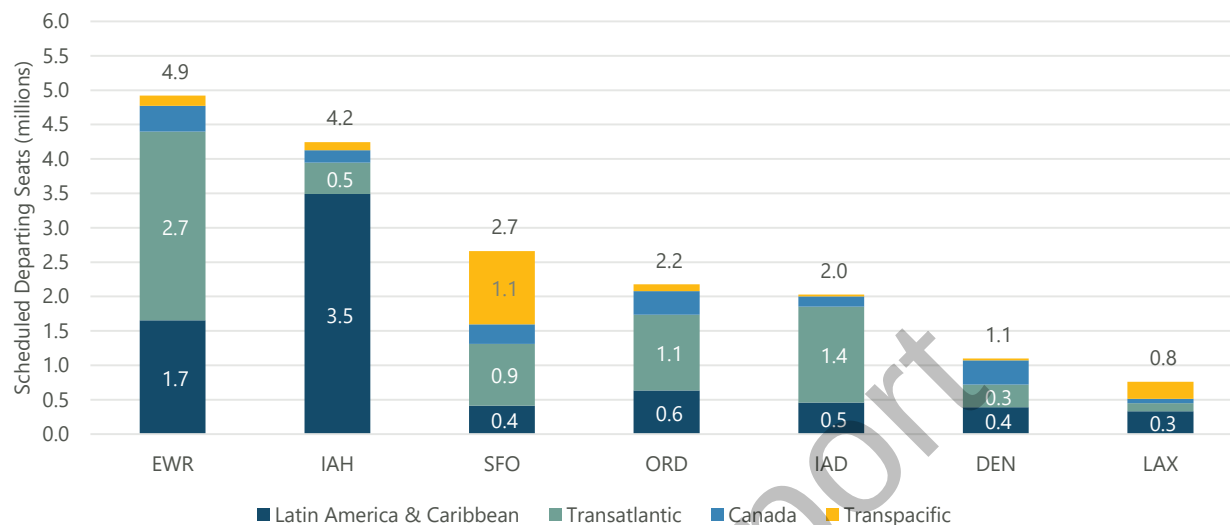
SOURCE: Innovata, April 2023 (published airline schedules).

TABLE 5-13 UNITED AIRLINES DESTINATIONS SERVED BY HUB IN FISCAL YEAR 2023

HUB	DOMESTIC		INTERNATIONAL		TOTAL	
	DESTINATIONS SERVED	HUB RANKING	DESTINATIONS SERVED	HUB RANKING	DESTINATIONS SERVED	HUB RANKING
Chicago O'Hare International	156	2	43	3	199	1
Denver International	161	1	17	6	178	2
George Bush Intercontinental/Houston	113	3	56	2	169	3
Newark Liberty International	91	4	74	1	165	4
Washington Dulles International	72	6	41	4	113	5
San Francisco International	77	5	29	5	106	6
Los Angeles International	53	7	17	6	70	7

SOURCE: Innovata, April 2023 (published airline schedules).

EXHIBIT 5-3 UNITED AIRLINES SCHEDULED INTERNATIONAL DEPARTING SEATS IN FISCAL YEAR 2023



SOURCE: Innovata, April 2023 (published airline schedules).

IAH provides United access to the large and diverse Houston O&D market as well as a geographic location that enables connectivity across United's vast network of domestic and international destinations. United schedules flights around arrival and departure banks that support efficient connecting passenger itineraries. **Table 5-14** presents the distribution of United's connecting and O&D passengers at IAH from FY 2013 through FY 2022. United's connecting passengers decreased from 10.5 million in FY 2013 to 9.9 million in FY 2019, which represents a CAGR of -1.0 percent. During the same period United's O&D passenger increased from 6.1 million in FY 2013 to 7.6 million in FY 2019, which represents a CAGR of 3.6 percent.

5.3.1.4 IAH AIRCRAFT OPERATIONS

Table 5-15 presents historical passenger airline operations, average seats per departure, and average load factor at IAH from FY 2013 through FY 2022. Passenger airline operations decreased from 470,758 in FY 2013 to 390,480 in FY 2022, which represents a -2.1 percent CAGR. During this period average seats per departure increased from 100 to 125 and average load factor decreased from 80.8 percent to 79.1 percent.

TABLE 5-14 UNITED AIRLINES CONNECTING AND O&D PASSENGERS AT IAH

YEAR	CONNECTING	CONNECTING PERCENT OF TOTAL	ENPLANED PASSENGERS		
			O&D	O&D PERCENT OF TOTAL	TOTAL
FY 2013	10,471,469	63.1%	6,122,992	36.9%	16,594,461
FY 2014	10,351,936	62.9%	6,107,597	37.1%	16,459,533
FY 2015	10,417,326	62.1%	6,361,154	37.9%	16,778,480
FY 2016	10,183,225	61.2%	6,461,954	38.8%	16,645,179
FY 2017	9,428,353	58.7%	6,645,735	41.3%	16,074,088
FY 2018	9,275,006	57.7%	6,796,099	42.3%	16,071,105
FY 2019	9,868,094	56.7%	7,550,812	43.3%	17,418,906
FY 2020	7,041,974	56.2%	5,490,233	43.8%	12,532,207
FY 2021	4,226,590	52.9%	3,756,022	47.1%	7,982,612
FY 2022	7,969,923	54.3%	6,717,117	45.7%	14,687,040
CAGR					
FY 2013 – FY 2019	-1.0%		3.6%		0.8%
FY 2013 – FY 2022	-3.0%		1.0%		-1.3%

NOTE:

Includes United and United regional affiliate airlines.

SOURCE: Houston Airport System, April 2023.

TABLE 5-15 IAH PASSENGER AIRLINE OPERATIONS

YEAR	PASSENGER AIRLINE OPERATIONS	AVERAGE SEATS PER DEPARTURE	AVERAGE LOAD FACTOR
FY 2013	470,758	100	80.8%
FY 2014	468,600	100	82.2%
FY 2015	476,952	104	81.2%
FY 2016	457,728	111	81.6%
FY 2017	431,282	113	82.0%
FY 2018	420,074	117	81.7%
FY 2019	441,892	120	82.6%
FY 2020	355,132	117	76.6%
FY 2021	266,202	114	68.4%
FY 2022	390,480	125	79.1%
CAGR			
2013 – 2019	-1.0%	3.0%	
2013 – 2022	-2.1%	2.5%	

NOTE:

Average load factor represents revenue passengers only.

SOURCE: US Department of Transportation, T-100 Database, April 2023.

Table 5-16 presents the historical air carrier, air taxi and commuter, general aviation, and military operations at IAH from FY 2013 through FY 2023 YTD. Air carrier operations increased from 273,346 in FY 2013 to 342,806 in FY 2022, which represents a CAGR of 2.6 percent. During the same period air taxi and commuter operations decreased from 217,683 in FY 2013 to 71,226 in FY 2022, which represents a CAGR of -17.7 percent. The forecast increase in average passenger airline seats per departure (as presented in Table 5-15) is reflective of the decrease in air taxi and commuter operations. The CAGR for general aviation operations was -4.7 percent between FY 2013 and FY 2022. Total operations decreased from 503,424 in FY 2013 to 422,143 in FY 2022, which represents a CAGR of -1.9 percent.

TABLE 5-16 IAH TOTAL OPERATIONS

YEAR	OPERATIONS				
	AIR CARRIER ¹	AIR TAXI / COMMUTER ²	GENERAL AVIATION ³	MILITARY	TOTAL
FY 2013	273,346	217,683	12,110	285	503,424
FY 2014	275,795	214,539	12,891	471	503,696
FY 2015	308,833	188,956	11,978	367	510,134
FY 2016	344,170	132,836	11,553	630	489,189
FY 2017	335,183	115,773	11,198	136	462,290
FY 2018	346,595	93,269	11,171	477	451,512
FY 2019	368,459	94,198	10,751	105	473,513
FY 2020	306,832	70,597	8,257	219	385,905
FY 2021	230,427	57,963	6,392	163	294,945
FY 2022	342,896	71,226	7,876	145	422,143
FY 2023 YTD	250,779	44,707	6,577	123	302,186
CAGR					
2013 – 2019	5.1%	-13.0%	-2.0%	-15.3%	-1.0%
2013 – 2022	2.6%	-11.7%	-4.7%	-7.2%	-1.9%

NOTES:

FY 2023 YTD – July 2022 through March 2023.

1 Air carrier includes aircraft with seating capacity of more than 60 seats or a maximum payload capacity of more than 18,000 pounds carrying passengers or cargo for hire or compensation.

2 Air taxi and commuter includes aircraft with seating capacity of 60 seats or less or a maximum payload capacity of 18,000 pounds or less carrying passengers or cargo for hire or compensation.

3 General aviation includes all civil aviation that is not for hire or compensation and excludes military operations. Activity includes flying for personal or corporate reasons and pilot training.

SOURCE: Houston Airport System, April 2023.

5.3.1.5 IAH LANDED WEIGHT

Table 5-17 presents the historical passenger airline and all-cargo landed weight at IAH between FY 2013 and FY 2023 YTD. Between FY 2013 and FY 2022 the passenger airline landed weight CAGR was -0.1 percent. During the same period, the all-cargo airline CAGR was 3.8 percent and 0.2 percent for all airlines.

TABLE 5-17 IAH LANDED WEIGHT

YEAR	PASSENGER AIRLINES	ALL-CARGO	TOTAL	ANNUAL GROWTH
FY 2013	24,779,645	1,635,298	26,414,942	-0.3%
FY 2014	25,093,235	1,709,899	26,803,134	1.5%
FY 2015	26,246,566	1,789,582	28,036,149	4.6%
FY 2016	26,660,091	1,666,128	28,326,219	1.0%
FY 2017	25,513,255	1,679,420	27,192,674	-4.0%
FY 2018	25,181,045	1,948,536	27,129,581	-0.2%
FY 2019	26,917,988	2,255,670	29,173,658	7.5%
FY 2020	21,197,537	2,472,152	23,669,689	-18.9%
FY 2021	15,478,782	2,283,326	17,762,109	-25.0%
FY 2022	24,650,269	2,285,613	26,935,882	51.6%
FY 2023 YTD	19,234,105	1,770,419	21,004,524	3.2%
CAGR				
2013 – 2019	1.4%	5.5%	1.7%	
2013 – 2021	-0.1%	3.8%	0.2%	

NOTE:

FY 2023 YTD – July 2022 through March 2023.

SOURCE: Houston Airport System, April 2023.

5.3.2 WILLIAM P. HOBBY AIRPORT HISTORICAL ACTIVITY

5.3.2.1 HOU ENPLANED PASSENGERS

Table 5-18 presents the historical domestic, international, and total enplaned passengers and annual growth at HOU from FY 2013 to FY 2023 YTD. Total enplaned passengers increased from 5.4 million in FY 2013 to 7.3 million in FY 2019, which represents a CAGR of 5.3 percent; the CAGR for domestic enplaned passengers was 4.1 percent. International services from HOU commenced during this period, growing to 495,000 international enplaned passengers in FY 2019. Enplaned passenger activity decreased substantially in FY 2020 and 2021 due to the impacts of the COVID-19 pandemic, which are presented in more detail in Section 5.4.1. Total enplaned passengers increased 54.4 percent and international enplaned passengers increased 99.6 percent in FY 2022 as demand recovered from the low point experienced in FY 2021. Total enplaned passengers increased from 5.4 million in FY 2013 to 6.3 million in FY 2022, which represents a CAGR of 1.8 percent. Domestic enplaned passengers increased from 5.4 million to 5.8 million in FY 2022, which represents a CAGR of 1.1 percent. The remainder of the growth in total enplaned passengers is a result of the commencement of international services.

TABLE 5-18 HOU HISTORICAL ANNUAL ENPLANED PASSENGER GROWTH

YEAR	DOMESTIC		INTERNATIONAL		TOTAL	
	ENPLANED PASSENGERS	ANNUAL GROWTH	ENPLANED PASSENGERS	ANNUAL GROWTH	ENPLANED PASSENGERS	ANNUAL GROWTH
FY 2013	5,376,588	4.8%	0	NA	5,376,588	4.8%
FY 2014	5,835,891	8.5%	0	NA	5,835,891	8.5%
FY 2015	5,943,358	1.8%	2,055	NA	5,945,413	1.9%
FY 2016	6,117,464	2.9%	265,871	NM	6,383,335	7.4%
FY 2017	6,219,751	1.7%	440,506	65.7%	6,660,257	4.3%
FY 2018	6,444,575	3.6%	492,486	11.8%	6,937,061	4.2%
FY 2019	6,833,766	6.0%	495,379	0.6%	7,329,145	5.7%
FY 2020	5,005,616	-26.8%	295,936	-40.3%	5,301,552	-27.7%
FY 2021	3,893,743	-22.2%	214,048	-27.7%	4,107,791	-22.5%
FY 2022	5,840,311	50.0%	427,393	99.7%	6,267,704	52.6%
FY 2023 YTD	4,659,181	9.9%	357,312	18.8%	5,016,493	10.5%
CAGR						
2013 – 2019	4.1%		NA		5.3%	
2013 – 2022	0.9%		NA		1.7%	

NOTE:

FY 2023 YTD – July 2022 through March 2023.

SOURCE: Houston Airport System, April 2023.

The following factors influenced passenger activity at HOU between 2013 and 2022:

- Total passengers increased 4.8 percent in FY 2013 as Southwest grew capacity between HOU and Hartsfield-Jackson Atlanta International Airport (ATL) and integrated its network with merger partner AirTran Airways, that operated its largest base of operations at ATL prior to the merger. Southwest also launched nonstop service to six destinations in FY 2013: Indianapolis International (IND), John Wayne (Orange County) (SNA), Charlotte Douglas International (CLT), Pittsburgh International (PIT), LaGuardia Airport (New York) (LGA), and Boston Logan International (BOS) Airports.
- Southwest's growth at HOU continued in FY 2014, driving an 8.5 percent increase in passengers that year. A full year of service to destinations launched in FY 2013 represented most of Southwest's capacity growth that year. Southwest also launched service to 6 new domestic destinations in FY 2014: Pensacola (PNS), Memphis (MEM), Portland (PDX), Luis Muñoz Marín (San Juan) (SJU), Salt Lake City (SLC), and Lubbock Preston Smith (LBB) International Airports. JetBlue initiated service from HOU to BOS in FY 2014.
- Southwest slowed its growth at HOU in FY 2015. The October 2014 expiration of the Wright Amendment, which had restricted activity at Dallas Love Field (DAL), enabled Southwest to expand its service from DAL. Southwest no longer needed to direct DAL traffic through HOU to reach destinations beyond Texas or nearby states. The decrease in capacity between HOU and DAL was nearly offset by increased capacity from HOU to MEM, LGA, and Midland International Air & Space Port (MAF). In March 2015 Southwest launched its first international route from HOU to Queen Beatrix International Airport (Aruba) (AUA), which has US Customs and Border Protection (US CBP) preclearance facilities.
- Total passengers increased 7.4 percent in FY 2016 due in large part to new international service launched that year. The completion of a terminal expansion at HOU with US CBP FIS and five new gates that could

accommodate international service enabled Southwest to launch service to 8 international destinations in Mexico, Central America, and the Caribbean.

- International passenger growth drove most of the 4.3 percent total passenger growth in FY 2017 on a full year of service for routes launched during FY 2016. Southwest also launched service to Eppley Airfield (Omaha) (OMA) and increased capacity between HOU and Austin-Bergstrom International Airport (AUS), DAL and San Antonio International Airport (SAT).
- In FY 2018 domestic passengers increased 3.6 percent as Southwest launched service from HOU to Milwaukee Mitchell International (MKE), Norman Y. Mineta San Jose International (SJC), and Columbus John Glenn International (CMH) Airports and grew capacity to other Southwest focus cities, including DAL, ATL, Midway International (Chicago) (MDW) and Fort Lauderdale–Hollywood International (FLL) Airports. International passengers increased 11.8 percent as routes launched in FY 2016 and FY 2017 matured and load factors increased.
- FY 2019 was a record year at HOU for domestic and international passengers. Domestic enplaned passengers increased 6.0 percent as Southwest resumed service to Philadelphia International Airport (PHL) that had been suspended since FY 2013 and commenced service to Louisville Muhammad Ali International (SDF), Hollywood Burbank (BUR), and Sacramento International (SMF) Airports. International enplaned passengers increased 0.6 percent as growth to Mexico beach destinations was largely offset by the discontinuation of service to Benito Juárez International Airport (Mexico City) (MEX).
- Total passengers decreased 27.7 percent in FY 2020 due to a drop in demand related to the onset of the COVID-19 pandemic midway through FY 2020. Allegiant launched service to HOU in FY 2020, adding four new destinations, Asheville Regional Airport (AVL), Savannah/Hilton Head International Airport (SAV), McGhee Tyson Field (Knoxville) (TYS), and Destin-Fort Walton Beach Airport (VPS), while Southwest added two destinations, resuming service to Bill and Hillary Clinton National Airport (Little Rock) (LIT) that had been suspended in FY 2015 and commencing service to Cozumel International Airport (CZM) in Mexico. JetBlue transferred all Houston service from HOU to IAH during FY 2020.
- Total passengers decreased 22.7 percent in FY 2021 due to the continuing effects of the COVID-19 pandemic on demand. Allegiant added service to four new destinations, Phoenix-Mesa Gateway (AZA), Blue Grass (Lexington) (LEX), Punta Gorda (PGD), and Springfield-Branson National (SGF) Airports, and Southwest added service on existing Allegiant routes to SAV and VPS. Southwest also commenced flights to eight new domestic destinations and resumed service to three previously served destinations.
- In FY 2022, demand recovered from the low point experienced in FY 2021, with total passengers increasing 55.5 percent, including international passengers doubling from FY 2021 to FY 2022 as travel restrictions eased. Frontier returned to HOU after an eight-year absence, adding service to Cancun International (CUN), Harry Reid International (Las Vegas) (LAS), and Orlando International (MCO) Airports. Service from Frontier to HOU complemented existing service at IAH, which grew 3.2 percent relative to FY 2021. Southwest launched winter seasonal service to three new destinations in Colorado: Colorado Springs Airport (COS), Yampa Valley Regional Airport (HDN), and Montrose Regional Airport (MTJ). Allegiant launched service to Des Moines International Airport (DSM), Provo Airport (PVU), and Northwest Arkansas National Airport (XNA).

Table 5-19 presents the historical connecting and O&D passengers at HOU from FY 2013 to FY 2023 YTD. Connecting passengers increased from 1.4 million in FY 2013 to 2.3 million in FY 2019, which represents a CAGR of 8.7 percent. Connecting passengers as a percentage of the total passengers increased from 26.4 percent to 34.4 percent from FY 2013 to FY 2022. This trend was largely driven by growth in connecting passenger itineraries provided by Southwest Airlines, the largest airline at HOU by scheduled flights and departing seats throughout the

period. During the period from FY 2013 to FY 2022, Southwest inaugurated international service from HOU, which is described in more detail in Section 5.3.2.3. Connecting passengers peaked in FY 2019, though connecting passengers as a percentage of total passengers continued to grow through the period of reduced total passenger demand due to the COVID-19 pandemic, and the growth during the FY 2013 to FY 2022 period from 1.4 million connecting passengers to 2.2 million connecting passengers represents, a CAGR of 4.8 percent. O&D passengers decreased from 4.0 million in FY 2013 to 4.1 million in FY 2022, representing a CAGR of 0.4 percent, while total enplaned passengers increased from 5.4 million in FY 2013 to 6.3 million in FY 2022, which represents a CAGR of 1.7 percent.

TABLE 5-19 HOU HISTORICAL CONNECTING AND O&D PASSENGERS

FISCAL YEAR	ENPLANED PASSENGERS				
	CONNECTING	CONNECTING PERCENT OF TOTAL	O&D	O&D PERCENT OF TOTAL	TOTAL
2013	1,416,922	26.4%	3,959,666	73.6%	5,376,588
2014	1,701,165	29.2%	4,134,726	70.8%	5,835,891
2015	1,674,247	28.2%	4,271,166	71.8%	5,945,413
2016	1,687,702	26.4%	4,695,633	73.6%	6,383,335
2017	1,807,446	27.1%	4,852,811	72.9%	6,660,257
2018	2,107,238	30.4%	4,829,823	69.6%	6,937,061
2019	2,332,635	31.8%	4,996,510	68.2%	7,329,145
2020	1,644,721	31.0%	3,656,831	69.0%	5,301,552
2021	1,396,968	34.0%	2,710,793	66.0%	4,107,761
2022	2,155,636	34.4%	4,112,068	65.6%	6,267,704
FY 2023 YTD	1,660,837	33.1%	3,355,656	66.9%	5,016,493
CAGR					
2013 – 2019	8.7%		4.0%		5.3%
2013 – 2022	4.8%		0.4%		1.7%

NOTE:

FY 2023 YTD – July 2022 through March 2023.

SOURCE: Houston Airport System, April 2023.

Table 5-20 presents HOU enplaned passengers by airline from FY 2018 through FY 2022. Southwest operates a focus city at HOU and has maintained over 90 percent of total enplaned passengers during this period. Delta has historically been the second largest airline at HOU (excluding regional affiliates) in terms of enplaned passengers and has maintained an approximately 3.0 percent share in the period presented.

TABLE 5-20 HOU ENPLANED PASSENGERS BY AIRLINE

RANK	AIRLINE	2018		2019		2020		2021		2022	
		ENPLANED PASSENGERS	SHARE	ENPLANED PASSENGERS	SHARE	ENPLANED PASSENGERS	SHARE	ENPLANED PASSENGERS	SHARE	ENPLANED PASSENGERS	SHARE
1	Southwest	6,478,265	93.4%	6,867,092	93.7%	5,010,818	94.5%	3,847,011	93.7%	5,867,586	93.6%
2	Delta	200,910	2.9%	224,751	3.1%	138,358	2.6%	118,363	2.9%	174,048	2.8%
3	Mesa (American Eagle)	128,376	1.9%	107,730	1.5%	95,768	1.8%	98,343	2.4%	130,955	2.1%
4	Allegiant		0.0%		0.0%	1,816	0.0%	31,249	0.8%	79,934	1.3%
5	Frontier								0.0%	8,838	0.1%
6	Sun Country		0.0%		0.0%	2,150	0.0%	2,625	0.1%	3,647	0.1%
7	SkyWest (American Eagle and Delta Connection)		0.0%	16,670	0.2%	9,209	0.2%	1,533	0.0%	2,004	0.0%
8	Envoy Air (American Eagle)	15,583	0.2%	10,638	0.1%	13,304	0.3%	8,634	0.2%	676	0.0%
	Other	24,621	0.4%	13,899	0.2%	4	0.0%	3	0.0%	16	0.0%
Airport Total		6,937,061	100.0%	7,329,145	100.0%	5,301,552	100.0%	4,107,761	100.0%	6,267,704	100.0%

SOURCE: Houston Airport System, April 2023.

5.3.2.2 HOU AIR SERVICE

An important characteristic of airport activity is the distribution of an airport's O&D markets, which is a function of air travel demand and available services and facilities. **Table 5-21** presents data on HOU's top 30 domestic O&D markets in FY 2022, as measured by the number of total O&D passengers. Given the Airport's central location in the United States, the domestic O&D markets are largely medium-haul (between 601 and 1,800 miles) markets; 23 of the top 30 domestic O&D markets are medium-haul markets, with the remainder being short-haul (600 or fewer miles) markets. The average stage length of HOU's top 30 domestic markets is 891 miles, 23.7 percent shorter than the nationwide average stage length. The Airport's lower average stage length relative to the rest of the United States reflects HOU's focus city role in Southwest Airlines' network, as the airline focuses primarily on medium-haul and short-haul services, particularly from its midcontinent focus cities. Southwest Airlines provides nonstop service to all HOU's top 30 domestic O&D markets, which include several other Southwest Airlines focus cities; major cities on the East Coast, West Coast, and the midcontinent; as well as other key regional destinations, including New Orleans, Midland/Odessa, and El Paso.

Exhibit 5-4 illustrates the markets served nonstop from HOU. During CY 2023 airlines have scheduled 129 average daily departures to 69 domestic destinations and 8 average daily departures to 9 international destinations.

5.3.2.3 SOUTHWEST AIRLINES FOCUS CITY AT HOU

Southwest is the third largest US airline in terms of total scheduled seat capacity and the second largest US airline in terms of domestic scheduled seat capacity in FY 2022. Unlike American, Delta, and United, Southwest does not operate large connecting hubs with flights scheduled around arrival and departure banks that maximize connecting opportunities. However, Southwest operates focus city operations, with service from a single airport to many destinations and multiple daily frequencies on many routes. Southwest's network strategy generally prioritizes accommodation of O&D passengers. But in focus cities the volume of flights and destinations served enable accommodation of connecting passenger itineraries as well. HOU has long served as a focus city for Southwest. In FY 2022, Southwest represented 93.3 percent of total HOU enplaned passengers. **Table 5-22** presents the 10 largest focus city airports for Southwest in terms of average daily departures and average daily departing seats for calendar year 2022; HOU is the seventh largest Southwest airport by both metrics. **Table 5-23** presents the number of domestic, international, and total destinations served from each of Southwest's focus city airports in the calendar year. HOU ranks fifth in terms of domestic destinations served, second in terms of international destinations served, and third in terms of total destinations served.

HOU plays a critical role as an international gateway in the Southwest network. **Exhibit 5-5** presents the scheduled departing seats to international destinations among Southwest's largest focus city airports in FY 2023. HOU is Southwest's largest international gateway by scheduled seats, with 72 percent more total scheduled departing international seats than Baltimore/Washington International Thurgood Marshall Airport (BWI), the second largest airport in terms of scheduled departing seats to international destinations, despite having fewer international destinations served than BWI. All of Southwest's international destinations served are in Mexico, Central America, and the Caribbean, and among those regions, HOU ranks first among Southwest's focus cities in terms of scheduled departing seats to Central America and Mexico.

TABLE 5-21 HOU TOP 30 DOMESTIC O&D MARKETS IN FY 2022

RANK	MARKET	TOTAL O&D PASSENGERS ¹	WEEKLY NONSTOP DEPARTURES ²	NUMBER OF AIRLINES ³	AIRLINES ⁴
1	Los Angeles ⁵	436,887	44	1	WN
2	Atlanta	405,412	60	2	DL, WN
3	Denver	359,945	44	1	WN
4	Washington, DC ⁶	352,964	38	1	WN
5	Dallas ⁷	348,700	108	2	AA, WN
6	Chicago ⁸	331,949	30	1	WN
7	Miami ⁹	301,872	43	1	WN
8	Orlando	295,389	35	2	F9, WN
9	Las Vegas	294,672	28	2	F9, WN
10	Phoenix ¹⁰	254,466	33	2	G4, WN
11	San Francisco ¹¹	201,665	18	1	WN
12	New York City ¹²	196,219	17	1	WN
13	New Orleans	183,972	34	1	WN
14	Nashville	170,288	24	1	WN
15	St. Louis	160,257	19	1	WN
16	Tampa	149,971	21	1	WN
17	Midland/Odessa	126,432	20	1	WN
18	San Diego	120,849	13	1	WN
19	El Paso	116,724	17	1	WN
20	Kansas City	109,960	11	1	WN
21	Oklahoma City	100,659	20	1	WN
22	Tulsa	84,860	13	1	WN
23	Albuquerque	79,882	13	1	WN
24	Salt Lake City	71,567	7	1	WN
25	Harlingen	69,297	23	1	WN
26	Indianapolis	62,691	7	1	WN
27	Sacramento	61,017	5	1	WN
28	Columbus	58,183	6	1	WN
29	Memphis	50,340	7	1	WN
30	Boston ¹³	49,521	0	1	WN
	Other Markets	1,532,859	203		
	Total	7,139,467	961		

NOTES:

1 Represents passengers traveling in both directions.

2 Weekly nonstop departures rounded to nearest integer value.

3 Regional affiliates are counted as part of their mainline carrier.

4 AA – American Airlines; DL – Delta Air Lines; F9 – Frontier Airlines; G4 – Allegiant Air; WN – Southwest Airlines.

5 Includes Los Angeles International (LAX), John Wayne (Orange County) (SNA), Ontario International (ONT), Hollywood Burbank (BUR), and Long Beach (LGB) Airports.

6 Includes Washington Dulles International (IAD), Ronald Reagan Washington National (DCA), and Baltimore/Washington International Thurgood Marshall (BWI) Airports.

7 Includes Dallas Fort Worth International Airport (DFW) and Dallas Love Field (DAL).

8 Includes O'Hare (ORD) and Midway (MDW) International Airports.

9 Includes Miami (MIA), Fort Lauderdale–Hollywood (FLL), and Palm Beach (PBI) International Airports.

10 Includes Phoenix Sky Harbor International (PHX) and Mesa Gateway (AZA) Airports.

11 Includes San Francisco (SFO), Oakland (OAK), and Norman Y. Mineta San Jose (SJC) International Airports.

12 Includes John F. Kennedy International (JFK), Newark Liberty International (EWR), LaGuardia (LGA), and Long Island MacArthur (ISP) Airports.

13 Includes Boston Logan International (BOS), Rhode Island T. F. Green International (PVD), and Manchester-Boston Regional (MHT) Airports.

SOURCES: US Department of Transportation, O&D Survey, November 2022; Innovata, April 2023 (published airline schedules).



EXHIBIT 5-4

WILLIAM P. HOBBY AIRPORT
NONSTOP MARKETS

TABLE 5-22 SOUTHWEST AIRLINES AVERAGE DAILY DEPARTURES AND DEPARTING SEATS BY FOCUS CITY AIRPORTS IN FISCAL YEAR 2023

FOCUS CITY	AVERAGE DAILY DEPARTURES		AVERAGE DAILY DEPARTING SEATS	
	DEPARTURES	RANKING	SEATS	RANKING
Denver International	249	1	38,860	1
Harry Reid International	220	2	34,426	2
Chicago Midway International	213	3	34,300	3
Baltimore/Washington International Thurgood Marshall	189	4	30,254	4
Dallas Love Field	187	5	29,395	5
Phoenix Sky Harbor International	171	6	26,777	6
Houston William P. Hobby	144	7	22,540	7
Nashville International	126	8	19,834	8
Orlando International	108	9	17,194	9
Oakland International	108	10	16,689	10

SOURCE: Innovata, April 2023 (published airline schedules).

TABLE 5-23 SOUTHWEST AIRLINES DESTINATIONS SERVED BY FOCUS CITY AIRPORTS IN FISCAL YEAR 2023

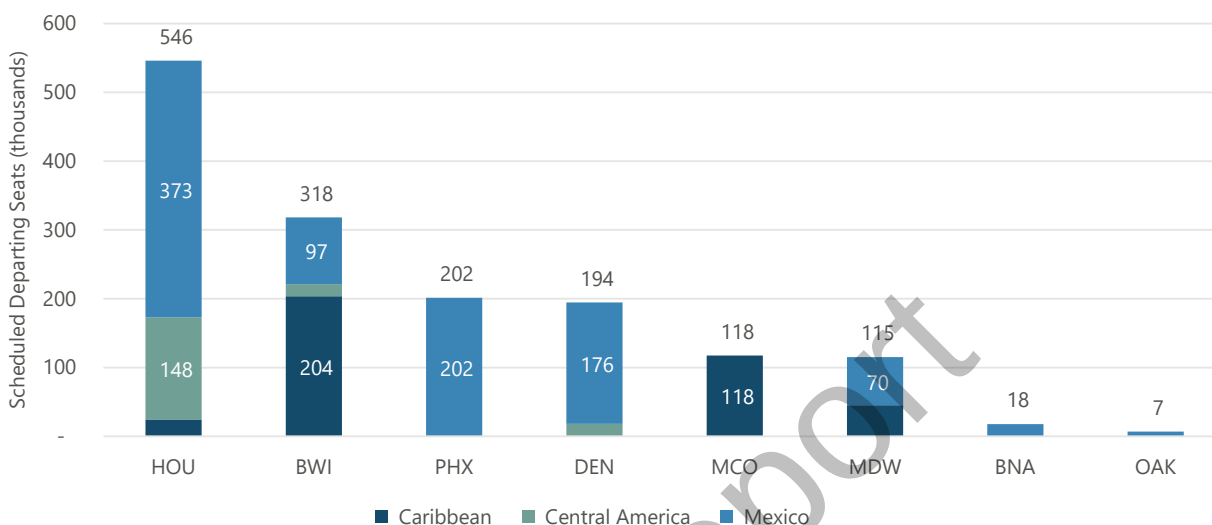
FOCUS CITY	DOMESTIC		INTERNATIONAL		TOTAL	
	DESTINATIONS SERVED	HUB RANKING	DESTINATIONS SERVED	HUB RANKING	DESTINATIONS SERVED	HUB RANKING
Denver International	87	1	7	3	94	1
Chicago Midway International	73	2	4	4	77	2
Houston William P. Hobby	61	5	9	2	70	3
Baltimore/Washington International Thurgood Marshall	60	6	10	1	70	3
Dallas Love Field	70	3	0	NA	70	3
Harry Reid International	67	4	0	NA	67	6
Phoenix Sky Harbor International	58	7	3	5	61	7
Nashville International	57	8	1	7	58	8
Orlando International	51	9	2	6	53	9
Oakland International	32	10	1	7	33	10

NOTE:

In the event of a tied count of destinations served, a were given the higher rank.

SOURCE: Innovata, April 2023 (published airline schedules).

EXHIBIT 5-5 SOUTHWEST AIRLINES SCHEDULED INTERNATIONAL DEPARTING SEATS IN CALENDAR YEAR 2022



SOURCE: Innovata, April 2023 (published airline schedules).

HOU is situated in the large and diverse Houston O&D market and is strategically positioned to take advantage of proximity to many locations in both Southwest's extensive domestic network as well as its international markets in Latin America and the Caribbean. Southwest typically develops its focus city schedules around primarily accommodating O&D passengers. Given the volume of flights and number of destinations served, Southwest is also able to accommodate connecting passengers at HOU traveling on domestic and international itineraries. **Table 5-24** presents the distribution of Southwest's connecting and O&D passengers at HOU from FY 2013 through FY 2022. Connecting passengers have represented between 30 percent and 39 percent of Southwest's total HOU passengers during this period.

5.3.2.4 HOU AIRCRAFT OPERATIONS

Table 5-25 presents historical passenger airline operations, average seats per departure, and average load factor at HOU from FY 2013 through FY 2022. Passenger airline operations grew from 113,818 operations in FY 2013 to 123,706 operations in FY 2019, representing a 1.4 percent CAGR. From FY 2013 to FY 2022, passenger airline operations decreased from 113,818 operations to 103,702 operations, which represents a -1.0 percent CAGR. Average seats per departure increased from 131 seats per departure in FY 2013 to 150 seats per departure in FY 2022, representing a 1.6 percent CAGR during the period. During this period, growth in average seats per departure reflects changes in Southwest's fleet, as the airline retired older generation 737 aircraft and aircraft and took delivery of newer generation 737 aircraft with increased seat capacity. The growth in average seats per departure was driven by ULCCs Allegiant and Frontier, both operators of predominantly high-capacity narrowbody aircraft. Increasing average seats per departure enabled growth in total passengers during the period despite the decrease in passenger airline operations.

TABLE 5-24 SOUTHWEST AIRLINES CONNECTING AND O&D PASSENGERS AT HOU

FISCAL YEAR	CONNECTING	CONNECTING PERCENT OF TOTAL	ENPLANED PASSENGERS		
			O&D	O&D PERCENT OF TOTAL	TOTAL
2013	1,415,497	29.6%	3,364,582	70.4%	4,780,079
2014	1,693,998	32.4%	3,528,263	67.6%	5,222,261
2015	1,672,449	30.9%	3,746,927	69.1%	5,419,376
2016	1,687,701	28.5%	4,233,666	71.5%	5,921,367
2017	1,807,444	29.2%	4,386,356	70.8%	6,193,800
2018	2,106,604	32.5%	4,371,661	67.5%	6,478,265
2019	2,328,004	33.9%	4,539,088	66.1%	6,867,092
2020	1,609,221	32.1%	3,401,597	67.9%	5,010,818
2021	1,396,968	36.3%	2,450,043	63.7%	3,847,011
2022	2,155,636	38.6%	3,424,150	61.4%	5,579,786
CAGR					
2013 – 2019	8.6%		5.1%		6.2%
2013 – 2022	4.8%		0.2%		1.7%

SOURCE: Houston Airport System, April 2023.

TABLE 5-25 HOU PASSENGER AIRLINE OPERATIONS

YEAR	PASSENGER AIRLINE OPERATIONS	AVERAGE SEATS PER DEPARTURE	AVERAGE LOAD FACTOR
FY 2013	113,818	131	75.3%
FY 2014	118,858	135	76.2%
FY 2015	114,606	137	78.3%
FY 2016	120,022	136	79.4%
FY 2017	120,806	141	78.1%
FY 2018	119,644	145	80.0%
FY 2019	123,706	147	80.2%
FY 2020	103,616	146	69.8%
FY 2021	88,034	148	63.1%
FY 2022	103,702	150	80.1%
CAGR			
2013 – 2019	1.4%	2.0%	1.1%
2013 – 2022	-1.0%	1.6%	0.7%

NOTE:

Average load factor represents revenue passengers only.

SOURCE: US Department of Transportation, T-100 Database, April 2023.

Table 5-26 presents the historical air carrier, air taxi and commuter, general aviation, and military operations at HOU from FY 2013 through FY 2022. Air carrier operations decreased from 109,216 operations in FY 2013 to 106,569 operations in FY 2022, representing a CAGR of -0.3 percent, and general aviation operations increased from 53,096 operations to 53,893 operations during the period, which represents a CAGR of 0.2 percent. Air taxi and commuter operations decreased from 35,185 operations in FY 2013 to 28,498 operations in FY 2022, representing a CAGR of -2.3 percent.

TABLE 5-26 HOU TOTAL OPERATIONS

YEAR	OPERATIONS				
	AIR CARRIER ¹	AIR TAXI / COMMUTER ²	GENERAL AVIATION ³	MILITARY	TOTAL
FY 2013	109,216	35,185	53,096	2,728	200,225
FY 2014	115,914	39,423	56,205	3,080	214,622
FY 2015	113,665	30,053	54,493	2,529	200,740
FY 2016	117,012	26,488	54,340	5,527	203,367
FY 2017	119,587	24,882	57,623	613	202,705
FY 2018	119,412	27,206	49,949	937	197,504
FY 2019	122,207	29,871	54,495	878	207,451
FY 2020	104,010	21,008	41,098	524	166,640
FY 2021	88,994	24,284	40,843	575	154,696
FY 2022	106,569	28,498	53,893	667	189,627
FY 2023 YTD	83,640	21,458	37,788	413	143,299
CAGR					
2013 – 2019	1.9%	-2.7%	0.4%	-17.2%	0.6%
2013 – 2022	-0.3%	-2.3%	0.2%	-14.5%	-0.6%

NOTES:

FY 2023 YTD – July 2022 through March 2023.

1 Air carrier includes aircraft with seating capacity of more than 60 seats or a maximum payload capacity of more than 18,000 pounds carrying passengers or cargo for hire or compensation.

2 Air taxi and commuter includes aircraft with seating capacity of 60 seats or less or a maximum payload capacity of 18,000 pounds or less carrying passengers or cargo for hire or compensation.

3 General aviation includes all civil aviation that is not for hire or compensation and excludes military operations. Activity includes flying for personal or corporate reasons and pilot training.

SOURCE: Houston Airport System, April 2023.

5.3.2.5 HOU LANDED WEIGHT

Table 5-27 presents the historical passenger airline and all-cargo landed weight at HOU between FY 2013 and FY 2023 YTD. Between FY 2013 and FY 2022 the passenger airline landed weight CAGR was 0.4 percent. During the same period, the all-cargo airline CAGR was 6.6 percent and 0.4 percent for all airlines.

TABLE 5-27 HOU LANDED WEIGHT – METRIC TONS (THOUSANDS)

YEAR	PASSENGER AIRLINES	ALL-CARGO	TOTAL	ANNUAL GROWTH
FY 2013	6,628,792	127	6,628,920	4.5%
FY 2014	7,077,035	362	7,077,397	6.8%
FY 2015	6,932,727	68	6,932,795	-2.0%
FY 2016	7,191,562	713	7,192,276	3.7%
FY 2017	7,454,957	356	7,455,313	3.7%
FY 2018	7,683,254	529	7,683,783	3.1%
FY 2019	8,035,814	314	8,036,128	4.6%
FY 2020	6,674,567	330	6,674,897	-16.9%
FY 2021	5,692,206	70	5,692,277	-14.7%
FY 2022	6,900,113	225	6,900,338	21.2%
FY 2023 YTD	5,593,756	275	5,594,031	9.0%
CAGR				
2013 – 2019	3.30%	16.20%	3.30%	
2013 – 2021	0.4%	6.6%	0.4%	

NOTE:

FY 2023 YTD – July 2022 through March 2023.

SOURCE: Houston Airport System, April 2023.

5.4 FACTORS AFFECTING AVIATION DEMAND

This section discusses the qualitative factors that may influence future aviation activity at IAH and HOU. These factors were considered, either directly or indirectly, in developing the aviation activity forecasts.

5.4.1 IMPACT OF THE COVID-19 PANDEMIC

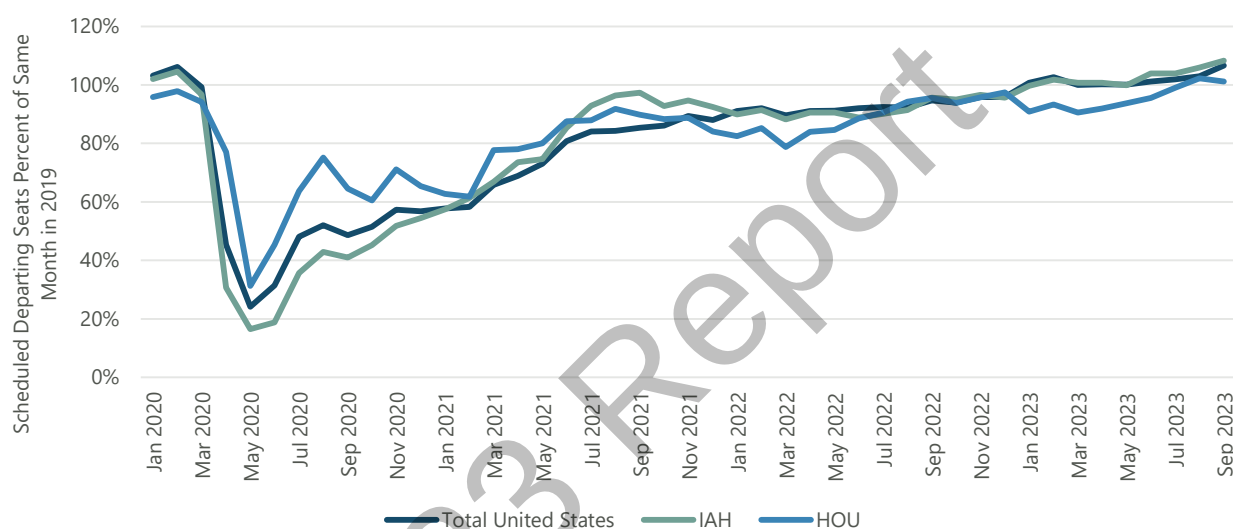
The outbreak and spread of the COVID-19 pandemic have resulted in a severe contraction in demand for air travel that was driven by fear of illness, as well as government-imposed travel restrictions and quarantine requirements. The impact to air travel began in East Asia in December 2019 and rapidly accelerated to other regions of the world in March and April 2020. Airlines responded to the change in demand by parking aircraft and reducing capacity across their networks. Several large international foreign-flag airlines suspended all operations for a period in March and April 2020. By May 2020, which represented the low point in terms of passenger airline capacity offered, scheduled departing seats decreased to 24 percent of May 2019 capacity for all US airports, 16 percent of May 2019 capacity at IAH, and 31 percent of May 2019 capacity at HOU. A modest recovery in airline capacity occurred over the second half of 2020. By December 2020 departing seat capacity for all US airports had increased to 57 percent of December 2019 departing seat capacity, 54 percent of December 2019 departing seat capacity at IAH, and 65 percent of December 2019 seat capacity at HOU. The slower rate of recovery at IAH compared to HOU and the national average during this period was due in large part to Intercontinental's exposure to international markets. International markets, particularly long-haul destinations that are not served from HOU, were more severely impacted by travel restrictions than domestic markets. Most of the international markets served from HOU are leisure-oriented destinations in Mexico and the Caribbean that had fewer travel restrictions and experienced growth in demand during the COVID-19 pandemic.

Airlines continued to restore capacity over the course of 2021 as COVID-19 vaccines became widely available in the United States and demand for air travel increased. By December 2021 scheduled departing seats as a percentage of December 2019 were 88 percent for all US airports, 92 percent for IAH, and 84 percent for HOU. The restoration of

scheduled capacity increased through 2022, despite interruptions in demand recovery that coincided with spikes in COVID-19 infections related to the Delta and Omicron variants of the virus. By December 2022, the recovery rates for scheduled departing seats for all US airports, IAH, and HOU had converged between 95 percent and 98 percent of December 2019. Scheduled departing seat capacity exceeds 2019 levels for all US airports as well as IAH and HOU in the summer of 2023.

Exhibit 5-6 depicts the scheduled departing seat capacity by month from January 2020 through September 2023 for all US airports, IAH, and HOU indexed to the same month in 2019.

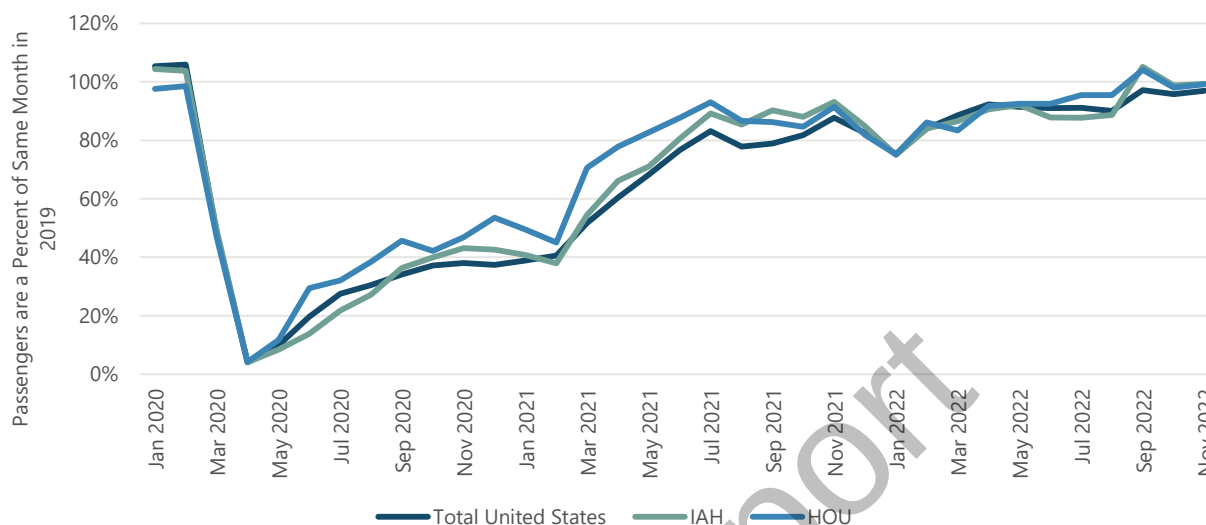
EXHIBIT 5-6 SEAT CAPACITY RECOVERY – THE UNITED STATES, IAH, AND HOU



SOURCE: Innovata, April 2023 (published airline schedules).

Passenger volumes decreased at a faster rate than seat capacity at the onset of the COVID-19 pandemic. Throughout most of April 2020, which has thus far been the lowest point in terms of domestic monthly passenger activity since the onset of the COVID-19 pandemic, the Transportation Security Administration (TSA) reported that daily airport screening throughput for all US airports was approximately 5 percent of the volume on the equivalent same day in 2019. For the airport system, April 2020 enplaned passengers represented approximately 4 percent of April 2019 enplaned passengers at both IAH and HOU. By December 2020 passenger volumes as a percentage of December 2019 had recovered to 45 percent at IAH and 55 percent at HOU. Passenger activity continued to recover over the course of 2021 and 2022, with July 2022 enplaned passengers as a percentage of July 2019 reaching 92 percent at IAH and 100 percent at HOU. **Exhibit 5-7** presents the monthly enplaned passengers from January 2020 through November 2022 indexed to the same month in 2019 for the average of all US airports, IAH, and HOU. During most of this period the recovery rates for both IAH and HOU have generally moved in line with the national average.

EXHIBIT 5-7 PASSENGER RECOVERY – THE UNITED STATES, IAH, AND HOU



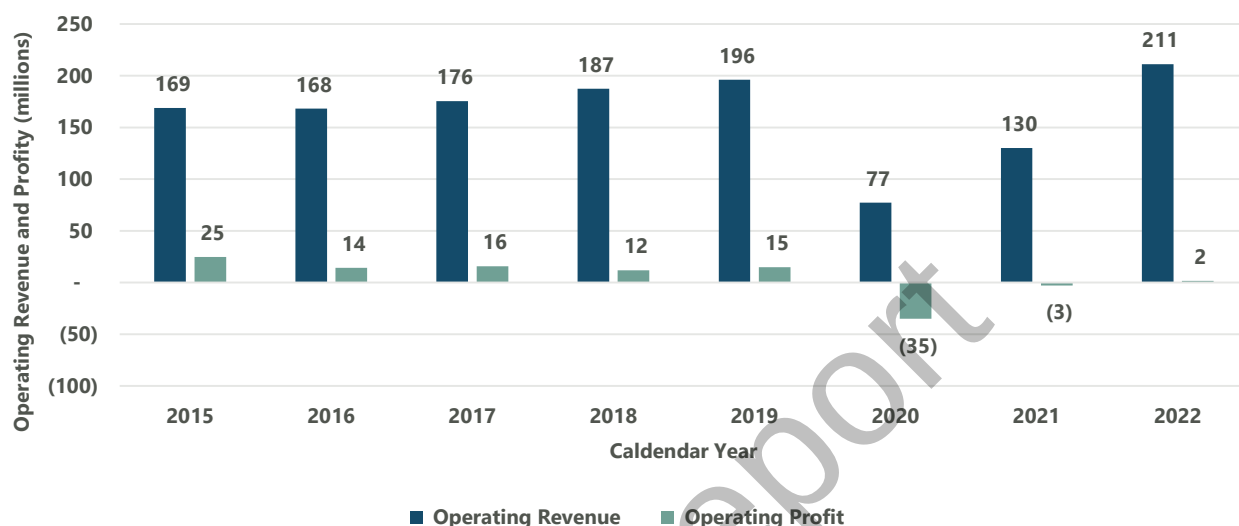
SOURCE: US Department of Transportation, T-100 Database, April 2023.

5.4.2 AIRLINE FINANCIAL PERFORMANCE

US airlines reported revenue growth and positive operating profits in the years leading up to the COVID-19 pandemic. The severe decrease in demand for air travel beginning in March 2020 drove a sharp contraction in operating revenues and steep financial losses in 2020 and 2021. In 2022 strong growth in demand drove record levels of operating revenue and US airlines collectively reported a positive operating profit in 2022, with performance improving over the course of the year. **Exhibit 5-8** presents operating revenue and profit for US airlines from CY 2015 through CY 2022.

Ricondo analyzes publicly available sources of financial and operational data and applies commonly used allocation methodologies in the airline industry to derive estimates of the operating profits of each of United's hubs and Southwest's focus cities. Ticket revenue was identified through US Department of Transportation O&D data accessed at the individual itinerary level and prorated to flight segments using a distance-based proration methodology. Non-ticket revenue was allocated using drivers that include revenue passenger miles and cargo volumes. Cost allocation drivers included block hours, departures, revenue passenger miles, available seat mile, and ticket revenue. To represent the economic impact of the mix of fleet types operating across the hubs, aircraft-type allocation rates were used where reporting is available at that level of detail. While Ricondo has applied commonly used approaches to the alignment of costs and revenues with activity-based allocation drivers, the estimates of hub profitability may differ from those of airlines that employ many different methodologies using detailed internal data sources.

EXHIBIT 5-8 OPERATING REVENUE AND PROFIT OF UNITED STATES COMMERCIAL AIRLINES (CY 2015 – CY 2022)



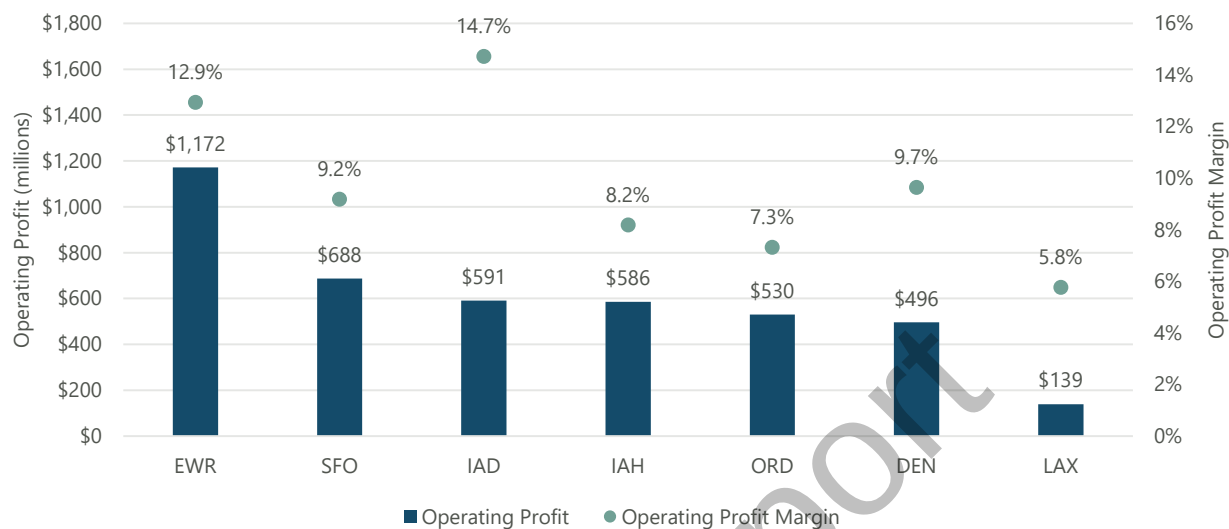
SOURCE: Airlines for America, April 2023 (data and statistics).

Exhibit 5-9 presents the estimated operating profit and operating profit margins for each of United's hubs in 2019, the most recent year prior to the impact of COVID-19. IAH was estimated to rank fourth among United's hubs in terms of operating profit and generated an 8.2 percent operating profit margin. **Exhibit 5-10** presents the estimated operating profit and operating profit margins for Southwest's principal focus cities in 2019.¹¹³ HOU was estimated to rank eighth among Southwest's focus cities in terms of operating profit and generated a 15.6 percent operating profit margin. Airline financial performance deteriorated substantially during 2020 and 2021 due to the impacts of the COVID-19 pandemic, with both United and Southwest reporting financial losses systemwide.¹¹⁴ United and Southwest reported positive net income in 2022 and have indicated in recent earnings calls and investor updates that they expect to report positive financial results in 2023. Both airlines have maintained all pre-COVID-19 pandemic hubs and focus cities and the general strategic roles of the hubs and focus cities in their respective route networks have not meaningfully changed.

¹¹³ Airports with 100 or more average scheduled daily departures were identified as Southwest focus cities.

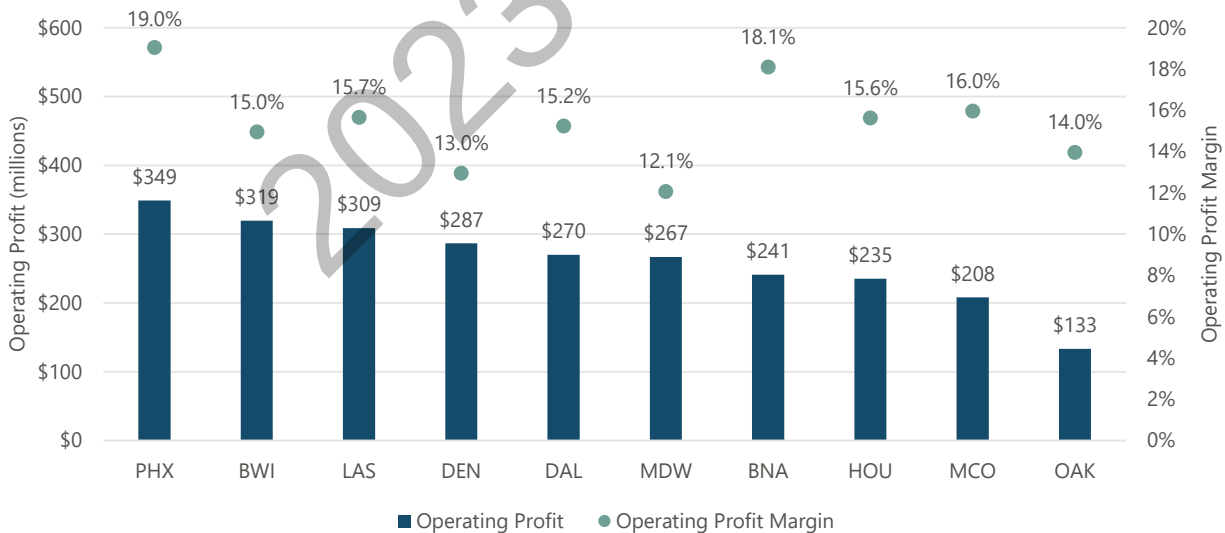
¹¹⁴ United and Southwest reported annual losses excluding special items, including Payroll Support Program (PSP) proceeds under the Consolidated Appropriations Act 2021 and American Rescue Plan Act of 2021.

EXHIBIT 5-9 ESTIMATE OF UNITED AIRLINES PROFITABILITY BY HUB (FULL YEAR 2019)



SOURCES: US Department of Transportation, O&D Survey, April 2023; US Department of Transportation, T-100 Database, April 2023; US Department of Transportation, Form 41, April 2023; Ricondo & Associates, Inc., June 2023 (based on the analysis and assumptions described in the Report).

EXHIBIT 5-10 ESTIMATE OF SOUTHWEST AIRLINES PROFITABILITY BY FOCUS CITY (FULL YEAR 2019)



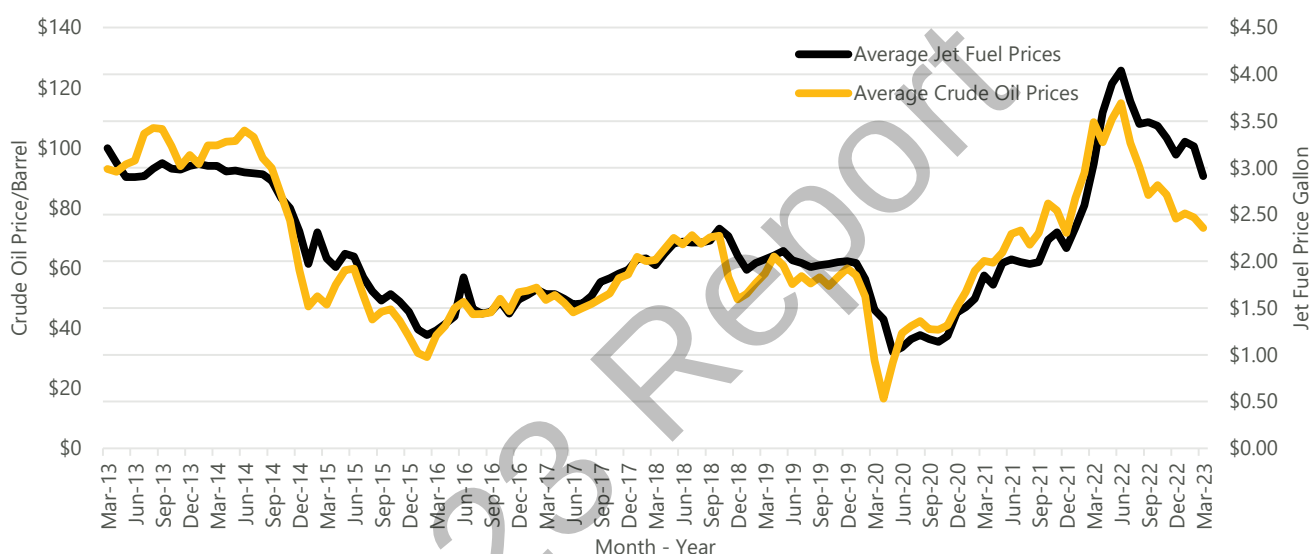
SOURCES: US Department of Transportation, O&D Survey, April 2023; US Department of Transportation, T-100 Database, April 2023; US Department of Transportation, Form 41, April 2023; Ricondo & Associates, Inc., June 2023 (based on the analysis and assumptions described in the Report).

5.4.3 COST OF AVIATION FUEL

As of the second quarter of 2022, jet fuel accounted for 25.9 percent of total airline operating costs, second only to labor, according to Airlines for America.¹¹⁵

In March 2023, the average price of jet fuel was \$2.91 per gallon, having hit a record high of \$4.04 per gallon in June 2022. **Exhibit 5-11** shows the monthly averages for jet fuel and crude oil prices from February 2013 through March 2023. Fluctuating fuel costs will continue to affect airline profitability. This could lead to changes in air service as airlines adjust capacity and pricing to address increases or decreases in the cost of fuel.

EXHIBIT 5-11 HISTORICAL MONTHLY AVERAGES OF JET FUEL AND CRUDE OIL PRICES



SOURCE: US Bureau of Transportation Statistics, US Energy Information Administration, April 2023.

5.4.4 NATIONAL ECONOMY

Historically, trends in airline travel have been closely correlated with national economic trends, most notably changes in GDP. Chapter 3 of this Report presents an analysis of the general economic trends, both national and local, that may influence demand for air service over time. As noted in Chapter 4, national GDP is expected to increase at a CAGR of 2.3 percent between 2020 and 2032, which should support generally increasing demand for air service over the Projection Period. Actual economic activity may differ from this projection, especially on a year-to-year basis. Demand for air service may be impacted by changes in economic performance.

5.4.5 MERGERS AND ACQUISITIONS

US airlines have merged or acquired competitors to achieve operational and commercial synergies and to improve their financial performance. A wave of consolidation began in 2005 when America West Airlines merged with US Airways, retaining the US Airways brand for the consolidated airline. In 2009, Delta acquired Northwest Airlines. In 2010, United acquired Continental Airlines. In 2011, Southwest acquired AirTran Airways. In 2013, US Airways and

¹¹⁵ Airlines for America, "A4A Passenger Airline Cost Index (PACI)," <https://www.airlines.org/dataset/a4a-quarterly-passenger-airline-cost-index-u-s-passenger-airlines/> (October 19, 2022).

American merged, with the consolidated airline retaining the American brand. The most recent consolidation occurred in 2016 when Alaska acquired Virgin America. The two airlines completed their integration in 2018. On July 28, 2022, JetBlue and Spirit announced their intention to merge no later than the first half of 2024, pending government and shareholder approval. JetBlue and Spirit will continue to operate as independent airlines until after the transaction closes. Spirit has terminated its prior merger agreement with Frontier that was announced in February 2022. Consolidation across the industry has resulted in the realignment of several airline route networks as airlines have sought efficiencies in their service. Further consolidation of the US airline industry could affect the amount of capacity offered at the HAS and could alter the competitive landscape.

5.4.6 INTERNATIONAL CONFLICTS AND THREAT OF TERRORISM

Since September 11, 2001, the recurrence of terrorism incidents against either domestic or world aviation has remained a risk to achieving forecast levels of activity. Tighter security measures have restored the public's confidence in the integrity of the US and global aviation security systems. However, any terrorist incident targeting aviation could have an immediate and significant impact on the demand for air travel.

Additionally, geopolitical issues may affect aviation activity during the Projection Period. Potential governmental or regional instability in certain countries or locations may affect access to, or demand for, aviation service in these places. At the time of this Report, the Russian invasion of Ukraine is ongoing and further development could exacerbate geopolitical and economic uncertainty and potentially impact demand for travel to certain regions. The conflict has resulted in the closure of airspace over Russia and Ukraine to most airlines. Restrictions on Russian airlines have resulted in the suspension of service between Russia and many countries. These restrictions have limited airlines' ability to operate certain nonstop routes that would otherwise overfly Russia or Ukraine. As an international gateway, IAH provides service to nearly all major regions of the world. Future geopolitical instability may have an impact on demand for international travel and international service.

5.4.7 CAPACITY OF THE NATIONAL AIRSPACE SYSTEM

One of the FAA's concerns is how increased delays at busy airports impact the efficiency of the National Airspace System (NAS). In its report *Airport Capacity Needs in the NAS* (January 2015), the FAA stated the need to address delays that remain at key airports since its 2007 assessment, as well as to implement NextGen airspace system improvements. The report emphasized the need to continue to invest in system improvements with airfield enhancements and NextGen capabilities.

5.5 ACTIVITY FORECAST

Forecasts of Airport System activity were developed for FY 2023 through FY 2032. The assumptions, techniques, and results of the forecast process are described in the following subsections.

5.5.1 SHORT-TERM FORECAST METHODOLOGY

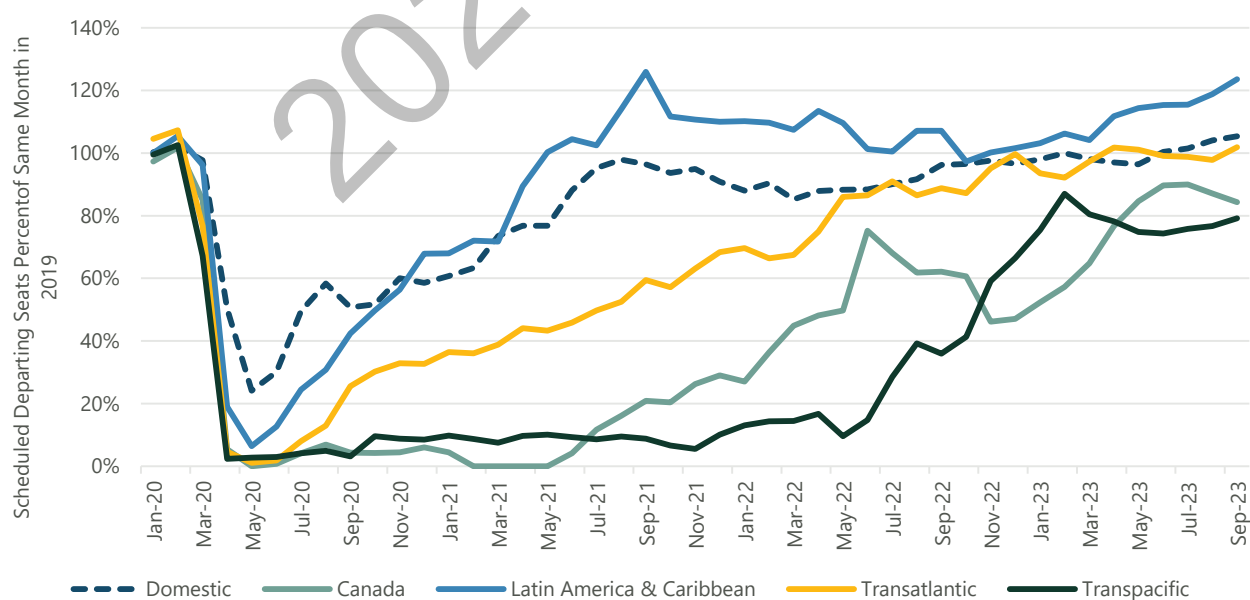
The development of the short-term forecast through FY 2025 takes into consideration how the COVID-19 pandemic has severely disrupted patterns of demand and aviation activity globally, nationally, and locally. Socioeconomic variables that have been traditionally used to model demand for air travel, such as economic output, employment, and personal income, are not as useful for predicting future aviation activity due to travel restrictions, fear of illness, labor shortages, and other factors that have emerged since the onset of the COVID-19 pandemic. While traditional drivers of demand are expected to influence travel patterns in the long-term, an approach was used to forecast activity in the short-term using the demonstrated recovery of demand since the onset of the COVID-19 pandemic, as well as assumptions regarding airline seat capacity and load factors through FY 2025. The activity forecast for this period was modeled on estimates of departing seat capacity and load factor by airline and region to derive a forecast

of enplaned passengers, recognizing demand will recover differently by region due to the variable effect of COVID-19 and its associated impacts. Gradual increases in departing seats and passengers represent the recovery in demand, considering different rates of recovery by region and market segment, as well as seasonal demand patterns. The short-term forecast incorporates actual reported activity through February 2023 and published airline schedules through September 2023.

The following factors were also considered in the development of the short-term forecast:

- While the widespread deployment of effective vaccines to inhibit COVID-19 infection and treatments for illness have mitigated the severity of the COVID-19 pandemic, new variants of the COVID-19 virus may emerge, and the full duration of the global pandemic and resulting impact on air travel remain unknown. It is assumed that the emergence of any new variants of the COVID-19 virus would not result in a severe reduction in air service as experienced at the onset of the pandemic.
- Transborder travel restrictions have impacted demand for international travel resulting in an uneven recovery across different regions. **Exhibit 5-12** presents the consolidated monthly scheduled departing seats by region from IAH and HOU as a percentage of the same month in 2019. Latin America and the Caribbean has led all regions in terms of capacity recovery since September 2020, with capacity exceeding 2019 levels in the second half of 2021 and through most of 2022 and into 2023. Transatlantic capacity recovery accelerated in the second half of 2021 and first approached 2019 levels in the second half of 2022. Restoration of scheduled departing seats to destinations in Canada accelerated in 2022 with the lifting of some transborder travel restrictions. The recovery in transpacific destinations lags other regions, with scheduled departing seats representing approximately 75 percent of 2019 levels in 2023. The timeline for lifting all international travel restrictions is unknown, and the United States and other countries may impose new restrictions (or reinstate restrictions that have been lifted) if new surges of COVID-19 infection emerge.

EXHIBIT 5-12 CONSOLIDATED IAH AND HOU INDEXED SCHEDULED DEPARTING SEATS BY REGION



SOURCE: Innovata, April 2023 (published airline schedules).

- Airlines have retired certain aircraft types from their operating fleets since the onset of the pandemic, which in some cases represented an accelerated timeline for retiring older aircraft. Changes in fleet mix and average aircraft size could change the number of operations required to accommodate passenger demand.
- Supply-side factors, including slower than anticipated delivery of new aircraft and labor shortages, may limit airlines' ability to restore capacity at the same rate as the recovery in demand.
- A prolonged contraction of demand for air travel increases the likelihood of structural changes to the airline industry. These structural changes may include airline bankruptcies and failures, consolidation, and hub closures or other network changes. These types of changes are not assumed in the forecast.

5.5.2 LONG-TERM FORECAST METHODOLOGY

As the influence of the COVID-19 pandemic on passenger demand diminishes, it is expected that the traditional relationships between demand and socioeconomics will drive long-term passenger growth. Longer-term O&D passenger activity for the Houston region was forecast using socioeconomic regression analysis techniques that identified predictive statistical relationships between historical O&D passenger volumes and independent socioeconomic variables (such as GRP, employment, and personal income) over a 20-year period ending in 2019. Activity that occurred in 2020 and 2021 was not incorporated into the socioeconomic regression analysis, as activity during this period was heavily influenced by factors that were specific to the COVID-19 pandemic that are not expected to influence demand for air travel in the long-term.

Domestic and international O&D passengers were independently forecast for the Airport System, inclusive of both IAH and HOU, using US and Air Trade Area socioeconomic variables. The allocation of domestic O&D passengers between the two airports was based on each airport's share of O&D passengers in FY 2022. The allocation of international O&D passengers between the two airports accounts for the slower rate of recovery in long-haul international markets that are only served from IAH compared to short-haul international markets that are served from both airports that have recovered faster than any other international region. The forecast assumes that Intercontinental's share of international O&D passengers falls from 94 percent in 2019 to 90 percent in 2023. From 2024 through 2033 the forecast assumes IAH captures 92 percent of the Airport System's international O&D passengers, the same share IAH represented in 2017.

Table 5-28 summarizes the output of the socioeconomic regression analysis of domestic and international O&D passengers.

The connecting passenger forecast was based on independent forecasts of total US domestic O&D passengers and total US to international destination O&D passengers, using US socioeconomic variables. The share of total domestic and international O&D passengers that connect at IAH and HOU was based on an evaluation of the share of each segment of traffic that have used IAH and HOU as a connect point. The long-term forecast assumes that IAH captures 1.2 percent of the total US domestic O&D market and 3.0 percent of the total US to international destination O&D market as connecting passengers, in line with its share of these market segments in 2015. IAH domestic connecting passengers as a percentage of total domestic and international O&D passengers decreased in 2016 and 2017 as United reduced capacity at its IAH hub. IAH connecting passenger share of this market is expected to return to historical levels in line with recent trends as well as guidance from United to support growth at its midcontinent hubs through increased connectivity.¹¹⁶ The long-term forecast assumes that HOU captures

¹¹⁶ United Airlines, "United Next Investor Event," <https://ir.united.com/static-files/0e00efc8-a309-4942-8001-720e3d8d0e82> (accessed November 9, 2022).

0.3 percent of the total US domestic O&D and 0.2 percent of the total US to international destination O&D market as connecting passengers, consistent with its share of these market segments in 2019 and in recent periods.

TABLE 5-28 SOCIOECONOMIC REGRESSION ANALYSIS OUTPUTS

SOCIOECONOMIC VARIABLE	IMPLIED FY 2022 – FY 2030 DOMESTIC O&D PASSENGER CAGR	IMPLIED FY 2022 – FY 2030 INTERNATIONAL O&D PASSENGER CAGR
ATA Total Population	1.2%	2.5%
ATA Total Employment	1.6%	3.1%
ATA Total Earnings	1.7%	3.5%
ATA Personal Income	1.9%	3.8%
United States Total Employment	2.3%	4.1%
United States Total Earnings	2.4%	4.1%
United States Personal Income	2.1%	3.9%
United States Gross Regional Product	2.1%	3.9%
United States Mean Household Personal Income	2.0%	3.6%
Average	2.0%	3.6%

NOTES:

ATA – Air Trade Area

CAGR – Compound Annual Growth Rate

FY – Fiscal Year

O&D – Origin and Destination

SOURCES: Woods & Poole Economics, Inc., April 2023; US Department of Transportation, O&D Survey, November 2022; Ricondo & Associates, Inc., June 2023 (analysis).

The forecasts of domestic O&D, international O&D, domestic connecting, and international connecting passengers were consolidated to derive long-term year-over-year growth rates of domestic enplaned and international enplaned passengers at IAH and HOU. The year-over-year growth rates were applied to passenger volumes established in the short-term forecast model to forecast passengers through FY 2032.

5.5.3 ENPLANED PASSENGER FORECAST

Table 5-29 presents the historical and forecast domestic and international enplaned passengers at IAH. Domestic enplaned passengers are forecast to increase from 15.6 million in FY 2022 to 20.2 million in FY 2032, which represents a CAGR of 2.6 percent. International O&D passengers are forecast to increase from 4.2 million in FY 2022 to 7.3 million in FY 2032, which represents a CAGR of 5.6 percent. Total enplaned passengers are forecast to increase from 19.8 million in FY 2022 to 27.5 million in FY 2032, which represents a CAGR of 3.3 percent. Total enplaned passengers are forecast to exceed 2019 levels on a FY basis beginning in FY 2024.

Table 5-30 presents the historical and forecast domestic and international enplaned passengers at HOU. Domestic enplaned passengers are forecast to increase from 5.8 million in FY 2022 to 8.0 million in FY 2032, which represents a CAGR of 3.2 percent. International O&D passengers are forecast to increase from 427 thousand in FY 2022 to 611 thousand in FY 2032, which represents a CAGR of 3.6 percent. Total enplaned passengers are forecast to increase from 6.3 million in FY 2022 to 8.7 million in FY 2032, which represents a CAGR of 3.3 percent. Total enplaned passengers are forecast to exceed 2019 levels on a FY basis beginning in FY 2025.

TABLE 5-29 IAH ENPLANED PASSENGER FORECAST

YEAR	ENPLANED PASSENGERS			TOTAL PERCENT OF 2019
	DOMESTIC	INTERNATIONAL	TOTAL	
FY 2019 Actual	16,981,448	5,497,006	22,478,454	
FY 2020 Actual	12,554,409	3,972,819	16,527,228	73.5%
FY 2021 Actual	8,901,397	1,960,251	10,861,648	48.3%
FY 2022 Actual	15,592,705	4,219,687	19,812,392	88.1%
FY 2023	16,783,702	5,248,129	22,031,831	98.0%
FY 2024	17,430,498	5,808,882	23,239,380	103.4%
FY 2025	17,699,230	5,926,334	23,625,565	105.1%
FY 2026	18,046,366	6,116,890	24,163,256	107.5%
FY 2027	18,397,516	6,309,515	24,707,031	109.9%
FY 2028	18,752,740	6,504,231	25,256,971	112.4%
FY 2029	19,113,043	6,701,569	25,814,612	114.8%
FY 2030	19,478,268	6,901,454	26,379,722	117.4%
FY 2031	19,847,036	7,103,178	26,950,214	119.9%
FY 2032	20,220,063	7,307,047	27,527,110	122.5%
CAGR				
FY 2019 – FY 2032	1.4%	2.2%	1.6%	
FY 2022 – FY 2032	2.6%	5.6%	3.3%	

SOURCES: Houston Airport System, April 2023 (actual passengers); Ricondo & Associates, Inc., June 2023 (forecast passengers).

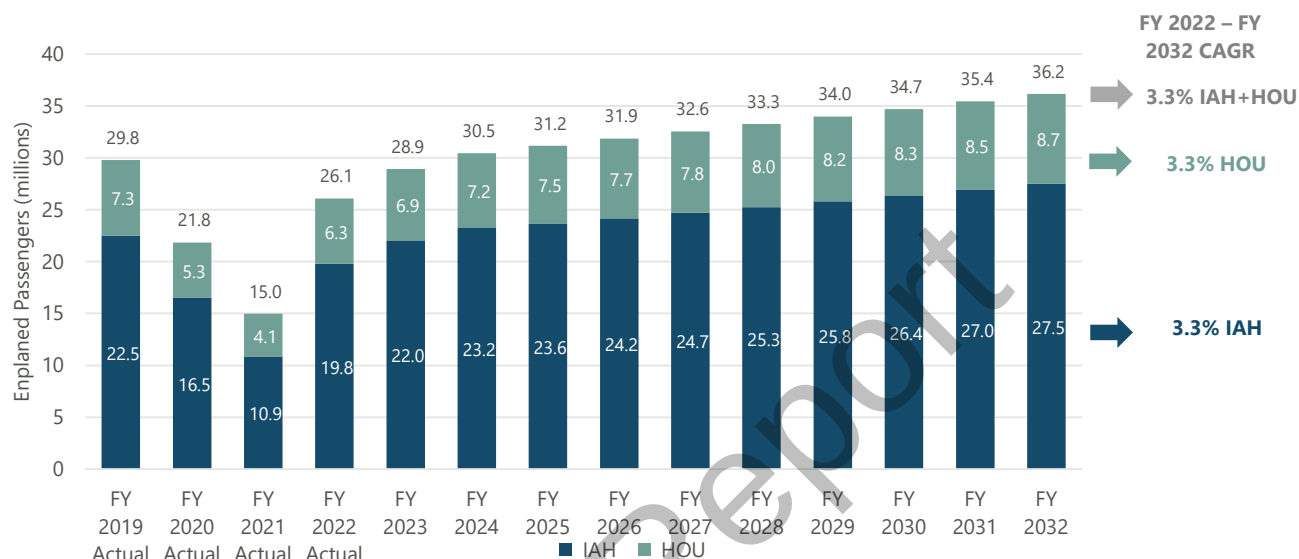
TABLE 5-30 HOU ENPLANED PASSENGER FORECAST

YEAR	ENPLANED PASSENGERS			TOTAL PERCENT OF 2019
	DOMESTIC	INTERNATIONAL	TOTAL	
FY 2019 Actual	6,833,766	495,379	7,329,145	
FY 2020 Actual	5,005,616	295,936	5,301,552	72.3%
FY 2021 Actual	3,893,743	214,048	4,107,791	56.0%
FY 2022 Actual	5,840,311	427,393	6,267,704	85.5%
FY 2023	6,421,819	472,545	6,894,364	94.1%
FY 2024	6,778,381	443,532	7,221,913	98.5%
FY 2025	7,052,716	488,722	7,541,439	102.9%
FY 2026	7,188,724	505,526	7,694,250	105.0%
FY 2027	7,326,303	522,538	7,848,841	107.1%
FY 2028	7,465,478	539,762	8,005,240	109.2%
FY 2029	7,606,637	557,244	8,163,881	111.4%
FY 2030	7,749,724	574,978	8,324,701	113.6%
FY 2031	7,894,207	592,905	8,487,112	115.8%
FY 2032	8,040,365	611,053	8,651,418	118.0%
CAGR				
FY 2019 – FY 2032	1.3%	1.6%	1.3%	
FY 2022 – FY 2032	3.2%	3.6%	3.3%	

SOURCES: Houston Airport System, April 2023 (actual passengers); Ricondo & Associates, Inc., June 2023 (forecast passengers).

Exhibit 5-13 presents the actual and forecast enplaned passengers for IAH and HOU from FY 2019 through FY 2032. The total IAH and HOU enplaned passengers are forecast to increase from 26.1 million in FY 2022 to 36.2 million in FY 2032, which represents a CAGR of 3.3 percent.

EXHIBIT 5-13 IAH AND HOU TOTAL ENPLANED PASSENGERS



SOURCES: Houston Airport System, April 2023 (actual passengers); Ricondo & Associates, Inc., June 2023 (forecast passengers).

5.5.4 OPERATIONS AND LANDED WEIGHT FORECAST

The forecast of passenger airline operations was based on the forecast of enplaned passengers and estimates of future average seats per departure and load factor. The average seats per departure assumptions were informed by published airline schedules through September 2023, as well as the current and expected future fleet mix of airlines serving IAH and HOU. Load factor assumptions were based on historical patterns, with increases in average load factors in the short-term reflecting recovery to pre-COVID-19 levels of demand. Gradual increases in load factor over the long-term reflect expected improvements in the processes and tools that airlines use to manage seat inventory more efficiently. Growth in average seats per departure and higher load factors will enable airlines to accommodate more passengers per passenger aircraft operation.

Table 5-31 presents the historical and forecast passenger airline operations, average seats per passenger airline departure, and average load factor for IAH and HOU. The average seats per passenger airline departure at IAH is forecast to increase from 124 in FY 2022 to 143 in FY 2032 as United and other legacy US airlines are expected to continue to replace 50 seat regional jets with larger regional jets with 70 or more seats. Legacy US airlines as well as ULCCs are also expected to take delivery of larger narrowbody aircraft such as the Airbus A321 and Boeing 737 MAX that will increase the average seats per departure of their mainline aircraft. The average load factor at IAH is forecast to increase from 81.5 percent in FY 2022 to 86.8 percent in FY 2032. The average seats per passenger airline departure at HOU is forecast to increase from 150 in FY 2022 to 157 in FY 2032, which is largely reflective of the expected changes in Southwest's fleet as it takes delivery of additional Boeing 737 MAX aircraft that have more seats per departure than the Boeing 737-700 aircraft they are replacing. The average load factor at HOU is forecast to increase from 79.4 percent in FY 2022 to 82.3 percent in FY 2032.

TABLE 5-31 PASSENGER AIRLINE OPERATIONS FORECAST

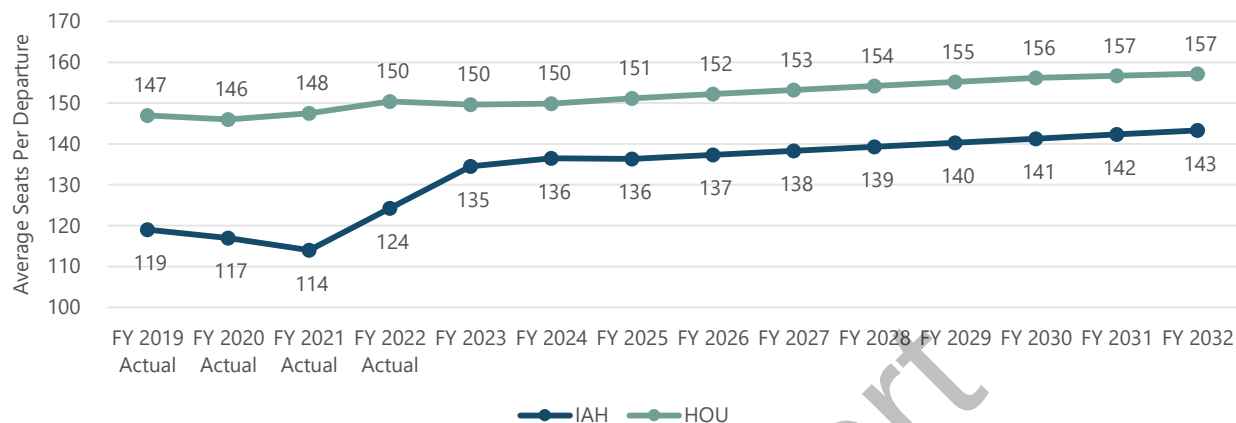
YEAR	IAH PASSENGER OPERATIONS				HOU PASSENGER OPERATIONS			
	OPERATIONS	OPERATIONS % OF 2019	AVERAGE SEATS PER DEPARTURE	AVERAGE LOAD FACTOR	OPERATIONS	OPERATIONS % OF 2019	AVERAGE SEATS PER DEPARTURE	AVERAGE LOAD FACTOR
FY 2019 Actual	442,340		119	85.1%	124,304		147	80.4%
FY 2020 Actual	355,572	80.4%	117	79.6%	104,048	83.7%	146	69.9%
FY 2021 Actual	265,860	60.1%	114	71.6%	89,430	63.3%	148	63.3%
FY 2022 Actual	391,006	88.4%	124	81.5%	108,134	79.4%	150	79.4%
FY 2023	380,220	86.0%	135	86.1%	113,356	81.3%	150	81.3%
FY 2024	398,024	90.0%	136	85.6%	118,849	81.1%	150	81.1%
FY 2025	405,163	91.6%	136	85.6%	123,019	81.1%	151	81.1%
FY 2026	410,406	92.8%	137	85.8%	124,380	81.3%	152	81.3%
FY 2027	415,639	94.0%	138	86.0%	125,742	81.5%	153	81.5%
FY 2028	420,861	95.1%	139	86.2%	127,104	81.7%	154	81.7%
FY 2029	426,098	96.3%	140	86.4%	128,473	81.9%	155	81.9%
FY 2030	431,346	97.5%	141	86.6%	129,848	82.1%	156	82.1%
FY 2031	437,073	98.8%	142	86.7%	131,798	82.2%	157	82.2%
FY 2032	442,803	100.1%	143	86.8%	133,760	82.3%	157	82.3%
CAGR								
FY 2019 – FY 2032	0.0%		1.4%		0.6%		0.5%	
FY 2022 – FY 2032	1.3%		1.4%		2.1%		0.4%	

SOURCES: Houston Airport System, April 2023 (actual passengers to derive calculation of actual load factor); US Department of Transportation, T-100 Database, April 2023 (actual operations and seats per departure); Ricondo & Associates, Inc., June 2023 (forecast operations, load factor, and seats per departure).

Exhibit 5-14 presents the historical and forecast average seats per passenger airline operation at IAH and HOU. **Exhibit 5-15** presents the historical and forecast average load factor at IAH and HOU.

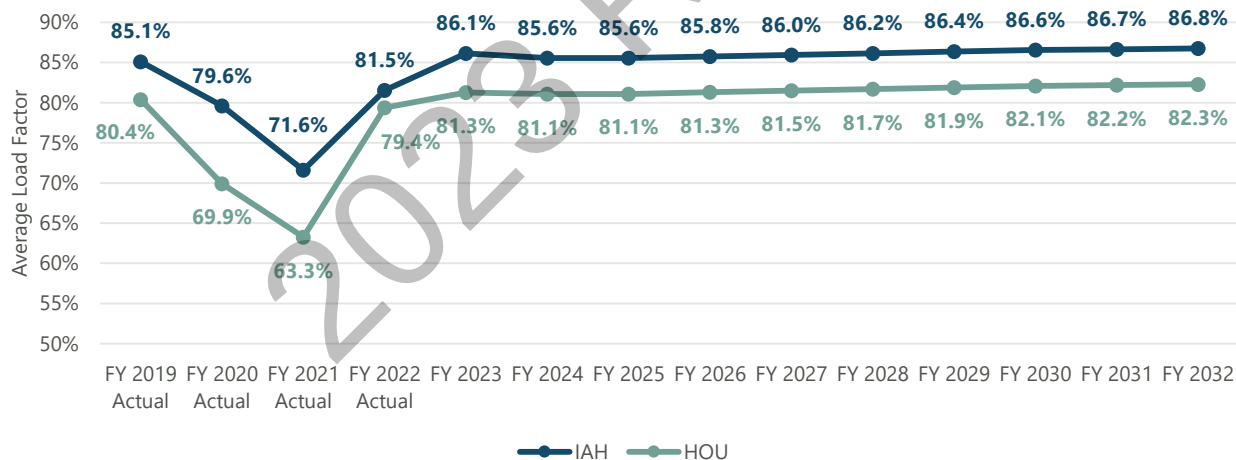
The forecast of non-passenger airline operations was based on growth rates established in the 2021 FAA Aerospace forecast for air taxi and general aviation operations applied to the baseline FY 2022 reported operations. Military operations were assumed to remain constant FY 2022 levels through FY 2030. **Table 5-32** presents the actual and forecast operations at IAH from FY 2019 through FY 2032. **Table 5-33** presents the actual and forecast operations at HOU from FY 2019 through FY 2032.

EXHIBIT 5-14 IAH AND HOU AVERAGE SEATS PER PASSENGER AIRLINE DEPARTURE



SOURCES: US Department of Transportation, T-100 Database, April 2023 (actual seats per departure); Ricondo & Associates, Inc., June 2023 (forecast seats per departure).

EXHIBIT 5-15 IAH AND HOU AVERAGE LOAD FACTOR



SOURCES: Houston Airport System, April 2023 (actual passengers to derive calculation of actual load factor); US Department of Transportation, T-100 Database, April 2023 (actual seats to derive calculation of load factor); Ricondo & Associates, Inc., June 2023 (forecast load factor).

TABLE 5-32 IAH TOTAL OPERATIONS FORECAST

YEAR	OPERATIONS				
	AIR CARRIER ¹	AIR TAXI / COMMUTER ²	GENERAL AVIATION ³	MILITARY	TOTAL
FY 2019 Actual	368,459	94,198	10,751	105	473,513
FY 2020 Actual	306,832	70,597	8,257	219	385,905
FY 2021 Actual	230,427	57,963	6,392	163	294,945
FY 2022 Actual	342,896	71,226	7,876	145	422,143
FY 2023	351,920	51,341	8,203	145	411,609
FY 2024	369,536	52,008	8,387	145	430,076
FY 2025	378,693	51,017	8,458	145	438,313
FY 2026	385,859	49,743	8,480	145	444,227
FY 2027	393,080	48,361	8,501	145	450,088
FY 2028	400,378	46,887	8,523	145	455,933
FY 2029	407,787	45,327	8,545	145	461,804
FY 2030	415,301	43,678	8,567	145	467,691
FY 2031	423,340	41,976	8,589	145	474,050
FY 2032	431,499	40,182	8,611	145	480,436
CAGR					
FY 2019 – FY 2032	1.2%	-6.3%	-1.7%	2.5%	0.1%
FY 2022 – FY 2032	2.3%	-5.6%	0.9%	0.0%	1.3%

NOTES:

- 1 Air carrier includes aircraft with seating capacity of more than 60 seats or a maximum payload capacity of more than 18,000 pounds carrying passengers or cargo for hire or compensation.
- 2 Air taxi and commuter includes aircraft with seating capacity of 60 seats or less or a maximum payload capacity of 18,000 pounds or less carrying passengers or cargo for hire or compensation.
- 3 General aviation includes all civil aviation that is not for hire or compensation and excludes military operations. Activity includes flying for personal or corporate reasons and pilot training.

SOURCES: Houston Airport System, April 2023 (actual); Ricondo & Associates, Inc., June 2023 (forecast).

TABLE 5-33 HOU TOTAL OPERATIONS FORECAST

YEAR	OPERATIONS				
	AIR CARRIER ¹	AIR TAXI / COMMUTER ²	GENERAL AVIATION ³	MILITARY	TOTAL
FY 2019 Actual	122,207	29,871	54,495	878	207,451
FY 2020 Actual	104,010	21,008	41,098	524	166,640
FY 2021 Actual	88,994	24,284	40,843	575	154,696
FY 2022 Actual	106,569	28,498	53,893	667	189,627
FY 2023	112,249	27,239	56,131	667	196,286
FY 2024	117,686	28,010	57,390	667	203,753
FY 2025	121,805	29,454	57,878	667	209,804
FY 2026	123,145	29,892	58,025	667	211,729
FY 2027	124,485	30,268	58,173	667	213,593
FY 2028	125,826	30,623	58,321	667	215,436
FY 2029	127,173	30,976	58,470	667	217,286
FY 2030	128,526	31,321	58,620	667	219,134
FY 2031	130,452	31,672	58,771	667	221,562
FY 2032	132,390	32,029	58,922	667	224,008
CAGR					
FY 2019 – FY 2032	0.6%	0.5%	0.6%	-2.1%	0.6%
FY 2022 – FY 2032	2.2%	1.2%	0.9%	0.0%	1.7%

NOTES:

- 1 Air carrier includes aircraft with seating capacity of more than 60 seats or a maximum payload capacity of more than 18,000 pounds carrying passengers or cargo for hire or compensation.
- 2 Air taxi and commuter includes aircraft with seating capacity of 60 seats or less or a maximum payload capacity of 18,000 pounds or less carrying passengers or cargo for hire or compensation.
- 3 General aviation includes all civil aviation that is not for hire or compensation and excludes military operations. Activity includes flying for personal or corporate reasons and pilot training.

SOURCES: Houston Airport System, April 2023 (actual); Ricondo & Associates, Inc., June 2023 (forecast).

The passenger landed weight forecast was based on forecast year-over-year percentage change in passenger airline departing seats applied to the baseline FY 2022 passenger airline landed weight at IAH and HOU, under the assumption that changes in average seats per departure generally reflect changes in average aircraft size. The all-cargo landed weight forecast was based on the year-over-year percentage change in cargo revenue ton miles as presented in the 2022 FAA aerospace forecast applied to the baseline FY 2022 all-cargo landed weight at IAH and HOU, under that assumption that cargo volumes at IAH and HOU grow in line with national averages and that average all-cargo aircraft size does not meaningfully change over the course of the projection period. **Table 5-34** presents the actual and forecast passenger airline and all-cargo landed weight at IAH and HOU from FY 2019 through FY 2032.

TABLE 5-34 IAH AND HOU LANDED WEIGHT FORECAST

YEAR	IAH LANDED WEIGHT			HOU LANDED WEIGHT		
	PASSENGER AIRLINES	ALL-CARGO	TOTAL	PASSENGER AIRLINES	ALL-CARGO	TOTAL
FY 2019 Actual	26,917,988	2,255,670	29,173,658	8,035,814	314	8,036,128
FY 2020 Actual	21,197,537	2,472,152	23,669,689	6,674,567	330	6,674,897
FY 2021 Actual	15,478,782	2,283,326	17,762,109	5,692,206	71	5,692,277
FY 2022 Actual	24,650,269	2,285,613	26,935,882	6,900,113	225	6,900,338
FY 2023	25,949,271	2,324,997	28,274,268	7,413,537	229	7,413,766
FY 2024	27,554,850	2,361,968	29,916,818	7,784,906	233	7,785,139
FY 2025	28,013,081	2,450,830	30,463,911	8,127,525	242	8,127,766
FY 2026	28,583,809	2,537,081	31,120,889	8,271,811	250	8,272,061
FY 2027	29,159,060	2,620,146	31,779,206	8,417,298	258	8,417,556
FY 2028	29,738,899	2,703,725	32,442,624	8,564,006	267	8,564,273
FY 2029	30,325,100	2,789,241	33,114,342	8,712,390	275	8,712,665
FY 2030	30,917,345	2,876,207	33,793,552	8,862,372	284	8,862,656
FY 2031	31,549,518	2,961,768	34,511,286	9,024,280	292	9,024,572
FY 2032	32,187,724	3,051,087	35,238,811	9,187,806	301	9,188,107
CAGR						
FY 2019 – FY 2032	1.4%	2.4%	1.5%	1.0%	-0.3%	1.0%
FY 2022 – FY 2032	2.7%	2.9%	2.7%	2.9%	2.9%	2.9%

SOURCES: Houston Airport System, April 2023 (actual); Ricondo & Associates, Inc., June 2023 (forecast).

6. FINANCIAL ANALYSIS

This chapter presents the financial structure of HAS and describes historical and projected financial information. The analysis supporting this chapter incorporates estimated impacts of the HAS CIP on projected O&M Expenses, airline and non-airline revenues, and debt service requirements, including the issuance of the 2023 Bonds and anticipated future bond issuances. The resulting airline cost per enplaned passenger and projected application of Revenues are discussed, and debt service coverage throughout the Projection Period is calculated pursuant to the Bond Ordinance. Certain assumptions are made regarding use agreements with airlines that are currently being negotiated and are not yet executed.

6.1 FINANCIAL FRAMEWORK

HAS, as a department of the City and an enterprise fund of the City, manages and operates the three Airports owned by the City. HAS maintains the financial records and accounts of the Airports in accordance with generally accepted accounting principles and as required by the provisions of the Bond Ordinance. Neither the City of Houston nor State of Texas tax revenues are pledged to the payment of debt service or to fund the cost of operations at the Airports. The City's FY ends June 30.

As defined in the Bond Ordinance, Net Revenues pledged to the payment of Airport Obligations include Net Revenues of the combined Airport System (IAH, HOU, and EFD). Therefore, the financial framework and debt service coverage calculations presented in this Chapter reflect Net Revenues and Airport Obligations associated with all three airports operated by HAS.

6.1.1 AIRLINE FEES AND CHARGES AT GEORGE BUSH INTERCONTINENTAL/HOUSTON AIRPORT

Various physical and functional areas of IAH are separated into Airport Cost Centers to allow for a portion of the costs of operating, maintaining, improving, and expanding Intercontinental to be allocated to the signatory airlines through the calculation of airline rates and charges.

The Cost Centers at IAH are summarized as follows:

- **Airfield.** The Airfield Cost Center includes runways, taxiways, taxilanes, and apron areas (other than apron areas available for lease and common use cargo aprons), navigational aids, hazard designations and warning devices, airfield security roads and fencing, blast fencing, lighting, clear zones and safety areas for landing, taking off and taxiing of aircraft, aviation easements, land utilized in connection therewith or acquired for such purpose, and facilities, the acquisition, construction, or installation cost of which is wholly or partially paid by the City.
- **Terminal Airline Areas.** Separate Terminal Airline Area Cost Centers are assigned for Terminals A, B, C, and E. Each Terminal Airline Area includes the space in the given terminal which is leased to or available for lease to airlines. Terminal A Airline Area Cost Center is further classified into baggage claim and loading bridge areas. Terminal-related Cost Centers assigned for Terminal D include Loading Bridge, Operations/Administration, Arrival, Departure, Ticketing, Bag Makeup, Non-FIS Bag Claim, VIP and Club, and Central Ticketing space.
- **Terminal Apron Areas.** Separate Terminal Apron Area Cost Centers are assigned for Terminals A, B, C, D, and E. The Terminal Apron Area for a given terminal includes the apron adjacent to the terminal as depicted in the airline use and lease agreements.
- **Central FIS.** The Central FIS means the IAH Federal Inspection Services facility located between Terminals D and E.

- **Automated People Mover.** This is defined as the APM system, including stations, walkways, guideways and maintenance and control facilities, which connects Terminal A, B, C, and D/E.
- **Non-Airline Cost Centers.** Non-airline cost centers include Public Areas of each Terminal, Other Buildings and Areas leased or available for lease to other Airport tenants and users at IAH, and areas or functions not attributable to an airline Cost Center.

Airline use and lease agreements have been authorized to formalize the main financial and operational arrangements between the City and the signatory airlines at Intercontinental. Rather than a single agreement applicable to IAH, distinct agreements have been developed for each terminal. For each agreement, charges are assessed using a residual airfield calculation and a compensatory cost recovery methodology for the remaining airline Cost Centers. However, costs at Terminal D are recovered primarily on a common use, or activity basis, while costs at the remaining terminals are primarily recovered on an exclusive or preferential use basis. In addition, the retention of concessions revenues and commitments regarding capital improvements vary between each use and lease agreement.

6.1.1.1 TERMINAL A

The airline use and lease agreement for Terminal A expired in 2005 but continues to be in effect through extensions on a month-to-month basis. Operational, maintenance, and capital improvement costs related to Terminal A airline cost centers are recovered from the signatory airlines through a compensatory rate calculation, as described in more detail in Section 6.6 of this Report. Holdrooms and aprons are leased on a preferential use basis. Space such as office or ticket counter areas are leased on an exclusive use basis, and areas used by multiple airlines, such as baggage claim, are leased on a common use basis. The agreement requires the City to provide the signatory airlines with detailed schedules for planned capital improvements at IAH.

For this analysis, it is assumed that a new airline agreement for the use of Terminal A will be executed prior to completion of DRP. Lease terms related to the amortization of AIF-funded and bond-funded project costs assigned to the Terminal A cost center after DBO of DRP are assumed to be commensurate with the amortization methodology described in the updated Terminal D agreement, which was under negotiation as of June 2023. Initial meetings have been held with the airlines regarding the updated Terminal A agreement, but negotiations are not yet underway as of June 2023.

6.1.1.2 TERMINALS B, C, AND E

In March of 1997, Continental Airlines (now United) entered into an agreement with the City for the use and lease of Terminals B and C at IAH. This lease was amended and restated as of December 1998.

In 2011, the lease was amended and restated for the second time. The second amended and restated lease was further amended as follows (1) Amendment No. 1 as of February 2013, (2) Amendment No. 2 as of April 2015, and (3) Amendment No. 3 as of August 2021. As amended, this lease is referred to herein as the Terminal B Special Facility Lease (SFL).

In 2015, in conjunction with Amendment No. 2 to the Terminal B SFL, the City and United entered into a new lease of Terminal C South. The use and lease of Terminal C South is now authorized by the Terminal C South Net Lease and Use Agreement, which was amended as of July 2021 (Terminal C Net Lease).

The original Terminal C North, located directly north of the Terminal C South concourse, was demolished to allow for future IAH development associated with the ITRP. United constructed a new north concourse that is located in

Terminal B but labeled as “Terminal C North,” which United leases from the City pursuant to the terms of the Terminal B SFL.

Terminal B Improvement Projects and Special Facilities Lease Agreement

United leases all of Terminal B through the Terminal B SFL which expires in March of 2042, subject to certain extension rights. The agreement allows United to lease all of Terminal B under net lease arrangements whereby United provides a portion of inside concessions revenues to the City. The agreement also grants United Airlines the right to redevelop Terminal B in three phases.

Phases 1 and 2 of the redevelopment, the Terminal B South concourse redevelopment and the construction of the new Terminal C North concourse, were funded in part by special facility revenue bonds. In order to allow for the completion of Phase 2, the agreement was amended in 2015 to modify United’s leasehold, allowing for the construction of the new Terminal C North concourse (west of the original Terminal C North concourse) and other ITRP projects described in the Memorandum of Agreement related to the ITRP (ITRP MOA).

Phase 3 of the Terminal B redevelopment has not yet occurred. Phase 3 would involve the construction of two new north concourses at Terminal B, replacing the only two remaining original flight stations discussed in Chapter 2 of this Report. United’s right to proceed with the development of financing of Phase 3 in accordance with the Terminal B SFL expires in December of 2024.

Terminal C South Net Lease and Use Agreement

United Airlines leases all of Terminal C South pursuant to the Terminal C South Net Lease and Use Agreement. The Terminal C South area, defined to include Terminal C South Concourse as well as the central terminal building and a portion of the B-D connector, is leased exclusively to United, and United has preferential use rights for the Terminal C South apron and associated gates. The term of the Terminal C South Net Lease and Use Agreement extends through 2037.

United provides payments to the City to recover the operation, maintenance, and ongoing capital costs for Terminal C South, as described in more detail in Section 6.6. United also pays ground rentals for the footprint of the facility.

The agreement allows United to operate and manage inside concessions and the sale and display of advertising in Terminal C South. United is permitted to retain the majority of the inside concessions revenues from Terminal C South. United Airlines pays the City 10 percent of all net concessions revenues, up to a maximum of \$500,000 per Fiscal Year, during the period beginning in FY 2015 and ending on December 31, 2025. After December 31, 2025, United Airlines will retain all inside concessions revenues from Terminal C South.

Applicable beginning in the FY following the DBO of the MLIT, Section 5.02 of the agreement requires the City to provide all signatory airlines with a share of non-airline revenues in any FY when HAS debt service coverage ratio exceeds 1.5.¹¹⁷

Terminal E Lease and Special Facilities Lease Agreement

The City and Continental Airlines (now United) entered into an agreement in 2001 which provided for the development, financing, construction, use, and lease of Terminal E. The construction of Terminal E was funded in

¹¹⁷ As defined in the Terminal C South Net Lease and Use Agreement, MLIT includes Terminal C North, the West Pier of Terminal D, and central processing area.

part with the Series 2001 Special Facility Bonds (subsequently refinanced)¹¹⁸, the debt service payments of which are provided to the City by United Airlines. United Airlines leases all of Terminal E, as well as its check-in facilities in the Central FIS building. The term of the Terminal E Lease and Special Facilities Lease Agreement extends to 2030, subject to certain extension rights.

United Airlines provides payments to the City to recover the operation, maintenance, and ongoing capital costs for Terminal E, as described in more detail in Section 6.6. United is also charged ground rentals for the footprint of the facility. In addition to the exclusive use of Terminal E gates, the Agreement provides United with the right to use up to six gates in Terminal D, subject to certain conditions. The Agreement also allows United to retain all inside concessions in the South Concourse of Terminal E and United's check-in facility.

ITRP Memorandum of Agreement

The original ITRP MOA was authorized in 2014, documenting the terms which were agreed upon between United and the City related to the development of IAH. In 2018, the authorization of the Amended and Restated Memorandum of Agreement for the Redevelopment of Terminals at George Bush Intercontinental/Houston Airport amended and fully restated the original Memorandum of Agreement. The ITRP MOA defines the agreed-upon scope for two capital improvement projects, the Terminal A Redevelopment Project and ITRP, and outlines each party's rights and responsibilities regarding the improvements.

The scope of ITRP is defined within the MOA to include the following components: (1) a North Concourse, including the construction of a West Pier, Central Pier, and East Pier (2) a Central Processor, (3) modifications to the FIS, and (4) various enabling projects. All project components will be undertaken at the City's cost and expense, with the exception of the various enabling components, which are to be performed by the City or United as the parties may mutually agree.

Phase 1 of the ITRP is defined as the completion of the West Pier, the Central Processor, and the FIS modifications. Additional details on the scope of these components and anticipated timeframe for completion are discussed in Chapter 3 of this Report. A final not-to-exceed budget for Phase 1 of ITRP is stated as \$1.3 billion, in escalated dollars. The HAS CIP for FY 2024 through FY 2030 does not include any additional ITRP elements such as the North Concourse Central or East Piers, nor does the City anticipate such elements to occur within the Projection Period. Therefore, for the purposes of this Report, any use of the term ITRP reflects those elements defined as Phase 1 of ITRP in the ITRP MOA.

Section 5.1.2 of the ITRP MOA states, "In the event that the debt service coverage ratio...is greater than 1.5 at the end of any FY that occurs after the final date of beneficial occupancy of Phase 1 of ITRP, the non-airline revenue sharing formula for all signatory airlines (including United) shall be as provided in Section 5.02 of the Terminal C South Net Use and Lease Agreement between the City and United effective April 10, 2015."

The City is required to negotiate a rates and charges methodology to allow for separate charges for domestic and international operations. Airline CPE for domestic or pre-cleared operations in the North Concourse must equal the then-current airline CPE in Terminal A (excluding the landing fee and APM components). The ITRP MOA also limits

¹¹⁸ At the request of United, the City issued (1) its Airport System Special Facilities Revenue Refunding Bonds, Series 2014 (the Series 2014 Bonds) to refund the Series 2001 Bonds and (2) its Airport System Special Facilities Revenue Refunding Bonds, Series 2020A to refund a portion of the Series 2014 Bonds.

the CPE for the first five fiscal years following the DBO for ITRP such that the International CPE¹¹⁹ is no more than 150 percent of the same International CPE in FY 2018, adjusted annually for inflation as measured by the Houston Consumer Price Index (CPI).

Section 5.2.4.3 of the ITRP MOA outlines the agreed-upon priorities for the application of PFCs to the development of the ITRP. PFCs must be prioritized within the airline cost centers in the following order: (1) the apron, (2) the loading bridges, (3) the departure area, (4) the arrival area, and (5) all other airline cost centers.

The City also agrees to negotiate new airline use and lease agreements or amendments to incorporate the applicable terms of the ITRP MOA, including;

- a new agreement for the North Concourse to replace the existing Terminal D lease,
- a new Terminal A lease to provide United preferential rights for four Terminal A gates,
- a sublease agreement to allow the City to sublease the Terminal E Ticketing Hall from United,
- a supplement, amendment, or restatement of the Terminal E Special Facilities Lease, and
- an updated United Airlines Technical Operations Center Special Facilities Lease Agreement.

Amendment No. 1 to Terminal E Lease and Special Facilities Lease Agreement was executed in 2021, meeting the requirement to restate the Terminal E Special Facilities Lease. The sublease of the Terminal E Ticketing Hall was also executed in 2021. The ITRP MOA remains in effect until all the required agreements have been issued.

Amendment No. 1 to Terminal E Lease and Special Facilities Lease Agreement

Authorized in 2021, Amendment No. 1 to Terminal E Lease and Special Facilities Agreement amended and supplemented the original Agreement to facilitate the construction of the Terminal E baggage handling system project and the development of the ICP.

United requested that the City issue the Airport System Special Facilities Revenue Bonds, Series 2021A to provide funds for the development of an integrated Terminal E baggage handling system to support United's operations. The Amendment No. 1 also facilitates the construction of the ICP at the City's cost and expense, in accordance with the terms of the 2018 amendment to the ITRP MOA. In conjunction with the bonds and amendment to the Terminal E Lease, United and the City also entered into a sublease of the existing Terminal E ticketing hall to enable the construction of the ICP. After construction, United will lease a portion of the new ticketing hall. The City will construct a baggage tunnel and above-ground baggage corridor to support United's Terminal E baggage handling system.

6.1.1.3 TERMINAL D

Airline agreements for the use of Terminal D and the Central FIS Building expired in June 2020. Beginning in July of 2020, the terms of the prior agreement were extended on a month-to-month basis. The various sub-cost centers included in the financial structure for the Terminal D use and lease agreement allow for the majority of airline fees at Terminal D to be calculated on a common use basis, whereby an airline's share of costs is determined based on

¹¹⁹ International CPE is defined in the MOA as "the total terminal fees (arrival fee, departure fee and ticketing fee, as currently calculated in Terminal D rates and charges) payable by airlines operating internationally in the North Concourse (excluding amounts payable for exclusive use space, such as offices, airline lounges or VIP clubs) divided by total enplaned international passengers at the North Concourse."

certain activities. As of the date of this Report, negotiations are nearing completion for a new airline agreement for the use of these facilities.

HAS intends to continue to charge for the use of Terminal D and FIS facilities primarily on a common use basis. Pursuant to the ITRP MOA, an international CPE cap will be imposed to ensure that the international CPE is no more than 150 percent of the same International CPE in FY 2018, adjusted annually for inflation as measured by the Houston CPI, and revenue sharing will be incorporated into the new agreement. Additional terms related to the calculation of airline rates and charges, such as the O&M Expense and amortization costs allocable to the rate base beginning in the FY of ITRP DBO, are anticipated to be included in the new agreement and are therefore incorporated into the calculations associated with this Report.

6.1.2 AIRLINE FEES AND CHARGES AT WILLIAM P. HOBBY AIRPORT

Similar to IAH, various physical and functional areas of Hobby are separated into Airport Cost Centers to allow for a portion of the costs of operating, maintaining, improving, and expanding HOU to be allocated to the signatory airlines through the calculation of airline rates and charges.

Airport Cost Centers, or direct cost areas, at Hobby are summarized below.

- **Airfield.** This includes the Airfield of Hobby. The definition of the Airfield at Hobby is unchanged from the definition of the Airfield at IAH.
- **Central Concourse Apron.** This includes the portion of the Apron Area adjacent to the Central Concourse.
- **Central Terminal/Central Concourse.** This Cost Center includes the areas of the Terminal Complex identified as the Central Concourse, as further defined in the space exhibits of the lease agreement.
- **International Facility.** The International Facility at HOU is comprised of three sub-cost centers: the West Concourse, the West Concourse Apron, and the FIS area. The FIS area is defined as the portion of the Terminal Complex, together with the sterile corridors; together with all necessary space and equipment required by the Department of Homeland Security, Customs and Border Protection and related regulating agencies.
- **Parking & Ground Transportation.** This includes the public automobile parking structure and surface parking lots accommodating public automobile parking and ground transportation vehicle staging.
- **Other Buildings and Areas.** The Other Buildings and Areas Cost Center includes the other buildings and ground areas of HOU leased or available for lease to other Airport tenants and users.
- **Terminal Roadways.** This includes the loop terminal roadway system within the Airport bounds, serving the Terminal Complex and Parking and Ground Transportation Area.

The Hobby Airport Use and Lease Agreement, initially established in 2013, provides for the operational and financial arrangement between the City and airlines operating at HOU. Airlines operating from Hobby are provided the opportunity to enter into either Short-Term or Long-Term Airport Use and Lease Agreements, with terms extending to five years after authorization or to 2040 for the Short-Term and Long-Term leases, respectively. The Short-Term agreements may be renewed for five-year periods until 2040.

The airline use and lease agreement specifies that only Long-Term Signatory Airlines may lease gates in the West Terminal / West Concourse. Long-Term Signatory Airlines are also provided the opportunity to receive an Inside Concession Revenue Credit which is calculated based on a proportion of total Inside Concession Revenue as measured by enplaned passengers above a set baseline, up to a total Inside Concession Revenue Credit of \$3.9 million annually, to be allocated among the Long-Term Signatory Airlines.

Similar to IAH, the cost recovery methodology for HOU is compensatory for all airline cost centers with the exception of the residual airfield. However, the terminal area costs at IAH are related only to airline areas and are recovered at a rate which is calculated based on the square footage of airline leasable space, whereas terminal costs at HOU are related to the entire terminal usable space and are recovered at a rate which is based on the total usable square footage of the terminal.

Apron and gate areas are leased on a preferential use basis, while space such as airline offices are leased on an exclusive use basis. Areas used in common with multiple airlines, such as baggage claim, are leased on a joint use basis. Non-signatory airlines are charged a 25 percent premium on all rates, fees, and charges. The Hobby airline use and lease agreement also includes a provision for extraordinary coverage protection which requires the signatory airlines to provide additional revenues if debt service coverage falls below 1.25.

As described in Chapter 3, an expansion to the Hobby west concourse is planned for construction by Southwest Airlines and HAS. The negotiation of an amendment to the Hobby agreement is nearing completion as of the date of this Report. HAS anticipates that certain terms related to the calculation of airline rates and charges, such as the O&M Expense and amortization costs allocable to the rate base beginning in the FY of the west concourse expansion DBO, are anticipated to be included in the new agreement and are therefore incorporated into the calculations associated with this Report. It is also anticipated that the agreement will include a clause in which revenue sharing is undertaken if the HAS debt service coverage ratio exceeds 1.5.

Additional details on the airline rates and charges at HOU can be found in Section 6.6 of this Report.

6.2 OPERATION AND MAINTENANCE EXPENSES

O&M Expenses include expenses associated with operating, maintaining, and repairing the Airport System, including the airfield, terminal, and landside facilities. Historical, budgeted, and projected O&M Expenses are described in the following sections of this Report.

6.2.1 HISTORICAL OPERATION AND MAINTENANCE EXPENSES

Historical O&M Expenses and the resulting O&M Expenses per enplaned passenger values are presented in **Table 6-1**. Total O&M Expenses include expenses for the Airport System as a whole, including costs associated with IAH, HOU, and EFD.

TABLE 6-1 HISTORICAL OPERATION AND MAINTENANCE EXPENSES, FY 2018 THROUGH FY 2022

(Fiscal Years Ending June 30)

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	COMPOUND ANNUAL GROWTH RATE
Total O&M Expenses (thousands)	\$326,889	\$315,153	\$314,034	\$251,830	\$255,377	-6.0%
O&M Expenses Growth Rate	28.4%	-3.6%	-0.4%	-19.8%	1.4%	
Enplaned Passengers (thousands)	27,713	29,808	21,828	14,969	26,080	-1.5%
Enplaned Passengers Growth Rate	1.2%	7.6%	-26.8%	-31.4%	74.2%	
Total O&M Expenses per Enplaned Passenger	\$11.80	\$10.57	\$14.39	\$16.82	\$9.79	-4.6%

NOTES:

FY – Fiscal Year

O&M – Operation and Maintenance

Total O&M Expenses shown reflect O&M Expenses net of the application of COVID relief funds and other allowable exclusions as defined in the Master Bond Ordinance.

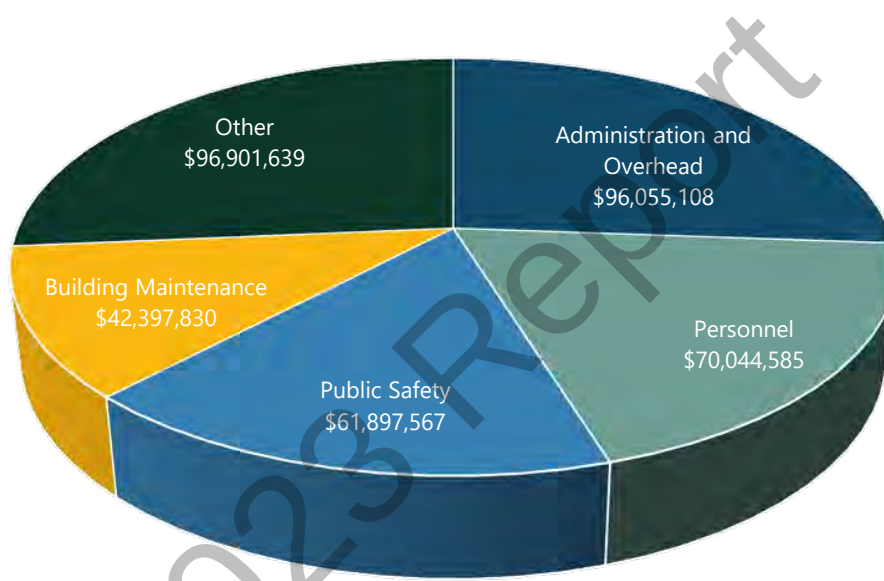
SOURCE: Houston Airport System, *Annual Comprehensive Financial Report for the Fiscal Years Ended June 30, 2022, and June 30, 2021*.

6.2.2 BUDGETED OPERATION AND MAINTENANCE EXPENSES AND GROWTH ASSUMPTIONS

Appendix A of this report includes the financial analysis performed by Ricondo including projected financial information through 2032. As shown in **Table A-1** of Appendix A of this Report, FY 2023 budgeted total O&M Expenses are approximately \$366.6 million and are projected to increase to approximately \$482.8 million in FY 2032, reflecting a CAGR of 3.1 percent.

Exhibit 6-1 presents the FY 2023 budgeted O&M Expenses by cost category.

EXHIBIT 6-1 FISCAL YEAR 2023 OPERATION AND MAINTENANCE EXPENSES BY COST CATEGORY



NOTE:

Other O&M Expenses include Parking, Utilities, Supplies, Capital Outlays, Noncapital Equipment, Collateralized Pension Note, Pension Obligation Bond Interest, and Other Services.

SOURCE: Houston Airport System, June 2023.

The final approved FY 2023 budget for HAS serves as the base year from which O&M Expenses are projected. O&M Expenses are projected to increase based on the type of expenditure, expectations of future inflation rates, and operational impacts of planned capital programs.

6.2.3 OPERATION AND MAINTENANCE EXPENSES RELATED TO THE AIRPORT SYSTEM CAPITAL PROGRAM

Upon completion of planned terminal expansion projects at IAH and HOU, certain categories of O&M Expenses are anticipated to increase as a direct result of the added space. Three projects in the HAS CIP are anticipated to expand IAH or HOU terminal area footprints during the timeframe of the Projection Period: IAH ITRP, the HOU West Concourse Expansion, and the IAH DRP.

Based on current estimates, total space is projected to increase by the amounts shown in **Table 6-2** below. To account for each of these expansions, an increase in certain categories of O&M Expenses is assumed to occur in the given year of project completion, and those increases are assumed to be equivalent to the percentage increase in space. The categories of O&M Expenses which are increased for this purpose include supplies, electricity, gas, water, sewer, building maintenance services, and other Maintenance and Operational (M&O) services.

TABLE 6-2 ESTIMATED SPACE INCREASES ASSOCIATED WITH THE HAS CAPITAL IMPROVEMENT PROGRAM

(Fiscal Years Ending June 30)

CAPITAL IMPROVEMENT	PROJECT DBO	AREA OF IMPACT	SPACE INCREASE
ITRP (IAH West Pier)	FY 2024	IAH Terminal D	35%
ITRP (IAH ITRP Terminal D Modernization)	FY 2025	IAH Terminal D	13%
ITRP (IAH ITRP ICP and FIS Modifications)	FY 2027	IAH Central FIS	30%
HOU West Concourse Expansion	FY 2030	HOU West Concourse and FIS	32%
IAH Domestic Redevelopment Program	FY 2031	IAH Terminal A	40%

NOTES:

DBO – Date of Beneficial Occupancy

FY – Fiscal Year

IAH – George Bush Intercontinental/Houston Airport

ITRP – IAH Terminal Redevelopment Program

SOURCE: Houston Airport System, June 2023.

6.2.4 OPERATION AND MAINTENANCE EXPENSE PROJECTIONS

O&M Expenses are classified into the categories described in the following subsections. Additional information regarding O&M Expenses projected for FY 2023 through FY 2032 is presented in **Appendix A**.

6.2.4.1 ADMINISTRATION AND OVERHEAD

Administration and overhead expenses include allocated City overhead expenses relating to the administration, operation, and maintenance of the Airport System. Section 6.03 of the Bond Ordinance states that City overhead expenses may be charged to the Airport System provided that the amounts are reasonably allocable to the Airport System based upon a stated policy of allocation, reasonably applied to the Airport System and all other departments of the City. Expenses for administration overhead, which account for 26.1 percent (approximately \$96.1 million) of total O&M Expenses budgeted in FY 2023, are projected to increase at a CAGR of 2.0 percent through FY 2032. This is attributable primarily to inflation, although the distribution may shift based on an airport's proportion of operating costs.

6.2.4.2 PERSONNEL

Personnel expenses include HAS staff compensation and benefits. Expenses for salaries, wages, and employee benefits, which account for 19.1 percent (approximately \$70.0 million) of total O&M Expenses budgeted in FY 2023, are projected to increase at a CAGR of 3.4 percent through FY 2032. The assumed increase in personnel costs is primarily attributable to annual salary increases and additional staff requirements. Expenses associated with employee pensions is included in the Other Expenses cost category.

6.2.4.3 PUBLIC SAFETY

Public safety expenses include interfund police services, interfund fire protection services, and security services. HAS police and fire services are performed by other City funds on behalf of the Airport System Fund. Therefore, HAS police and fire services costs reflect the amounts charged to HAS by the City for these services. Section 6.03 of the Bond Ordinance states that the City may charge the Airport System for services rendered by the City, provided that such services are reasonably necessary and required for the Airport System and are not otherwise provided to the Airport System.

Public safety expenses account for 16.8 percent (approximately \$61.9 million) of total FY 2023 budgeted O&M Expenses and are projected to increase at a CAGR of 3.2 percent through the Projection Period. This is attributable primarily to inflation and additional public safety services requirements related to the Intercontinental terminal expansion.

6.2.4.4 BUILDING MAINTENANCE

Building maintenance O&M Expenses represent costs associated with contracted services to perform ongoing maintenance of HAS facilities. Building maintenance O&M Expenses account for 11.5 percent (approximately \$42.4 million) of total FY 2023 budgeted O&M Expenses and are projected to increase at a CAGR of 4.9 percent through the Projection Period. In addition to inflation, the projected growth in O&M Expenses for this category account for the expanded terminal footprints.

6.2.4.5 OTHER EXPENSES

Other HAS O&M Expenses consist of the following categories:

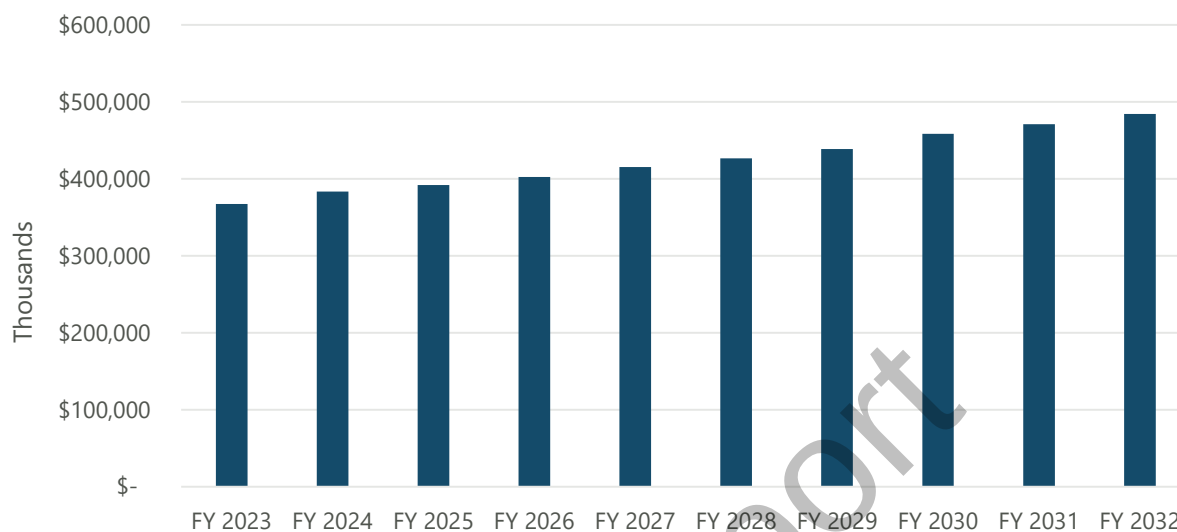
- Parking – Parking facilities, expected to grow due to inflation and terminal expansion projects
- Utilities – Electricity, gas, water, sewer, telephone, and refuse disposal, expected to grow due to inflation and increases to terminal footprints
- Supplies – Miscellaneous supplies expected to grow due to inflation and terminal expansion
- Capital Outlays – Capital Equipment controlled by HAS, expected to grow due to inflation
- Noncapital Equipment – Noncapital equipment controlled by HAS, expected to grow due to inflation
- Other services – Other O&M expenses, expected to grow due to inflation and terminal expansion
- Pension Obligation Bond Interest

In total, these O&M Expenses at HAS account for 26.4 percent (approximately \$97.0 million) of the FY 2023 budgeted O&M Expenses and are projected to increase at a CAGR of 3.1 percent through the Projection Period. Although not included in O&M Expenses, a portion of costs related to collateralized pension notes through FY 2024 are included within the amounts assigned to the Airport Cost Centers, in part recoverable through airline rates and charges.

Exhibit 6-2 presents the projected O&M Expenses.

As shown on Exhibit 6-2, total O&M Expenses are projected to increase from \$367.4 million in FY 2023 to \$484.3 million in FY 2032, reflecting a CAGR of 3.1 percent.

EXHIBIT 6-2 PROJECTED OPERATING AND MAINTENANCE EXPENSES



SOURCE: Houston Airport System, June 2023.

See Table A-1 in Appendix A of this Report for additional information regarding projected O&M Expenses.

6.3 NON-AIRLINE REVENUES

Non-airline revenues include all Gross Revenues¹²⁰ generated for the Airport System except for airline rates, fees, and charges.

6.3.1 HISTORICAL NON-AIRLINE REVENUES

Table 6-3 presents historical non-airline revenues, enplaned passengers, and calculated non-airline revenues per enplaned passenger values from FY 2018 through FY 2022. The revenues shown include non-airline operating revenues for the Airport System as a whole, including revenues derived from the operation of IAH, HOU, and EFD. Non-airline revenues totaled approximately \$219 million in FY 2018 and increased to approximately \$222 million in FY 2022, after decreasing in FY 2020 due to the effects of the COVID-19 pandemic on enplaned passenger activity.

Total non-airline revenues per enplaned passenger have increased at a CAGR of 1.8 percent from \$7.91 per enplaned passenger in FY 2018 to \$8.51 per enplaned passenger in FY 2022.

¹²⁰ Gross Revenues means all income and revenues derived directly or indirectly by the City from the operation and use of and otherwise pertaining to the Airport System, subject to the terms of the definition included in the Bond Ordinance.

TABLE 6-3 HISTORICAL NON-AIRLINE REVENUES, FY 2018 THROUGH FY 2022

(Fiscal Years Ending June 30)

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	COMPOUND ANNUAL GROWTH RATE
Total Non-Airline Revenues (thousands)	\$219,191	\$227,607	\$181,994	\$120,930	\$221,899	0.3%
Non-Airline Revenues Growth Rate	3.5%	3.8%	-20.0%	-33.6%	83.5%	
Enplaned Passengers (thousands)	27,713	29,808	21,828	14,969	26,080	-1.5%
Enplaned Passengers Growth Rate	1.2%	7.6%	-26.8%	-31.4%	74.2%	
Total Non-Airline Revenues per Enplaned Passenger	\$7.91	\$7.64	\$8.34	\$8.08	\$8.51	1.8%

NOTES:

Excludes non-operating revenue.

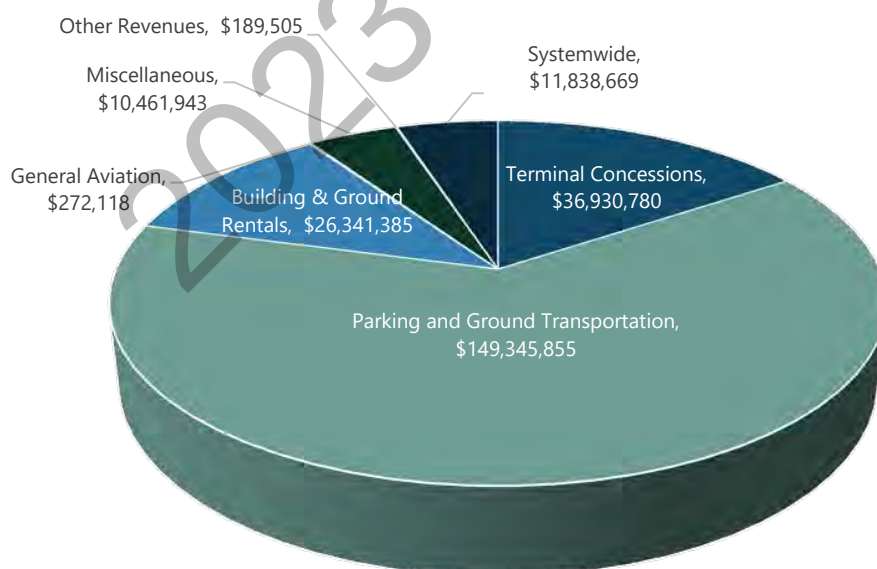
FY – Fiscal Year

SOURCE: Houston Airport System, June 2023.

6.3.2 BUDGETED NON-AIRLINE REVENUES AND GROWTH ASSUMPTIONS

Exhibit 6-3 presents the breakdown of budgeted FY 2023 non-airline revenues. Total non-airline revenues in FY 2023 are budgeted to equal approximately \$240.1 million.

EXHIBIT 6-3 FISCAL YEAR 2023 BUDGETED NON-AIRLINE REVENUES BY CATEGORY



NOTE:

Systemwide revenues include construction permits, ground transportation concessions, investment revenues, and systemwide miscellaneous revenue. Miscellaneous revenues include cell tower revenue, disposal fees, badging fees, miscellaneous operating revenue, and operating recoveries and refunds at IAH and HOU. Other revenues include various revenues collected at Ellington, including auto rental concessions, special event concessions, and recoveries and refunds.

SOURCE: Houston Airport System, June 2023.

As of April 2023, estimated non-airline revenues for FY 2023 total approximately \$253.8 million, or approximately \$14 million above budgeted non-airline revenues. Primary contributors to the non-airline revenue growth above budget for FY 2023 include IAH garage parking revenues (approximately \$14 million), IAH rental car concession revenues (approximately \$4 million), and HOU retail concession revenues (approximately \$4 million). Estimated FY 2023 non-airline revenues serve as the base from which non-airline revenues are projected. Non-airline revenues are projected to increase based on factors such as inflation, passenger activity growth, operational impacts, or a combination thereof, depending upon the category of revenues.

6.3.3 NON-AIRLINE REVENUE IMPACTS FROM CAPITAL PROJECTS

Non-airline revenues are projected to increase annually based on certain factors as described in Section 6.3.4. In addition to annual increases associated with factors such as inflationary or airline activity growth, non-airline revenues may be impacted by one-time increases to concession spending per passenger upon the expansion of IAH and HOU facilities. However, these additional incremental non-airline revenue increases are not assumed for purposes of this analysis. It is anticipated that any such increases to non-airline revenues resulting from additional concessions space would increase HAS Gross Revenues above the figures shown in Appendix A.

6.3.4 NON-AIRLINE REVENUE PROJECTIONS

Non-airline revenues are classified into the categories described in the following subsections. Additional information regarding non-airline revenues projected for FY 2023 through FY 2032 is presented in **Appendix A**.

6.3.4.1 PARKING AND GROUND TRANSPORTATION

Parking and ground transportation revenues include revenues from automobile parking, car rental, and other ground transportation at IAH and HOU.

On-Airport Automobile Parking Revenues

Budgeted parking revenues for FY 2023 are \$99.6 million. Two garages with direct connection to terminals exist at IAH, one serving Terminal As and B, and one serving Terminals C, D, and E. Daily parking rates range from \$24 and \$30 depending on garage and valet/self-parking option. HOU provides two parking garages connected to the terminal, with daily rate of \$24 for self-parking and \$28 for valet parking.

On-airport economy parking with free shuttle service to terminals is also available at both IAH and HOU. There are two economy parking lots at IAH, with daily rates that range from \$6.67 to \$8.31 plus tax. The daily rate at the only economy parking lot at HOU is \$9.24 plus tax.

Off-airport parking competitors serving IAH and HOU, such as Park 'N Fly near IAH and PreFlight Airport Parking near HOU, provide parking facilities and shuttle services to and from the airport. Their rates are typically competitive with economy parking offerings on-airport.

Future parking revenues are a function of on-airport parking demand and the availability of parking space demanded. In addition, several factors influence on-airport parking demand and subsequent revenue: the variety of parking products offered (e.g., valet parking, terminal garages, and economy spaces); off-airport parking competition; availability of alternative transportation, such as public transportation and taxis, as well as the impact of transportation network companies (TNCs), such as Uber and Lyft; and the cost and convenience associated with each of these facilities and alternatives. For purposes of the financial analysis included in this report, a shift in demand or modes used to access the airport is not assumed.

Alternative transportation options include public transportation via Houston's METRO buses, which provide direct access to both IAH and HOU, as well as taxi services and TNCs. From FY 2015 to FY 2020 (prior to the impact of COVID-19), HAS annual taxi transactions were decreasing each year as TNC transactions increased.¹²¹ However, this trend was beginning to stabilize prior to the impact of COVID-19. Further shifts in IAH and HOU access during the Projection Period may occur; however, due to the uncertainty of future changes to ground transportation transactions and associated transportation fee structures, revenue projections developed for the financial analysis included in this Report assume no additional impact on parking and car rental demand from TNCs during the Projection Period.

It is assumed that on-airport parking demand will increase at a rate consistent with the increase in originating enplaned passengers described in Chapter 5. However, parking revenues in FY 2024 and FY 2025 are anticipated to be affected by a decrease in parking spaces available during the construction of certain projects, which is taken into account in this analysis. As a result, automobile parking revenues, which account for 41.5 percent of total non-airline revenues budgeted in FY 2023, are projected to increase at a CAGR of 5.6 percent through FY 2032.

For the purpose of this analysis, parking revenues are calculated without taking into account any assumed parking rate increases throughout the Projection Period. However, any planned increases to parking rates would be expected to result in higher parking revenues than the figure shown in Appendix A.

Car Rental

HAS currently holds concession agreements with each of the four rental car operators (representing 10 rental car brands) at the Intercontinental consolidated rental car center. The rental car agreements expire June 2027. It is assumed that the agreements will be renewed with substantially similar terms.

The concession agreements with rental car operators at Hobby operate on a month-to-month basis as of January 1, 2021.

Car rental revenues are budgeted to be approximately \$34.9 million in FY 2023 and are projected to increase at a CAGR of 3.2 percent during the Projection Period, which reflects HAS estimates for FY 2024 rental car revenues and incorporates the rate of growth assumed for O&D enplaned passengers for the period from FY 2025 through FY 2032.

Other Ground Transportation

Fees are imposed by the HAS on other ground transportation modes, including off-airport parking, TNCs, taxis, limos, courtesy vehicles, and shuttles.

There are numerous off-airport parking service providers near IAH and HOU. Passengers can park at those facilities and take the complimentary shuttles to the airport terminals. The off-airport parking service providers are required to pay HAS license fees and share part of revenue. During FY 2021, \$1.6 million of revenue was collected from off-airport parking.

TNCs, including Uber, Lyft, Wingz and Alto, provide on demand point-to-point service for passengers. TNC trip fees are charged by the HAS for every pick-up and drop-off at IAH or HOU. Like TNC rides, for each taxi ride from IAH or HOU, a departure fee is collected by the HAS. During FY 2021, \$4.0 million of revenue was collected from TNCs, and \$0.2 million of revenue was collected from taxis.

¹²¹ Transportation Network Company Operating Agreements, Economic Development Committee, Houston Airport System, July 15, 2020.

Limos, courtesy vehicles, and shuttle operators need to pay HAS permit fees to operate at IAH and HOU. Besides, they are also required to pay HAS trip fees based on number of trips made. During FY 2021, 0.2 million of revenue was collected from the limos, courtesy vehicles, and shuttle operators. In addition, the HCTRA pays the HAS a part of toll revenues of Hardy Toll Road Airport Connector]. During FY 2021, the HAS received \$0.8 million of revenue from the HCTRA.

Other ground transportation revenues were budgeted for FY 2023 to total approximately \$14.9 million and are projected to increase at a CAGR of 8.7 percent throughout the Projection Period, based on inflation and enplaned passenger growth.

6.3.4.2 BUILDING AND GROUND RENTALS

Building and ground rental revenues include rental fees for building space, facilities, cargo buildings, hangars, and other grounds leased by the City, as well as revenues from non-airline terminal space. Ground rentals are charged by the City based on long-term leases of land at Intercontinental, Hobby, and Ellington Airports. The rental rates charged are primarily market-based and are escalated periodically. Land is leased to various corporations and entities for hangars, maintenance facilities, cargo buildings, car rental service and storage, and other buildings and permanent improvements.

Building and ground rental revenues are budgeted to be approximately \$26.3 million in FY 2023 and are projected to increase at the rate of inflation during the Projection Period.

6.3.4.3 TERMINAL CONCESSIONS

Terminal concessions revenues include revenues from food and beverage concessions, news and gifts counters, duty-free concessions, advertising concessions, and all other miscellaneous concessions in the terminals at IAH and HOU.

Agreements are currently held between HAS and the following terminal concession providers: JC Decaux (IAH and HOU), International Shoppes Shekinah Group (IAH), Paradies-HOU and Paradies-IAH, WDFG (IAH and HOU), Host International (IAH), SSP America Texas (IAH), Latrelle's Galley (IAH), and 4 Families of Houston (HOU).

Terminal concessions revenues do not include those concessions revenues retained by United Airlines through its net lease agreements with HAS for IAH Terminals B, C, and E. Terminal concessions revenues shown in Table A-2 are net of the Inside Concession Revenue Credit calculated for Long-Term Signatory Airlines at Hobby.

Terminal Concessions Revenues are budgeted to be approximately \$39.8 million in FY 2023 and are projected to increase at a CAGR of 7.7 percent during the Projection Period. Projections of concessions revenues were developed by category for each HAS terminal by multiplying the known percentage rent by estimated gross sales, which was in turn projected using a forecast of enplaned passengers by terminal and a gross sales per enplaned passenger value. Estimated gross sales per enplaned passenger is anticipated to increase based on inflation as well as the impact of added concessions space from capital improvement projects.

6.3.4.4 SYSTEMWIDE NON-AIRLINE REVENUES

Primarily consisting of interest income on pooled investments, systemwide non-airline revenues also include revenues derived from construction permits, other service charges, and a portion of ground transportation concessions. Each airport is allocated a share of systemwide non-airline revenues based on their share of total O&M Expenses.

In accordance with the Bond Ordinance's definition of Gross Revenues, the interest income on pooled investments included within the calculation of systemwide non-airline revenues excludes interest revenue earned in restricted bond funds and PFC Revenues.

Systemwide Non-Airline Revenues are budgeted to be \$11.8 million in FY 2023, with allocations of \$8.7 million for Intercontinental, \$2.8 million for Hobby, and \$240.0 thousand for Ellington. These amounts represent 73.9 percent, 24.1 percent, and 2.0 percent shares, respectively. Systemwide non-airline revenues are projected to increase based on the assumed rate of inflation throughout the Projection Period.

6.3.4.5 MISCELLANEOUS NON-AIRLINE REVENUES

Miscellaneous non-airline revenues include cell tower revenue, disposal fees, badging fees, miscellaneous operating revenue, and operating recoveries and refunds. Miscellaneous non-airline revenues are budgeted to be \$10.5 million in FY 2023 and are assumed to increase at a CAGR of 1.1 percent during the Projection Period.

6.3.4.6 GENERAL AVIATION AND OTHER NON-AIRLINE REVENUES

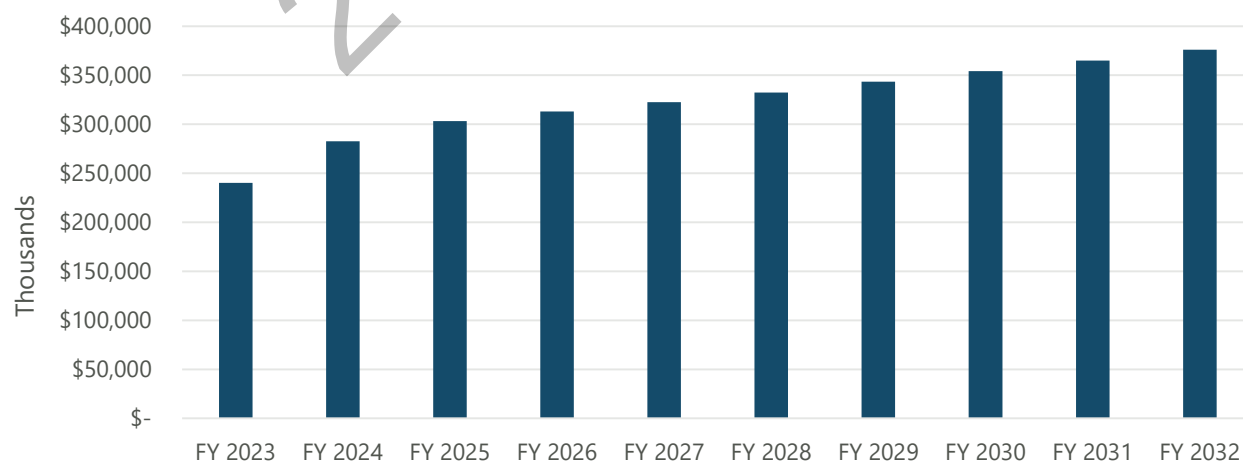
General Aviation Revenues include aviation fuel revenue at Ellington. General aviation revenues are budgeted to be approximately \$272,000 in FY 2023 and are projected to increase at the assumed rate of inflation throughout the Projection Period.

Other non-airline revenues include various revenues collected at Ellington, including auto rental concessions, special event concessions, and recoveries and refunds. Other non-airline revenues are budgeted to be approximately \$190,000 in FY 2023 and are projected to increase at the assumed rate of inflation throughout the Projection Period.

6.3.5 PROJECTED NON-AIRLINE REVENUES

Exhibit 6-4 shows the projected non-airline revenues. As shown in Exhibit 6-4, non-airline revenues are projected to increase from approximately \$240.1 million in FY 2023 to approximately \$376.0 million in FY 2032, reflecting a CAGR of 5.6 percent.

EXHIBIT 6-4 PROJECTED NON-AIRLINE REVENUES



SOURCE: Houston Airport System, June 2023.

6.4 OTHER AVAILABLE REVENUE

6.4.1 PASSENGER FACILITY CHARGE REVENUE

HAS is currently collecting a \$4.50 PFC per passenger at both IAH and HOU and has received authority from the FAA through four PFC Applications (two for IAH and two for HOU) to impose and use a total of approximately \$3.5 billion in PFC revenues for capital projects and associated financing costs. As of September 30, 2022, HAS has collected \$1.16 billion in PFC Revenues, including interest income.

The most recent PFC application, PFC #2 for IAH, was approved by the FAA in 2020 and includes approximately \$1.4 billion in PFC funding authority for Terminal D rehabilitation and expansion (MLIT), FIS rehabilitation and expansion, enabling landside utilities, and terminal roadway reconstruction, as well as Terminal A baggage handling system, roadway signage replacement, and restroom rehabilitations at Terminals A and D.

The Bond Ordinance allows that PFC Revenues may be committed to the payment of debt service for any Airport Obligation. PFC Revenues are not pledged to the payment of any Airport Obligation; however, periodically, HAS irrevocably commits PFC Revenues to the payment of Subordinate Lien Bonds.

Debt Service Requirements in the Bond Ordinance is defined as the total of the principal and interest due, less any portion of the debt service which has been irrevocably committed to be paid with funds other than Net Revenues, such as PFC Revenues.

Appendix A presents the projected annual PFC Revenue cash flow based on existing FAA approvals and assumed approvals for the west concourse and DRP, forecast enplaned passengers, an assumed PFC level of \$4.50 per enplaned passenger through the end of the Projection Period, and an assumed PFC collection ratio of 85 percent of enplaned passengers. See Section 6.5.3 for a discussion of the status of PFC applications for the west concourse and DRP.

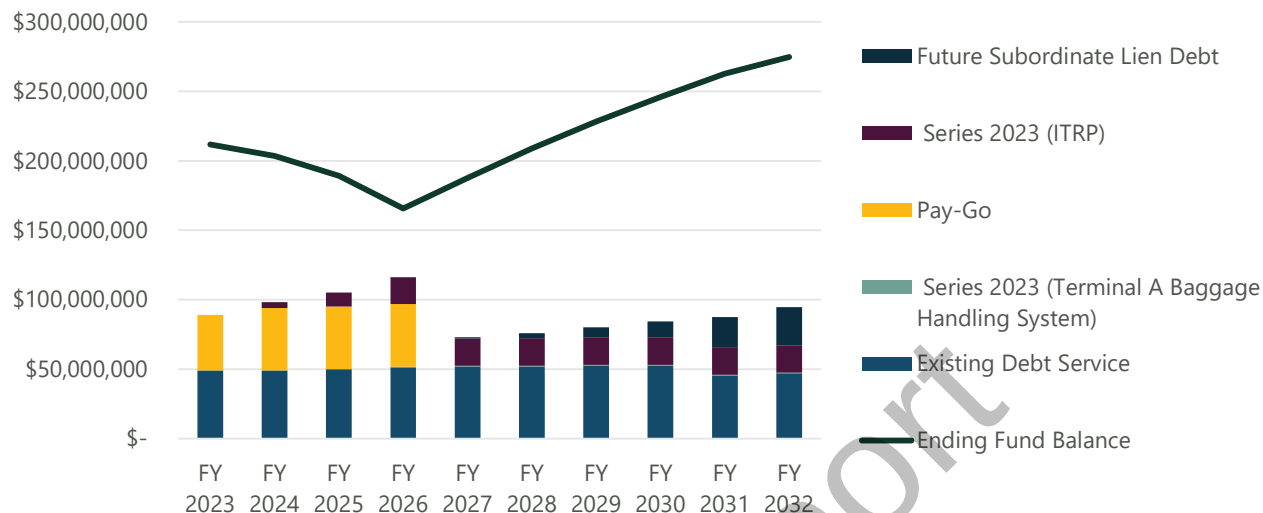
Projected PFC Revenues, as shown on **Exhibit 6-5** and **Exhibit 6-6**, are expected to be sufficient to cover all anticipated PFC commitments to the portion of Subordinate Lien Bonds that finance PFC projects. No PFC Revenues are anticipated to be committed to Senior Lien Obligations or Inferior Lien Obligations throughout the Projection Period.

6.4.2 FEDERAL AVIATION ADMINISTRATION AIRPORT IMPROVEMENT PROGRAM GRANTS AND OTHER FEDERAL FUNDING

The AIP provides grants for planning and development of public-use airports included in the National Plan of Integrated Airport Systems (NPIAS). IAH, HOU, and EFD are all NPIAS airports, so they are all eligible to receive AIP grants for certain projects meeting regulatory criteria. AIP grants are awarded on both an entitlement and discretionary basis. For this analysis, it is conservatively assumed that approximately \$2 million and approximately \$1 million will be awarded on an entitlement basis and applied annually for improvements at HAS and HOU, respectively.

HAS received a total of \$458 million of federal COVID relief funding, including approximately \$200 million in Coronavirus Aid, Relief, and Economic Security (CARES) Act proceeds, approximately \$52 million in Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) Proceeds, and approximately \$206 million in American Rescue Plan Act (ARPA) proceeds. In FY 2020 through FY 2023, HAS applied COVID relief funds to provide relief to airport concessionaires, reduce airline fees, and offset O&M Expenses and debt service requirements. As of May 2023, approximately \$63 million in COVID relief funding remains unspent. Approximately \$40 million is anticipated to offset debt service requirements for the Hobby west concourse expansion, and approximately \$10 million will be applied to offset existing debt service requirements in FY 2024. The remaining COVID relief funds will be applied to offset debt service in the remaining months of FY 2023.

EXHIBIT 6-5 PROJECTED PASSENGER FACILITY CHARGE COLLECTION AND USES-- INTERCONTINENTAL



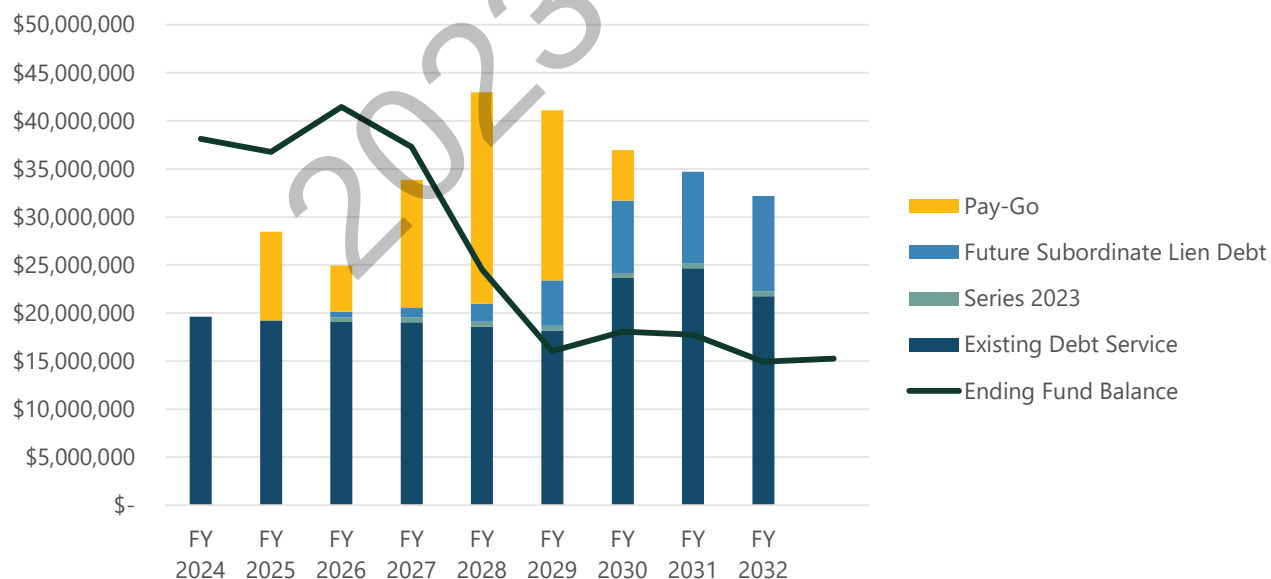
NOTES:

PFC – Passenger Facility Charge

Future Subordinate Lien Debt reflects anticipated future PFC approvals for the IAH Domestic Redevelopment Program.

SOURCE: Houston Airport System, June 2023.

EXHIBIT 6-6 PROJECTED PASSENGER FACILITY CHARGE COLLECTION AND USES-- HOBBY



NOTES:

Future Subordinate Lien Debt reflects anticipated future PFC approvals for the HOU West Concourse Expansion.

PFC – Passenger Facility Charge

SOURCE: Houston Airport System, June 2023.

The Bipartisan Infrastructure law (BIL), signed into law by the President on November 15, 2021, provides additional federal funding for airport development. BIL provides for \$20 billion in airport funding over a 5-year period (federal fiscal year (FFY) 2022 through 2026), including \$15 billion through Airport Infrastructure Grants (AIG), allocated to all eligible airports using an enplanement-based allocation formula, and \$5 billion through Airport Terminal Program (ATP), to be awarded for terminal projects on a discretionary basis.

Based on awards received to date and anticipated future BIL allocations, a total of approximately \$269 million in AIG funding is anticipated to be awarded to HAS during the period from FY 2022 through FY 2026. In addition, during the period from FY 2022 through FY 2023, the Airport System has received a total of \$55 million in ATP funding. Given that the ATP funds are awarded on a discretionary basis, this analysis conservatively assumes that approximately \$22 million in ATP funds will be awarded for the period from FY 2024 through FY 2026. To date, none of the ATP or AIG funding has been expended, and all available AIG funding will be applied to projects included in the HAS CIP.

6.5 DEBT SERVICE

Table A-3 in **Appendix A** presents the details of the City's outstanding debt service on existing Airport Obligations, as well as the projected debt service on the 2023 Bonds and projected future Airport Obligations, for the period from FY 2023 through FY 2032.

6.5.1 OUTSTANDING AIRPORT OBLIGATIONS

6.5.1.1 SENIOR LIEN OBLIGATIONS

Currently, there are no Senior Lien Bonds outstanding. The existing HAS Senior Lien Obligations include the outstanding Senior Lien Notes.

The HAS commercial paper program is supported by a direct pay letter of credit issued by Sumitomo Mitsui Banking Corporation and expires in March 2025. The Notes were authorized for \$350 million, with \$350 million outstanding as of May 2023. The obligations on the commercial paper Notes are budgeted to be \$7.8 million in FY 2023.

Once refunded, additional spending funded with commercial paper may be undertaken by HAS. However, for the purpose of this analysis, the use of commercial paper subsequent to the issuance of the 2023 Bonds is not incorporated into the financial projections. Amounts shown in Table A-3 as Senior Lien Obligations reflect anticipated commitment fees related to the commercial paper program at HAS.

6.5.1.2 SUBORDINATE LIEN BONDS

Debt service on existing Subordinate Lien Bonds totals approximately \$199.6 million in FY 2023 Budget and is anticipated to increase over the Projection Period to \$207.1 million in FY 2032. The increase in existing Subordinate Lien debt service over the Projection Period is primarily due to an increase in the principal payment for the Series 2018B Bonds in FY 2029 and the start of principal payments on the Series 2020B bonds in FY 2026. A portion of the debt service is payable with PFC Revenues, and the remaining portion is payable with Net Revenues.

6.5.1.3 INFERIOR LIEN

In 2015, the City executed a forward bond purchase agreement with the Royal Bank of Canada for the issuance of up to \$450 million in Airport System Inferior Lien Revenue Bonds to provide an appropriation facility for future CIP projects. This agreement replaced the \$150 million Series C Airport System Inferior Lien Commercial Paper Notes. Currently, no amounts have been issued pursuant to the agreement and the City does not intend to issue bonds

against this agreement. An annual commitment fee of 0.167 percent (\$751,500) in respect to the forward bond purchase agreement is paid each year. The Inferior Lien commitment fees are not debt service and therefore not included within Debt Service Requirements.

6.5.2 THE 2023 BONDS

The 2023 Bonds include the 2023A and 2023B Bonds and will be issued as Subordinate Lien Bonds. Proceeds from the 2023 Bonds will be used to fund approximately \$212 million of planned project costs related to ITRP and to refund approximately \$350 million of the City's outstanding commercial paper, as well as to refund the Series 2002 Bonds, tender a portion of the Series 2020C Bonds for purchase and cancellation, and fund capitalized interest and the subordinate lien bond reserve fund, as described in Chapter 1 of this Report.

The 2023 Bonds are assumed to have a term of 30 years. For purposes of this Report, interest on the 2023 Bonds is assumed at current market interest rates as of May 12, 2023, plus 25 basis points.

Net of capitalized interest, initial debt service payments are anticipated to begin in FY 2024. Debt service on the 2023 Bonds is assumed to be approximately \$8.9 million in FY 2024 increasing to approximately \$41.2 million in FY 2027 and remaining relatively constant at approximately \$41.2 million annually throughout the remainder of the Projection Period. A portion of the debt service will be paid with PFC Revenues, and a portion of the debt service will be recovered from the airlines through airline rates and charges each year. The PFC eligibility of the 2023 Bonds is estimated based on existing PFC approvals for the ITRP.

6.5.3 FUTURE AIRPORT OBLIGATIONS

For financial projection purposes, projects included in the HAS FY 2024 through FY 2030 CIP are expected to be funded in part with Subordinate Lien Bonds, as described in Chapter 3 of this Report. As shown in **Table 6-4**, such additional bonds include Subordinate Lien Bonds assumed to be issued in each year from FY 2024 through FY 2030.

TABLE 6-4 ASSUMED FUTURE BOND ISSUANCES

FUTURE SUBORDINATE LIEN BOND ISSUANCES	BOND PAR
Series 2024	\$112.5 million
Series 2025	\$213.0 million
Series 2026	\$423.4 million
Series 2027	\$545.6 million
Series 2028	\$544.4 million
Series 2029	\$365.7 million
Series 2030	\$63.1 million
Total	\$2,267.7 million

NOTE:

Totals may not sum due to rounding.

SOURCE: Houston Airport System, May 2023; Masterson Advisors LLC, May 2023.

For the purpose of this analysis, the average coupon for each future bond issuance is assumed to be approximately 5.0 percent. Each future Subordinate Lien Obligation is assumed to have a 30-year maturity.

A portion of the debt service associated with the future Subordinate Lien Obligations is anticipated to be payable with PFC Revenues, while the remaining debt service will be payable with System Revenues. The anticipated PFC eligibility for each future issuance was calculated by the City based on the breakout of PFC projects currently

assumed within the HAS CIP and their assumed eligibility. It is anticipated that PFC approvals for the payment of bond capital and financing and interest will be received for the HOU West Concourse expansion and the DRP. HAS is in the process of preparing a draft application for the HOU West Concourse project, and the DRP is anticipated to be included in subsequent applications.

The estimated total debt service on assumed future bond issuances is included in Table A-3 in Appendix A, and the use of PFC Revenues for debt service can be found in **Table A-7**.

The future debt service assumptions are listed in Table 6-4.

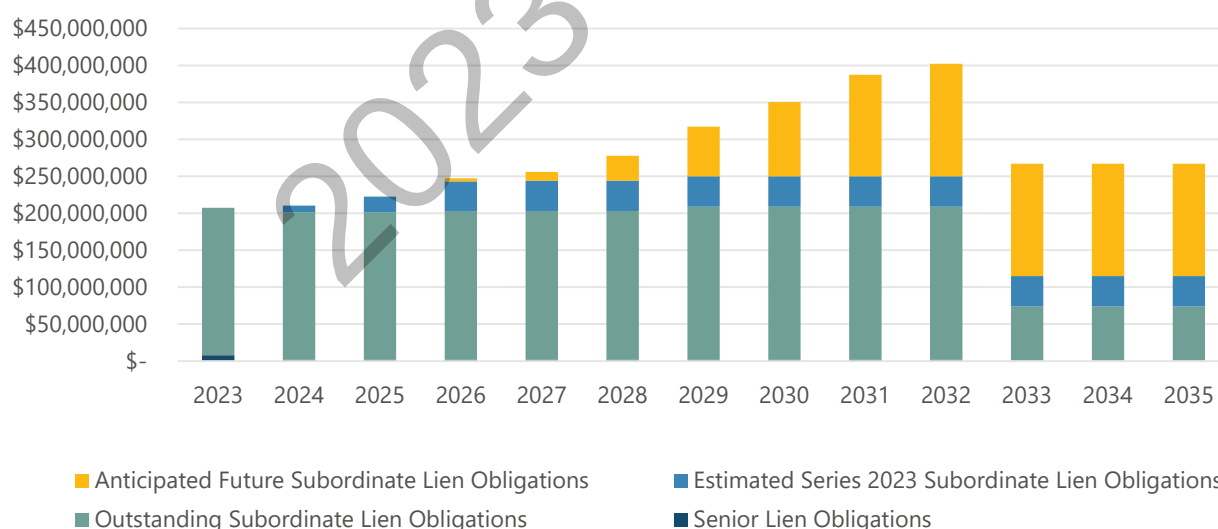
6.5.4 PROJECTED DEBT SERVICE REQUIREMENTS

The HAS debt service on Airport Obligations (including debt service on existing Airport Obligations, the Series 2023 Bonds, and future Airport Obligations) is projected to be approximately \$211 million in FY 2024 and is projected to increase throughout the Projection Period to \$403 million in FY 2028.

Taking into account the irrevocable commitments of PFC Revenues to be applied to the Airport Obligations and other funds available to offset debt service allowable by the Bond Ordinance, the resulting Debt Service Requirements to be paid with Net Revenues is estimated to be approximately \$128 million in FY 2024 and is projected to increase throughout the Projection Period to \$281 million in FY 2032.

Exhibit 6-7 presents the Projected Debt Service Requirements at HAS during the period from FY 2023 through FY 2035. In 2033, annual debt service payments on existing Subordinate Lien Bonds are anticipated to decrease by over \$100 million, as certain existing series will have reached maturity.

EXHIBIT 6-7 PROJECTED DEBT SERVICE REQUIREMENTS



NOTES:

Net of capitalized interest. Years shown represent Fiscal Years.

Debt Service Requirements, as defined in the Master Ordinance and as shown, reflect interest and principal due, less the amount irrevocably committed to be paid with Airport System funds other than Gross Revenues, including PFC Revenues.

SOURCE: Houston Airport System, May 2023; Masterson Advisors LLC, May 2023.

6.5.5 OUTSTANDING SPECIAL FACILITIES BONDS DEBT SERVICE

At the request of United, the City has authorized the issuance of Special Facilities Bonds to provide financing for various Special Facilities at IAH, including the construction of Terminal E. The payments for all Special Facilities Bonds are remitted directly to a trustee by United as Special Facilities Payments. Debt service on Special Facilities Bonds is not payable with Net Revenues and is not included in the definition of Airport Obligations. Therefore, Special Facilities Bonds is not included in the calculation of debt service coverage on Airport Obligations.

Debt service on existing Special Facilities Bonds totals \$81.4 million in FY 2023 and is anticipated to increase to \$226 million in FY 2029 before decreasing to \$46.5 million in FY 2030. The large increase through FY 2029 is primarily a result of the principal payments for the Series 2018 Special Facilities Bonds.

6.6 AIRLINE REVENUES

HAS airline revenues include landing fees and terminal rentals collected from airlines operating at IAH and HOU. Terminal rentals are comprised of charges for airline leased area in the terminals, as well as charges for the use and lease of aprons, loading bridges, the APM, FIS, and baggage equipment.

Each rate or charge is calculated by first determining the cost requirement allocable to the given Airport Cost Center. Each requirement includes the following general components:

- **O&M Expenses.** This includes the O&M Expenses (direct and allocated indirect) attributable to the specific rate-setting area.
- **Replenishment of Renewal and Replacement Fund.** This includes amounts needed to maintain the required balance of the Renewal and Replacement Fund, if necessary, as required by the Bond Ordinance.
- **Capital Charges.** This includes the charges for certain leased premises and amortization of capital improvement projects allocated to the specific rate-setting area.
- **Reallocation of HAS Space.** This includes direct and indirect cost of the space utilized within the terminal complex by HAS, and applies to the IAH cost centers.

The following subsections present the details for each specific rate calculation.

6.6.1 AIRFIELD

Landing fees for IAH and HOU are calculated using a residual calculation. The landing fees are calculated pursuant to each airline use and lease agreement by adding each cost component, describe above, allocable to the Airfield Cost and Revenue Center to determine the total Airfield requirement for each airport. The total requirement is reduced by fuel flowage fees and non-signatory airline premiums (at HOU) to calculate the net requirement, which is divided by total landed weight to yield a landing fee rate. At HOU, Allegiant and Frontier are charged non-signatory premiums.

6.6.2 TERMINAL

6.6.2.1 IAH TERMINALS A, B, C, AND E

A compensatory rental rate calculation applies to IAH Terminal A, Terminal B, Terminal C, and Terminal E. The total airline requirement for each terminal is equal to the sum of previously described components for each individual IAH airline terminal cost center. Rental rates are set by dividing the given airline terminal requirement by the square footage of airline leased space in the given terminal and charged on a square-foot basis.

6.6.2.2 IAH TERMINAL D

The Terminal D area is divided into several Cost Centers by functions, including Aircraft Loading/Apron, Loading Bridge, Operations/Admin Space, Arrival, Departure, Ticketing, Bag Makeup, Non-FIS Bag Claim, VIP and Clubs, Common VIP and Clubs, Central FIS & Baggage Claim, and Central Ticketing. The requirement components described previously are further allocated to each subcategory of Terminal D. Space-based rates, calculated by dividing net requirements by available rental space, are applicable to leased space areas, including Operations/Admin Space and VIP and Club space and are charged on a square-foot basis. The other subcategories, such as baggage makeup and baggage claim, are subject to passenger-based rates, calculated by dividing net requirements by the number of deplaned and/or enplaned passengers, whichever is appropriate.

6.6.2.3 HOU CONCOURSES

A compensatory rental rate methodology is calculated for both the HOU Central Concourse and HOU West Concourse. The total requirement for each concourse is equal to the sum of the previously described components for each concourse and charged on a square-foot basis.

6.6.3 APRONS

Apron fees are calculated for each terminal at IAH and for both concourse at HOU through a compensatory methodology. However, the apron fee at IAH Terminal D is charged on a per passenger basis, while the remaining apron fees are charged on a square footage basis. The net airline requirement for each apron is equal to the sum of previously described components for each individual Apron Cost Center.

6.6.4 LOADING BRIDGE

HAS charges loading bridge rental fees for 19 loading bridges installed at IAH Terminal A. The total airline requirement for the loading bridges is equal to the sum of previously described components for the loading bridge cost center. The Terminal A loading bridge fee is calculated by dividing the total requirement by the number of rentable loading bridges and charged on a per loading bridge basis. Throughout the Projection Period, 18 of the 19 loading bridges are anticipated to be leased.

Loading bridges at IAH Terminals B, C and E are property of United Airlines. Therefore, no loading bridge fee for these terminals is assessed.

IAH Terminal D loading bridge rate is calculated by dividing the annual expense allocated to Terminal D loading bridges by the sum of annual deplaned and enplaned passengers using Terminal D. As a result, airlines utilizing Terminal D loading bridges are charged an activity-based fee.

HAS charges loading bridge fees for HOU to recover the cost of its 30 loading bridges installed at HOU. The total airline requirement for the loading bridges is equal to the sum of previously described components for the loading bridge cost center. The loading bridge fee is calculated by dividing the total airline loading bridge requirement by the number of rentable loading bridges and charged on a per loading bridge basis. Throughout the Projection Period, 26 of the 30 loading bridges are anticipated to be leased. Southwest receives rent credits for loading bridge fees, given that Southwest provided funding for the construction of the West Concourse.

6.6.5 BAGGAGE HANDLING SYSTEM

For international operations at IAH Terminal D, airlines are currently charged a per use baggage makeup fee and a per use baggage claim fee to recover the costs of the baggage handling system at Terminal D. Upon completion of

ITRP, baggage makeup area costs at Terminal D will be assigned to the ICP cost center and recovered through a ticketing charge. Non-FIS baggage claim area costs will be recovered through a domestic and pre-cleared charge.

At other IAH terminals and HOU, the 20 percent of the baggage handling system requirement is evenly distributed to airlines utilizing the corresponding facilities, and the remaining 80 percent is allocated to each airline proportional to their market share measured by passenger enplanement.

At HOU, Southwest receives rent credits for baggage equipment charges, given that Southwest provided funding for the construction of the West Concourse.

6.6.6 AUTOMATIC PEOPLE MOVER

The total cost requirement for the APM at IAH is equal to the sum of the previously described cost components allocable to the APM Cost Center. The APM fee is calculated by dividing the total APM requirement by the number of annual enplaned passengers at IAH and charged to airlines based on their enplaned passengers. Airlines serving HOU are not charged an APM fee.

6.6.7 AIRLINE COST PER ENPLANED PASSENGER AND REASONABLENESS OF AIRPORT USER FEES

A general test for the reasonableness of airport user fees is to compare projected airline costs in a manner that accounts for airline activity. One approach is to measure HAS airline revenues on an airline cost-per-enplaned-passenger basis and comparing this metric on a year-over-year basis.

Table A-5 in Appendix A and **Exhibit 6-8** show the projected airline CPE for IAH and HOU. The IAH CPE is projected to increase from \$10.83 in 2023 to \$14.06 in 2032, which equates to \$10.78 in 2023 dollars, assuming 3.0 percent inflation, though the inflation rate in certain years may vary. Increases in airline CPE are primarily attributable increases in O&M Expenses and amortization costs related to the completion of the CIP. The HOU CPE is projected to increase from \$8.39 in 2023 to \$11.25 in 2032, which equates to \$8.62 in 2023 dollars.

Exhibit 6-8 presents the projected airline cost per enplaned passenger at IAH and HOU.

EXHIBIT 6-8 PROJECTED AIRLINE COST PER ENPLANED PASSENGER



SOURCES: Ricondo & Associates, Inc., June 2023.

6.6.7.1 REASONABLENESS OF AIRPORT USER FEES

The projected CPE amounts shown on Exhibit 6-8 were determined to be reasonable based on the expectation that these fees will not deter forecast demand for air traffic at HAS airports as airlines continue to deploy capacity to airports based on available resources. The projected user fees in this analysis are deemed to be reasonable based on the following combination of factors:

- **Large population and strong economic base** – HAS airports are in the 5th most-populous metropolitan statistical area in the United States and the Air Trade Area was ranked 13th in the nation in terms of O&D passengers in CY 2022. The Air Trade Area has a large, diverse economic base and business climate that supports air travel. Projected economic variables indicate the Air Trade Area will remain a destination that supports the growth of inbound and outbound air travel.
- **Attractive geographical location** – The geographic location of the Air Trade Area naturally supports connectivity between domestic and international destinations to South and Central America. It is also a location that supports domestic travel between the southeast and western United States.
- **Important airports for United and Southwest** – IAH is a major connecting hub for United within their US domestic route networks, and it is an important international gateway for South and Central America passenger traffic, providing strong connectivity to flights of international alliance partners. Southwest has long served HOU and used it as a focus city in its network. The airline currently provides nonstop service to all of HOU's top 30 domestic O&D markets.
- **Increases in debt are associated with capital projects supported by airlines** – User fees during the Projection Period are calculated to recover capital and operating costs partially attributable to significant capital projects designed to accommodate demand at the Airport and these projects are supported by major airlines at the airports.

In summary, airport user fees, although increasing over the Projection Period, are one of many factors that airlines consider when allocating resources or evaluating air service. According to Airlines for America, airport user fees represented approximately 6.4 percent of system-wide total airline operating costs.¹²² The projected growth of the population and economic base, along with the geographical location and established role of HAS airports in the airline route network, support the reasonableness of the projected CPE.

6.7 PROJECTION OF FINANCIAL PERFORMANCE AND DEBT SERVICE COVERAGE

Table A-8 in Appendix A presents the application of revenues for FY 2022 through FY 2032 into the appropriate funds as described in the Bond Ordinance. Included in this cash flow are Gross Revenues, O&M Expenses, Reserve Funds Requirements, and Debt Service Requirements. This table also presents the projected balance of the Operation and Maintenance Reserve Fund, Renewal and Replacement Fund, and AIF through the Projection Period.

Table A-9 in Appendix A presents the projection of Gross Revenues, Net Revenues, Airport Obligations, and calculated debt service coverage as defined by the Bond Ordinance.

The Additional Bonds Test required by the Bond Ordinance states the following:

¹²² In the fourth quarter of 2022, 1.8 percent of passenger airline operating expenses went to landing fees and 4.6 percent went to non-aircraft rents and ownership, according to data collected by Airlines for America.

Projected Coverage for Additional Bonds. An Airport Management Consultant provides a written report setting forth projections which indicate that the estimated Net Revenues for each of the three consecutive FYs beginning in the earlier of:

- a. the first FY following the estimated date of completion and initial use of all revenue-producing facilities to be financed with such series of Bonds, based upon a certified written estimated completion date by the consulting engineer for such facility or facilities, or
- b. the first FY in which the City will have scheduled payments of interest on or principal of the series of Bonds to be issued for the payment of which provision has not been made as indicated in the report of such Airport Management Consultant from proceeds of such series of Bonds, investment income thereon or from other appropriated sources (other than Net Revenues),

are equal to at least

- (1) 125 percent of the Debt Service Requirements on all Senior Lien Obligations, plus
- (2) 110 percent of the Debt Service Requirements on all Subordinate Lien Bonds,

Scheduled to occur during each such respective Fiscal Year after taking into consideration the additional Debt Service Requirements for the additional series of Bonds to be issued.

Debt service coverage ranges from 1.39x to 1.85x through the Projection Period.

6.8 ASSUMPTIONS UNDERLYING THE FINANCIAL PROJECTIONS

The methodologies used in preparing this financial analysis are consistent with industry practices for similar studies in connection with airport revenue bond sales. While Ricondo believes the approach and assumptions are reasonable, some assumptions regarding future trends and events presented in this Report, including the implementation schedule, anticipated PFC approvals, future airline lease agreement terms, and enplaned passenger forecasts, may not materialize. Therefore, achievement of the forecasts and projections presented in this Report is dependent upon the occurrence of future events, which cannot be assured, and the variations may be material.

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2023 Report



APPENDIX A

Financial Projection Tables

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TABLE A-1 (1 OF 2) OPERATION AND MAINTENANCE EXPENSES

(For Fiscal Years Ending June 30)

	BUDGET	PROJECTED									COMPOUND ANNUAL
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	GROWTH RATE (2023-2032)
George Bush Intercontinental Airport											
Administration and Overhead	\$ 72,150,277	\$ 72,921,021	\$ 74,673,958	\$ 76,158,262	\$ 77,902,978	\$ 79,336,841	\$ 80,680,199	\$ 79,573,074	\$ 82,790,145	\$ 84,215,807	1.7%
Personnel	\$ 48,488,249	\$ 51,397,544	\$ 52,425,495	\$ 53,998,260	\$ 55,618,207	\$ 57,286,754	\$ 59,005,356	\$ 60,775,517	\$ 62,598,782	\$ 64,476,746	3.2%
Public Safety	\$ 44,579,625	\$ 47,254,403	\$ 48,199,491	\$ 49,645,475	\$ 51,134,840	\$ 52,668,885	\$ 54,248,951	\$ 55,876,420	\$ 57,552,712	\$ 59,279,294	3.2%
Building Maintenance	\$ 33,269,273	\$ 35,265,429	\$ 37,576,605	\$ 38,788,223	\$ 40,621,330	\$ 41,839,970	\$ 43,095,169	\$ 44,388,024	\$ 47,533,372	\$ 48,959,374	4.4%
Parking	\$ 28,756,087	\$ 30,481,452	\$ 31,091,081	\$ 32,023,814	\$ 32,984,528	\$ 33,974,064	\$ 34,993,286	\$ 36,043,084	\$ 37,124,377	\$ 38,238,108	3.2%
Utilities	\$ 19,582,731	\$ 20,757,695	\$ 21,742,403	\$ 22,387,939	\$ 23,315,492	\$ 23,976,834	\$ 24,657,254	\$ 25,357,310	\$ 27,077,655	\$ 27,848,719	4.0%
Other Services	\$ 14,965,952	\$ 15,863,909	\$ 16,373,992	\$ 16,711,497	\$ 17,834,284	\$ 18,190,969	\$ 18,554,789	\$ 18,925,884	\$ 19,377,051	\$ 19,764,592	3.1%
Supplies	\$ 4,177,012	\$ 4,427,633	\$ 4,701,325	\$ 4,852,086	\$ 5,112,464	\$ 5,265,838	\$ 5,423,813	\$ 5,586,528	\$ 6,178,332	\$ 6,363,682	4.8%
Capital Outlays	\$ 4,665,899	\$ 4,945,853	\$ 2,522,385	\$ 2,572,833	\$ 2,624,289	\$ 2,676,775	\$ 2,730,311	\$ 2,784,917	\$ 2,840,615	\$ 2,897,427	-5.2%
Noncapital Equipment	\$ 934,682	\$ 990,763	\$ 1,010,578	\$ 1,030,790	\$ 1,051,406	\$ 1,072,434	\$ 1,093,882	\$ 1,115,760	\$ 1,138,075	\$ 1,160,837	2.4%
Collateralized Pension Note¹	\$ 962,502	\$ 1,636,253	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	n/a
Pension Obligation Bond Interest	\$ 40,963	\$ 72,914	\$ 72,914	\$ 72,914	\$ 72,914	\$ 72,914	\$ 273,428	\$ 273,428	\$ 273,428	\$ 273,428	23.5%
Total O&M Expenses by Type	\$ 272,573,251	\$ 286,014,869	\$ 290,390,227	\$ 298,242,092	\$ 308,272,731	\$ 316,362,278	\$ 324,756,439	\$ 330,699,946	\$ 344,484,547	\$ 353,478,015	2.9%
Airfield	\$ 35,089,775	\$ 41,134,608	\$ 41,275,052	\$ 42,326,358	\$ 43,327,794	\$ 44,430,282	\$ 45,579,370	\$ 46,441,711	\$ 47,645,516	\$ 48,854,468	3.7%
Terminal Area A	\$ 35,433,965	\$ 34,120,861	\$ 33,998,750	\$ 34,846,153	\$ 35,572,187	\$ 36,469,534	\$ 37,466,662	\$ 38,159,903	\$ 45,132,212	\$ 46,733,126	3.1%
Terminal Area B	\$ 12,884,023	\$ 13,923,975	\$ 13,748,597	\$ 14,063,763	\$ 14,304,288	\$ 14,642,963	\$ 15,035,411	\$ 15,316,589	\$ 15,615,582	\$ 15,980,659	2.4%
Terminal Area C	\$ 23,057,865	\$ 24,330,343	\$ 23,927,537	\$ 24,440,914	\$ 24,780,974	\$ 25,334,429	\$ 26,014,435	\$ 26,496,630	\$ 26,919,356	\$ 27,510,169	2.0%
Terminal Area D (IAB)	\$ 23,324,796	\$ 24,696,508	\$ 29,733,804	\$ 31,114,995	\$ 31,744,654	\$ 32,526,326	\$ 33,403,331	\$ 34,016,788	\$ 34,768,401	\$ 35,615,937	4.8%
Terminal Area E	\$ 12,234,622	\$ 12,502,886	\$ 12,271,749	\$ 12,533,665	\$ 12,708,018	\$ 12,991,349	\$ 13,339,154	\$ 13,587,253	\$ 13,806,809	\$ 14,109,393	1.6%
Central FIS	\$ 31,219,634	\$ 33,568,418	\$ 33,258,118	\$ 34,020,246	\$ 38,404,771	\$ 39,684,761	\$ 40,715,162	\$ 41,404,929	\$ 42,216,260	\$ 43,168,649	3.7%
APM	\$ 20,138,633	\$ 20,519,861	\$ 20,647,504	\$ 21,203,194	\$ 21,707,758	\$ 22,291,261	\$ 22,882,155	\$ 23,307,470	\$ 23,926,327	\$ 24,565,687	2.2%
Nonairline Cost Centers	\$ 79,189,939	\$ 81,217,410	\$ 81,529,117	\$ 83,692,804	\$ 85,722,287	\$ 87,991,374	\$ 90,320,760	\$ 91,968,673	\$ 94,454,085	\$ 96,939,927	2.3%
Total O&M Expenses by Cost Center	\$ 272,573,251	\$ 286,014,869	\$ 290,390,227	\$ 298,242,092	\$ 308,272,731	\$ 316,362,278	\$ 324,756,439	\$ 330,699,946	\$ 344,484,547	\$ 353,478,015	2.9%
William P. Hobby Airport											
Administration and Overhead	\$ 22,620,052	\$ 21,525,135	\$ 21,713,467	\$ 22,171,088	\$ 22,439,676	\$ 23,028,427	\$ 23,751,012	\$ 27,054,005	\$ 25,949,751	\$ 26,688,145	1.9%
Personnel	\$ 19,153,519	\$ 19,728,125	\$ 20,319,968	\$ 20,929,567	\$ 21,557,454	\$ 22,204,178	\$ 22,870,303	\$ 24,013,819	\$ 25,214,509	\$ 26,475,235	3.7%
Public Safety	\$ 17,317,942	\$ 17,847,972	\$ 18,394,322	\$ 18,957,499	\$ 19,538,025	\$ 20,136,439	\$ 20,753,297	\$ 21,389,171	\$ 22,044,652	\$ 22,720,349	3.1%
Parking	\$ 5,440,139	\$ 5,657,745	\$ 5,884,054	\$ 6,119,417	\$ 6,364,193	\$ 6,618,761	\$ 6,883,511	\$ 7,158,852	\$ 7,445,206	\$ 7,743,014	4.0%
Utilities	\$ 5,220,536	\$ 5,368,202	\$ 5,520,119	\$ 5,676,411	\$ 5,837,206	\$ 6,048,756	\$ 6,220,413	\$ 7,004,636	\$ 7,204,494	\$ 7,410,142	4.0%
Other Services	\$ 4,780,686	\$ 4,912,189	\$ 5,047,442	\$ 5,186,555	\$ 5,329,639	\$ 5,481,746	\$ 5,645,133	\$ 5,932,984	\$ 6,096,127	\$ 6,263,916	3.0%
Building Maintenance	\$ 8,555,924	\$ 8,898,161	\$ 9,254,087	\$ 9,624,251	\$ 10,009,221	\$ 10,627,233	\$ 11,494,801	\$ 18,266,825	\$ 15,064,566	\$ 15,667,148	7.0%
Supplies	\$ 1,856,303	\$ 1,911,992	\$ 1,969,352	\$ 2,028,432	\$ 2,089,285	\$ 2,160,017	\$ 2,248,782	\$ 2,560,604	\$ 2,637,422	\$ 2,716,545	4.3%
Capital Outlays	\$ 3,010,907	\$ 3,010,907	\$ 3,010,907	\$ 3,010,907	\$ 3,010,907	\$ 3,010,907	\$ 3,024,604	\$ 3,101,365	\$ 3,101,365	\$ 3,101,365	0.3%
Noncapital Equipment	\$ 345,770	\$ 352,685	\$ 359,739	\$ 366,934	\$ 374,273	\$ 381,758	\$ 389,393	\$ 397,181	\$ 405,125	\$ 413,227	2.0%
Collateralized Pension Note¹	\$ 391,754	\$ 665,981	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-100.0%
Pension Obligation Bond Interest	\$ 16,673	\$ 29,677	\$ 29,677	\$ 29,677	\$ 29,677	\$ 29,677	\$ 111,290	\$ 111,290	\$ 111,290	\$ 111,290	23.5%
Total O&M Expenses by Type	\$ 88,710,204	\$ 89,908,771	\$ 91,503,135	\$ 94,100,738	\$ 96,579,557	\$ 99,727,900	\$ 103,392,539	\$ 116,990,730	\$ 115,274,507	\$ 119,310,376	3.3%

TABLE A-1 (2 OF 2) OPERATION AND MAINTENANCE EXPENSES

(For Fiscal Years Ending June 30)

	BUDGET	PROJECTED									COMPOUND ANNUAL
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	GROWTH RATE (2023-2032)
Airfield	\$ 20,321,824	\$ 20,653,859	\$ 20,909,507	\$ 21,465,355	\$ 21,999,443	\$ 22,582,938	\$ 23,213,175	\$ 23,902,448	\$ 24,763,601	\$ 25,639,888	2.6%
Central Concourse Apron	\$ 1,744,764	\$ 1,768,452	\$ 1,786,536	\$ 1,832,172	\$ 1,875,508	\$ 1,922,677	\$ 1,974,678	\$ 2,022,232	\$ 2,095,277	\$ 2,169,405	2.4%
Terminal Building	\$ 32,302,541	\$ 32,744,134	\$ 33,298,176	\$ 34,250,571	\$ 35,157,737	\$ 36,378,740	\$ 38,217,623	\$ 47,673,116	\$ 43,368,598	\$ 44,910,642	3.7%
West Concourse Apron	\$ 342,606	\$ 347,258	\$ 350,807	\$ 359,776	\$ 368,292	\$ 377,562	\$ 387,783	\$ 397,129	\$ 411,489	\$ 426,062	2.5%
West Concourse & FIS	\$ 13,852,993	\$ 14,022,053	\$ 14,282,299	\$ 14,708,090	\$ 15,111,242	\$ 15,748,590	\$ 16,222,527	\$ 19,057,746	\$ 19,830,440	\$ 20,550,870	4.5%
Parking & Ground Transportation	\$ 17,280,696	\$ 17,477,822	\$ 17,942,454	\$ 18,494,306	\$ 19,021,820	\$ 19,608,861	\$ 20,205,683	\$ 20,673,206	\$ 21,454,008	\$ 22,180,349	2.8%
Other	\$ 2,864,780	\$ 2,895,193	\$ 2,933,355	\$ 2,990,469	\$ 3,045,515	\$ 3,108,532	\$ 3,171,072	\$ 3,264,852	\$ 3,351,095	\$ 3,433,161	2.0%
Total O&M Expenses by Cost Center	\$ 88,710,204	\$ 89,908,771	\$ 91,503,135	\$ 94,100,738	\$ 96,579,557	\$ 99,727,900	\$ 103,392,539	\$ 116,990,730	\$ 115,274,507	\$ 119,310,376	3.3%
Ellington Field											
Personnel	\$ 2,402,817	\$ 2,474,902	\$ 2,549,149	\$ 2,625,624	\$ 2,704,392	\$ 2,785,524	\$ 2,869,090	\$ 3,012,544	\$ 3,163,171	\$ 3,321,330	3.7%
Other Services	\$ 1,525,490	\$ 1,556,000	\$ 1,587,120	\$ 1,618,862	\$ 1,651,240	\$ 1,684,265	\$ 1,717,950	\$ 1,752,309	\$ 1,787,355	\$ 1,823,102	2.0%
Administration and Overhead	\$ 1,284,779	\$ 3,530,054	\$ 3,548,309	\$ 3,605,099	\$ 3,630,483	\$ 3,687,333	\$ 3,742,442	\$ 3,710,047	\$ 3,803,971	\$ 3,890,794	13.1%
Utilities	\$ 1,082,234	\$ 1,107,578	\$ 1,133,540	\$ 1,160,136	\$ 1,187,382	\$ 1,215,293	\$ 1,243,888	\$ 1,273,183	\$ 1,303,197	\$ 1,333,948	2.4%
Building Maintenance	\$ 572,633	\$ 595,538	\$ 619,359	\$ 644,134	\$ 669,899	\$ 696,695	\$ 724,563	\$ 753,545	\$ 783,687	\$ 815,035	4.0%
Supplies	\$ 341,851	\$ 352,106	\$ 362,670	\$ 373,550	\$ 384,756	\$ 396,299	\$ 408,188	\$ 420,433	\$ 433,046	\$ 446,038	3.0%
Capital Outlays	\$ 203,600	\$ 203,600	\$ 203,600	\$ 203,600	\$ 203,600	\$ 203,600	\$ 203,600	\$ 203,600	\$ 203,600	\$ 203,600	0.0%
Collateralized Pension Note ¹	\$ 49,863	\$ 84,767	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-100.0%
Noncapital Equipment	\$ 10,200	\$ 10,404	\$ 10,612	\$ 10,824	\$ 11,041	\$ 11,262	\$ 11,487	\$ 11,717	\$ 11,951	\$ 12,190	2.0%
Pension Obligation Bond Interest	\$ 2,164	\$ 3,851	\$ 3,851	\$ 3,851	\$ 3,851	\$ 3,851	\$ 14,443	\$ 14,443	\$ 14,443	\$ 14,443	23.5%
Parking	\$ 1,560	\$ 1,622	\$ 1,687	\$ 1,755	\$ 1,825	\$ 1,898	\$ 1,974	\$ 2,053	\$ 2,135	\$ 2,220	4.0%
Public Safety	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	n/a
Total O&M Expenses by Type	\$ 7,477,191	\$ 9,920,423	\$ 10,019,899	\$ 10,247,435	\$ 10,448,469	\$ 10,686,020	\$ 10,937,624	\$ 11,153,874	\$ 11,506,557	\$ 11,862,699	5.3%
Houston Airport System											
Administration and Overhead	\$ 96,055,108	\$ 97,976,210	\$ 99,935,734	\$ 101,934,449	\$ 103,973,138	\$ 106,052,600	\$ 108,173,652	\$ 110,337,126	\$ 112,543,868	\$ 114,794,745	2.0%
Personnel	\$ 70,044,585	\$ 73,600,571	\$ 75,294,612	\$ 77,553,451	\$ 79,880,054	\$ 82,276,456	\$ 84,744,749	\$ 87,801,880	\$ 90,976,463	\$ 94,273,311	3.4%
Public Safety	\$ 61,897,567	\$ 65,102,374	\$ 66,593,812	\$ 68,602,974	\$ 70,672,865	\$ 72,805,324	\$ 75,002,248	\$ 77,265,591	\$ 79,597,364	\$ 81,999,643	3.2%
Building Maintenance	\$ 42,397,830	\$ 44,759,128	\$ 47,450,051	\$ 49,056,607	\$ 51,300,450	\$ 53,163,898	\$ 55,314,532	\$ 63,408,394	\$ 63,381,625	\$ 65,441,556	4.9%
Parking	\$ 34,197,786	\$ 36,140,819	\$ 36,976,823	\$ 38,144,985	\$ 39,350,546	\$ 40,594,723	\$ 41,878,771	\$ 43,203,989	\$ 44,571,718	\$ 45,983,343	3.3%
Utilities	\$ 25,885,501	\$ 27,233,475	\$ 28,396,063	\$ 29,224,486	\$ 30,340,079	\$ 31,240,884	\$ 32,121,556	\$ 33,635,129	\$ 35,585,346	\$ 36,592,810	3.9%
Other Services	\$ 21,272,128	\$ 22,332,098	\$ 23,008,554	\$ 23,516,914	\$ 24,815,162	\$ 25,356,980	\$ 25,917,871	\$ 26,611,177	\$ 27,260,534	\$ 27,851,610	3.0%
Supplies	\$ 6,375,166	\$ 6,691,731	\$ 7,033,346	\$ 7,254,068	\$ 7,586,506	\$ 7,822,154	\$ 8,080,783	\$ 8,567,565	\$ 9,248,801	\$ 9,526,265	4.6%
Capital Outlays	\$ 7,880,406	\$ 8,160,360	\$ 5,736,892	\$ 5,787,340	\$ 5,838,796	\$ 5,891,282	\$ 5,958,515	\$ 6,089,882	\$ 6,145,580	\$ 6,202,392	-2.6%
Noncapital Equipment	\$ 1,290,652	\$ 1,353,852	\$ 1,380,929	\$ 1,408,548	\$ 1,436,719	\$ 1,465,453	\$ 1,494,762	\$ 1,524,658	\$ 1,555,151	\$ 1,586,254	2.3%
Pension Obligation Bond Interest	\$ 59,799	\$ 106,443	\$ 106,443	\$ 106,443	\$ 106,443	\$ 106,443	\$ 399,161	\$ 399,161	\$ 399,161	\$ 399,161	23.5%
Total O&M Expenses by Type ¹	\$ 367,356,528	\$ 383,350,618	\$ 391,806,817	\$ 402,483,822	\$ 415,194,315	\$ 426,669,754	\$ 438,687,441	\$ 458,445,389	\$ 470,866,450	\$ 484,251,930	3.1%

NOTES:

1 For the purpose of the rate covenant calculation in the Master Ordinance, total O&M Expenses excludes costs related to the Collateralized Pension Note. Total O&M Expenses shown do not include operation and maintenance expenses paid directly by airlines for Terminals B, C, and E.

SOURCE: Houston Airport System, June 2023; Ricondo & Associates, Inc., June 2023.

TABLE A-2 (1 OF 3) GROSS REVENUES

(For Fiscal Years Ending June 30)

	BUDGET		PROJECTED									COMPOUND ANNUAL	
	2023		2024	2025	2026	2027	2028	2029	2030	2031	2032	GROWTH RATE (2023-2032)	
George Bush Intercontinental Airport													
AIRLINE REVENUES													
Landing fees	\$	66,574,620	\$ 80,250,104	\$ 83,079,295	\$ 83,634,586	\$ 85,982,806	\$ 86,481,604	\$ 87,530,050	\$ 86,852,585	\$ 87,281,784	\$ 88,435,918	3.2%	
Cargo Airline landing fees		4,038,850	4,874,442	4,997,890	5,031,295	5,172,560	5,202,567	5,265,639	5,224,884	5,250,704	5,320,134	3.1%	
Less: Air service incentive credits		(1,500,000)	(1,646,464)	(1,723,218)	(1,814,134)	(1,909,383)	(2,009,165)	(2,113,799)	(2,223,487)	(2,338,277)	(2,458,478)	5.6%	
Total landing fees	\$	69,113,470	\$ 83,478,082	\$ 86,353,967	\$ 86,851,748	\$ 89,245,983	\$ 89,675,006	\$ 90,681,890	\$ 89,853,983	\$ 90,194,211	\$ 91,297,574	3.1%	
Terminal Rentals													
Terminal A	\$	20,790,959	\$ 19,410,766	\$ 19,394,411	\$ 19,993,281	\$ 20,338,218	\$ 19,158,232	\$ 19,534,044	\$ 20,112,798	\$ 50,690,621	\$ 51,373,505	10.6%	
Terminal B		11,639,673	11,089,312	10,353,277	10,600,847	10,835,239	10,947,694	11,137,075	11,316,944	11,445,882	11,677,544	0.0%	
Terminal C		40,041,174	40,070,629	46,242,037	44,819,606	41,726,523	41,653,303	42,258,070	42,770,037	37,001,193	37,617,136	-0.7%	
Terminal D		25,461,333	36,888,305	52,143,784	68,335,694	68,582,646	73,215,348	73,856,288	74,339,849	72,350,230	73,019,239	12.4%	
Terminal E		15,656,414	14,524,753	14,252,512	14,410,874	14,485,589	14,452,692	14,485,657	14,740,648	14,815,437	15,128,558	-0.4%	
Central FIS		32,041,230	36,792,638	37,672,131	38,573,503	51,937,121	52,927,498	53,828,552	54,451,278	52,336,663	53,196,507	5.8%	
Skyway APM		23,508,360	23,471,774	23,625,565	24,888,154	25,695,312	27,277,529	27,879,781	28,226,302	58,212,462	58,908,016	10.7%	
Total Terminal Rentals	\$	169,139,143	\$ 182,248,177	\$ 203,683,717	\$ 221,621,958	\$ 233,600,647	\$ 239,632,294	\$ 242,979,467	\$ 245,957,857	\$ 296,852,488	\$ 300,920,505	6.6%	
TOTAL AIRLINE REVENUES	\$	238,252,613	\$ 265,726,259	\$ 290,037,684	\$ 308,473,706	\$ 322,846,630	\$ 329,307,301	\$ 333,661,357	\$ 335,811,839	\$ 387,046,699	\$ 392,218,079	5.7%	
NON-AIRLINE REVENUES													
Terminal Concessions													
Food and Beverage	\$	8,318,224	\$ 9,522,709	\$ 10,359,934	\$ 10,913,586	\$ 11,493,964	\$ 12,102,295	\$ 12,740,583	\$ 13,410,073	\$ 14,111,084	\$ 14,845,540	6.6%	
News and Gifts		5,089,108	6,545,023	7,134,841	7,516,138	7,915,842	8,334,797	8,774,383	9,235,458	9,718,241	10,224,057	8.1%	
Duty Free		2,283,326	4,104,140	4,359,678	4,592,667	4,836,902	5,092,900	5,361,505	5,643,241	5,938,241	6,247,315	11.8%	
Advertising		580,721	773,059	809,097	851,784	896,507	943,357	992,485	1,043,986	1,097,883	1,154,321	7.9%	
Other Concessions		6,263,274	8,337,706	8,726,391	9,186,785	9,669,130	10,174,424	10,704,295	11,259,752	11,841,050	12,449,751	7.9%	
Subtotal Terminal Concessions	\$	22,534,652	\$ 29,282,637	\$ 31,389,941	\$ 33,060,961	\$ 34,812,343	\$ 36,647,773	\$ 38,573,252	\$ 40,592,509	\$ 42,706,498	\$ 44,920,985	8.0%	
Parking and Ground Transportation													
Automobile Parking	\$	72,277,280	\$ 89,994,948	\$ 100,689,428	\$ 103,580,226	\$ 105,911,216	\$ 108,268,634	\$ 111,741,752	\$ 114,187,898	\$ 116,657,344	\$ 119,154,512	5.7%	
Car Rental		26,262,755	30,694,478	31,721,773	32,443,725	33,173,845	33,912,243	34,660,982	35,419,747	36,185,741	36,960,333	3.9%	
Ground Transportation		11,713,131	17,690,404	18,515,090	19,491,926	20,515,334	21,587,433	22,711,679	23,890,212	25,123,572	26,415,074	9.5%	
Subtotal Parking and Ground Transpo	\$	110,253,166	\$ 138,379,829	\$ 150,926,291	\$ 155,515,877	\$ 159,600,395	\$ 163,768,310	\$ 169,114,413	\$ 173,497,857	\$ 177,966,656.15	\$ 182,529,919.68	5.76%	

TABLE A-2 (2 OF 3) GROSS REVENUES

(For Fiscal Years Ending June 30)

	BUDGET 2023	PROJECTED										COMPOUND ANNUAL									
		2024	2025	2026	2027	2028	2029	2030	2031	2032	GROWTH RATE (2023-2032)										
Other Non-Airline Revenues																					
Building & Ground Rentals	\$	19,764,730	\$	20,351,475	\$	20,962,020	\$	21,590,880	\$	22,238,607	\$	22,905,765	\$	23,592,938	\$	24,300,726	\$	25,029,748	\$	25,780,640	3.0%
Allocated systemwide		8,750,675		9,731,152		10,536,443		10,850,300		11,198,045		11,518,304		11,845,012		11,888,216		12,418,793		12,762,497	4.3%
Miscellaneous		8,170,487		7,944,466		8,074,000		8,196,390		8,320,806		8,447,258		8,575,973		8,706,902		8,845,171		8,985,807	1.1%
Subtotal Other Non-Airline Revenues	\$	36,685,892	\$	38,027,093	\$	39,572,463	\$	40,637,571	\$	41,757,457	\$	42,871,327	\$	44,013,923	\$	44,895,843	\$	46,293,712	\$	47,528,944	2.9%
TOTAL NON-AIRLINE REVENUES	\$	169,473,710	\$	205,689,559	\$	221,888,696	\$	229,214,408	\$	236,170,195	\$	243,287,409	\$	251,701,588	\$	258,986,209	\$	266,966,866	\$	274,979,849	5.5%
TOTAL REVENUES	\$	407,726,323	\$	471,415,818	\$	511,926,379	\$	537,688,114	\$	559,016,825	\$	572,594,710	\$	585,362,944	\$	594,798,048	\$	654,013,565	\$	667,197,928	5.6%
William P. Hobby Airport																					
AIRLINE REVENUES																					
Landing fees	\$	20,409,174	\$	21,144,145	\$	21,238,934	\$	21,696,559	\$	22,412,211	\$	28,689,152	\$	29,851,821	\$	30,536,208	\$	34,044,730	\$	34,899,637	6.1%
Cargo Airline landing fees	\$	-	\$	31,187	\$	33,086	\$	33,799	\$	34,914	\$	44,692	\$	46,503	\$	47,569	\$	53,035	\$	54,367	n/a
Total landing fees	\$	20,409,174	\$	21,175,333	\$	21,272,020	\$	21,730,358	\$	22,447,124	\$	28,733,844	\$	29,898,324	\$	30,583,777	\$	34,097,765	\$	34,954,004	6.2%
Terminal rentals and use fees																					
Central Terminal	\$	24,148,297	\$	24,706,720	\$	24,980,683	\$	25,625,921	\$	25,727,672	\$	27,264,616	\$	29,044,885	\$	35,640,505	\$	33,658,867	\$	34,433,526	4.0%
West Terminal		9,300,902		9,370,781		9,504,336		9,752,215		9,961,545		10,123,535		10,406,713		19,875,744		20,366,765		20,784,865	9.3%
FIS Facility		6,945,113		6,998,818		7,112,237		7,280,961		7,394,152		7,437,264		7,628,196		6,786,127		7,020,593		7,241,234	0.5%
Total Terminal Rentals	\$	40,394,312	\$	41,076,319	\$	41,597,256	\$	42,659,097	\$	43,083,369	\$	44,825,414	\$	47,079,794	\$	62,302,376	\$	61,046,226	\$	62,459,624	5.0%
TOTAL AIRLINE REVENUES	\$	60,803,486	\$	62,251,652	\$	62,869,276	\$	64,389,455	\$	65,530,494	\$	73,559,259	\$	76,978,118	\$	92,886,153	\$	95,143,991	\$	97,413,628	5.4%
NON-AIRLINE REVENUES																					
Terminal Concessions																					
Food and Beverage	\$	4,892,729	\$	5,020,680	\$	5,400,099	\$	5,674,807	\$	5,962,488	\$	6,263,738	\$	6,579,503	\$	6,910,387	\$	7,256,561	\$	7,618,955	5.0%
News and Gifts		5,188,039		8,191,805		8,810,870		9,259,086		9,728,471		10,219,994		10,735,200		11,275,073		11,839,896		12,431,183	10.2%
Duty Free		1,258,332		1,363,761		1,475,880		1,552,314		1,631,008		1,713,413		1,799,789		1,890,300		1,984,994		2,084,125	5.8%
Advertising		1,891,565		2,418,898		2,598,487		2,729,094		2,865,800		3,008,879		3,158,772		3,315,760		3,479,922		3,651,689	7.6%
Other Concessions		1,165,463		1,487,368		1,597,796		1,678,106		1,762,165		1,850,144		1,942,313		2,038,844		2,139,786		2,245,405	7.6%
Allocated systemwide		2,847,947		3,058,987		3,320,076		3,423,465		3,508,264		3,630,952		3,771,090		4,205,658		4,155,688		4,307,760	4.7%
Subtotal Terminal Concessions	\$	17,244,075	\$	21,541,500	\$	23,203,208	\$	24,316,871	\$	25,458,196	\$	26,687,120	\$	27,986,667	\$	29,636,022	\$	30,856,846	\$	32,339,116	7.24%

TABLE A-2 (3 OF 3) GROSS REVENUES

(For Fiscal Years Ending June 30)

	BUDGET 2023	PROJECTED										COMPOUND ANNUAL
		2024	2025	2026	2027	2028	2029	2030	2031	2032	GROWTH RATE (2023-2032)	
Parking and Ground Transportation												
Automobile Parking	\$ 27,301,258	\$ 28,106,645	\$ 29,468,901	\$ 30,051,619	\$ 30,655,411	\$ 31,266,262	\$ 31,885,868	\$ 32,513,989	\$ 33,148,321	\$ 33,790,054		2.40%
Car Rental	8,633,607	7,839,692	8,219,661	8,382,197	8,550,610	8,720,993	8,893,818	9,069,017	9,245,949	9,424,946		0.98%
Ground Transportation	3,157,824	3,423,810	3,678,007	3,862,874	4,056,373	4,258,893	4,471,058	4,693,266	4,925,627	5,168,753		5.63%
Subtotal Parking and Ground Transpo	\$ 39,092,689	\$ 39,370,147	\$ 41,366,569	\$ 42,296,690	\$ 43,262,394	\$ 44,246,148	\$ 45,250,744	\$ 46,276,272	\$ 47,319,897	\$ 48,383,752		2.40%
Other Non-Airline Revenues												
Building & Ground Rentals	\$ 6,576,655	\$ 6,776,976	\$ 6,980,285	\$ 7,189,693	\$ 7,405,384	\$ 7,627,546	\$ 7,856,372	\$ 8,092,063	\$ 8,334,825	\$ 8,584,870		3.01%
Allocated systemwide	2,847,947	3,058,987	3,320,076	3,423,465	3,508,264	3,630,952	3,771,090	4,205,658	4,155,688	4,307,760		4.71%
Miscellaneous	2,291,456	2,356,417	2,412,205	2,437,243	2,462,517	2,488,018	2,513,804	2,539,845	2,568,015	2,596,466		1.40%
Subtotal Other Non-Airline Revenues	\$ 11,716,058	\$ 12,192,380	\$ 12,712,565	\$ 13,050,401	\$ 13,376,165	\$ 13,746,516	\$ 14,141,266	\$ 14,837,567	\$ 15,058,528	\$ 15,489,096		3.15%
TOTAL NON-AIRLINE REVENUES	\$ 68,052,822	\$ 73,104,027	\$ 77,282,343	\$ 79,663,962	\$ 82,096,756	\$ 84,679,783	\$ 87,378,677	\$ 90,749,861	\$ 93,235,271	\$ 96,211,964		3.92%
TOTAL REVENUES	\$ 128,856,308	\$ 135,355,679	\$ 140,151,618	\$ 144,053,417	\$ 147,627,249	\$ 158,239,041	\$ 164,356,795	\$ 183,636,014	\$ 188,379,262	\$ 193,625,592		4.63%
Ellington Field												
General aviation	\$ 272,118	\$ 280,282	\$ 288,690	\$ 297,351	\$ 306,271	\$ 315,459	\$ 324,923	\$ 334,671	\$ 344,711	\$ 355,052		3.00%
Building and ground rentals	1,847,748	2,965,617	3,054,586	3,146,223	3,240,610	3,337,828	3,437,963	3,541,102	3,647,335	3,756,755		8.20%
Other revenues	189,505	212,726	219,108	225,681	232,451	239,425	246,608	254,006	261,626	269,475		3.99%
Allocated systemwide	240,047	337,525	363,559	372,810	379,542	389,063	398,934	400,967	414,816	428,309		6.64%
Subtotal Revenues	\$ 2,549,418	\$ 3,796,150	\$ 3,925,943	\$ 4,042,065	\$ 4,158,874	\$ 4,281,775	\$ 4,408,428	\$ 4,530,745	\$ 4,668,488	\$ 4,809,591		7.31%
TOTAL SYSTEM REVENUES	\$ 539,132,049	\$ 610,567,647	\$ 656,003,941	\$ 685,783,596	\$ 710,802,949	\$ 735,115,527	\$ 754,128,167	\$ 782,964,808	\$ 847,061,315	\$ 865,633,111		5.40%

SOURCE: Houston Airport System, June 2023; Ricondo & Associates, Inc., June 2023.

TABLE A-3 AIRPORT SYSTEM REVENUE BOND DEBT SERVICE

(For Fiscal Years Ending June 30)

	BUDGET 2023	PROJECTED										
		2024	2025	2026	2027	2028	2029	2030	2031	2032		
Outstanding Senior Lien Obligations												
Senior Lien Commercial Paper Notes ¹	\$	7,750,000	\$	1,750,000	\$	1,750,000	\$	1,750,000	\$	1,750,000	\$	1,750,000
TOTAL SENIOR LIEN OBLIGATIONS	\$	7,750,000	\$	1,750,000	\$	1,750,000	\$	1,750,000	\$	1,750,000	\$	1,750,000
Outstanding Subordinate Lien Obligations												
Series 2000B	\$	17,113,563	\$	17,119,808	\$	-	\$	-	\$	-	\$	-
Series 2002A		1,025,256		1,025,256		1,025,256		1,025,256		1,025,256		21,030,256
Series 2002B		1,372,500		1,372,500		1,372,500		1,372,500		1,372,500		28,822,500
Series 2018A		9,678,500		9,677,000		9,676,000		9,680,250		9,675,750		9,677,000
Series 2018B		14,176,500		14,177,250		30,329,250		30,325,750		30,330,250		71,825,500
Series 2018C		22,221,750		22,361,250		22,684,500		23,183,500		23,468,750		23,815,500
Series 2018D		26,028,250		26,032,000		26,029,500		26,029,750		26,031,250		26,032,500
Series 2020A		6,601,000		6,551,000		6,501,000		6,451,000		8,401,000		8,251,000
Series 2020B		3,578,250		3,578,250		3,578,250		16,898,250		16,632,250		16,336,250
Series 2020C		83,103,949		83,106,709		83,574,279		69,550,722		67,417,628		67,438,924
Series 2021A		14,623,200		14,498,200		14,623,200		16,735,700		16,985,700		17,110,700
Fiscal agent and other fees		100,000		100,000		100,000		100,000		100,000		100,000
Subtotal Existing Subordinate Lien Obligations	\$	199,622,718	\$	199,599,223	\$	199,493,736	\$	201,128,178	\$	201,158,084	\$	201,146,380
Estimated Series 2023 Subordinate Lien Obligations ²												
Series 2023A (excluding refunding and tendered bonds) ³	\$	-	\$	7,353,863	\$	19,623,058	\$	37,941,480	\$	39,021,250	\$	39,021,000
Series 2023B (excluding refunding and tendered bonds) ³		-		1,521,663		1,601,750		2,151,750		2,149,250		2,150,500
Subtotal Estimated Series 2023 Subordinate Lien Obligations	\$	-	\$	8,875,525	\$	21,224,808	\$	40,093,230	\$	41,170,500	\$	41,171,500
Anticipated Future Subordinate Lien Obligations ²												
Series 2024	\$	-	\$	-	\$	-	\$	4,324,137	\$	7,286,238	\$	7,554,500
Series 2025		-		-		-	\$	4,409,894		13,666,137		14,297,250
Series 2026		-		-	\$	-	\$	-		12,395,480		25,492,210
Series 2027		-		-	\$	-	\$	-		-		19,800,788
Series 2028		-		-	\$	-	\$	-		-		-
Series 2029		-		-	\$	-	\$	-		-		-
Series 2030		-		-	\$	-	\$	-		-		-
Subtotal Future Subordinate Lien Obligations	\$	-	\$	-	\$	-	\$	4,324,137	\$	11,696,133	\$	33,616,116
TOTAL SUBORDINATE LIEN OBLIGATIONS	\$	199,622,718	\$	208,474,748	\$	220,718,543	\$	245,545,546	\$	254,024,717	\$	275,933,997
Inferior Lien Obligations												
Inferior Lien Obligations	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
TOTAL INFERIOR LIEN OBLIGATIONS	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
TOTAL DEBT SERVICE REQUIREMENTS	\$	207,372,718	\$	210,224,748	\$	222,468,543	\$	247,295,546	\$	255,774,717	\$	277,683,997

NOTES:

1 Amounts shown as projected Senior Lien Obligations for FY 2024 through FY 2032 reflect commitment fees associated with the HAS commercial paper program.

2 Annual debt service payments are shown net of capitalized interest.

3 The Series 2023 Bonds are anticipated to include the refunding of the Series 2002 Bonds and/or the tender of the Series 2020C Bonds. However, the refunding and tender is not reflected in the debt service shown. Any such refunding and/or tender is anticipated to result in lower total annual debt service throughout the Projection Period.

SOURCE: Houston Airport System, June 2023; Ricondo & Associates, Inc., June 2023.

TABLE A-4 SPECIAL FACILITIES REVENUE BOND DEBT SERVICE

(For Fiscal Years Ending June 30)

	BUDGET 2023	PROJECTED									
		2024	2025	2026	2027	2028	2029	2030	2031	2032	
Outstanding Special Facilities Obligations											
Series 2011	\$ 7,460,638	\$ 7,460,638	\$ 7,460,638	\$ 12,481,963	\$ 12,468,725	\$ 12,457,900	\$ 12,447,863	\$ 12,432,150	\$ 12,419,138	\$ 12,397,306	
Series 2014	\$ 39,239,988	\$ 39,284,275	\$ 39,098,250	\$ 39,363,250	\$ 39,178,500	\$ 39,347,000	\$ 39,322,500	\$ -	\$ -	\$ -	
Series 2015B-1	\$ 8,832,500	\$ 8,832,500	\$ 8,832,500	\$ 8,832,500	\$ 22,526,375	\$ 22,506,625	\$ 22,490,875	\$ 22,472,250	\$ 22,449,000	\$ 22,429,125	
Series 2015B-2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Series 2018C	\$ 2,321,250	\$ 2,321,250	\$ 2,321,250	\$ 2,321,250	\$ 2,321,250	\$ 2,321,250	\$ 47,585,625	\$ -	\$ -	\$ -	
Series 2018	\$ 4,532,500	\$ 4,532,500	\$ 4,532,500	\$ 4,532,500	\$ 4,532,500	\$ 4,532,500	\$ 92,916,250	\$ -	\$ -	\$ -	
Series 2020A	\$ 1,708,250	\$ 1,708,250	\$ 1,708,250	\$ 1,708,250	\$ 35,873,250	\$ -	\$ -	\$ -	\$ -	\$ -	
Series 2020B-2	\$ 2,373,500	\$ 2,373,500	\$ 2,373,500	\$ 2,373,500	\$ 2,373,500	\$ 48,656,750	\$ -	\$ -	\$ -	\$ -	
Series 2020C	\$ 3,344,500	\$ 3,344,500	\$ 3,344,500	\$ 3,344,500	\$ 3,344,500	\$ 68,562,250	\$ -	\$ -	\$ -	\$ -	
Series 2021A	\$ 2,807,000	\$ 2,807,000	\$ 2,807,000	\$ 2,807,000	\$ 2,807,000	\$ 2,807,000	\$ 2,807,000	\$ 2,807,000	\$ 2,807,000	\$ 2,807,000	
Series 2021B-1	\$ 8,772,800	\$ 8,772,800	\$ 8,772,800	\$ 8,772,800	\$ 8,772,800	\$ 8,772,800	\$ 8,772,800	\$ 8,772,800	\$ 8,772,800	\$ 8,772,800	
Subtotal Existing Special Facilities Revenue Bonds	\$ 81,392,926	\$ 81,437,213	\$ 81,251,188	\$ 86,537,513	\$ 134,198,400	\$ 209,964,075	\$ 226,342,913	\$ 46,484,200	\$ 46,447,938	\$ 46,406,231	
Assumed Special Facilities Obligations											
Future Special Facilities Obligations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Subtotal Future Special Facilities Obligations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
TOTAL SPECIAL FACILITIES OBLIGATIONS											
	\$ 81,392,926	\$ 81,437,213	\$ 81,251,188	\$ 86,537,513	\$ 134,198,400	\$ 209,964,075	\$ 226,342,913	\$ 46,484,200	\$ 46,447,938	\$ 46,406,231	

NOTE:

At the request of United Airlines, the City has authorized the issuance of Special Facilities Bonds to provide financing for various Special Facilities at IAH, including the construction of Terminal E. The payments for all Special Facilities Bonds are remitted directly to a trustee by United Airlines as Special Facilities Payments. Debt service on Special Facilities Bonds is not payable with Net Revenues and is not included in the definition of Airport Obligations. Therefore, Special Facilities Bonds is not included in the calculation of debt service coverage on Airport Obligations.

SOURCE: Houston Airport System, June 2023; Ricondo & Associates, Inc., June 2023.

TABLE A-5 COST PER ENPLANED PASSENGER

(For Fiscal Years Ending June 30)

	BUDGET		PROJECTED																	
	2023		2024	2025	2026	2027	2028	2029	2030	2031	2032									
George Bush Intercontinental Airport																				
Terminal Rentals and Fees																				
Terminal A	\$	20,790,959	\$	19,410,766	\$	19,394,411	\$	19,993,281	\$	20,338,218	\$	19,158,232	\$	19,534,044	\$	20,112,798	\$	50,690,621	\$	51,373,505
Terminal B		11,639,673		11,089,312		10,353,277		10,600,847		10,835,239		10,947,694		11,137,075		11,316,944		11,445,882		11,677,544
Terminal C		40,041,174		40,070,629		46,242,037		44,819,606		41,726,523		41,653,303		42,258,070		42,770,037		37,001,193		37,617,136
Terminal D		25,461,333		36,888,305		52,143,784		68,335,694		68,582,646		73,215,348		73,856,288		74,339,849		72,350,230		73,019,239
Terminal E		15,656,414		14,524,753		14,252,512		14,410,874		14,485,589		14,452,692		14,485,657		14,740,648		14,815,437		15,128,558
Central FIS		32,041,230		36,792,638		37,672,131		38,573,503		51,937,121		52,927,498		53,828,552		54,451,278		52,336,663		53,196,507
Skyway APM		23,508,360		23,471,774		23,625,565		24,888,154		25,695,812		27,277,529		27,879,781		28,226,302		58,212,462		58,908,016
Subtotal Terminal Rentals And Use Fees	\$	169,139,143	\$	182,248,177	\$	203,683,717	\$	221,621,958	\$	233,600,647	\$	239,632,294	\$	242,979,467	\$	245,957,857	\$	296,852,488	\$	300,920,505
AIRLINE PAYMENTS TO HAS																				
Landing fees	\$	66,574,620	\$	80,250,104	\$	83,079,295	\$	83,634,586	\$	85,982,806	\$	86,481,604	\$	87,530,050	\$	86,852,585	\$	87,281,784	\$	88,435,918
Terminal rentals and use fees		169,139,143		182,248,177		203,683,717		221,621,958		233,600,647		239,632,294		242,979,467		245,957,857		296,852,488		300,920,505
Less: Air service incentive credits		-		(1,646,464)		(1,723,218)		(1,814,134)		(1,909,383)		(2,009,165)		(2,113,799)		(2,223,487)		(2,338,277)		(2,458,478)
Less: Revenue share		-		-		-		(17,840,542)		(17,712,702)		(18,690,073)		(12,931,932)		-		-		-
Total airline payments	\$	235,713,763	\$	260,851,817	\$	285,039,794	\$	285,601,869	\$	299,961,368	\$	305,414,661	\$	315,463,786	\$	330,586,955	\$	381,795,995	\$	386,897,944
Enplaned passengers		21,767,000		23,239,380		23,625,565		24,163,256		24,707,031		25,256,971		25,814,612		26,379,722		26,950,214		27,527,110
Average airline payment to HAS per enplaned passenger	\$	10.83	\$	11.22	\$	12.06	\$	11.82	\$	12.14	\$	12.09	\$	12.22	\$	12.53		14.17	\$	14.06
William P. Hobby Airport																				
Landing fees	\$	20,409,174	\$	21,144,145	\$	21,238,934	\$	21,696,559	\$	22,412,211	\$	28,689,152	\$	29,851,821	\$	30,536,208	\$	34,044,730	\$	34,899,637
Terminal rentals and use fees																				
Central Terminal	\$	24,148,297	\$	24,706,720	\$	24,980,683	\$	25,625,921	\$	25,727,672	\$	27,264,616	\$	29,044,885	\$	35,640,505	\$	33,658,867	\$	34,433,526
West Terminal		9,300,902		9,370,781		9,504,336		9,752,215		9,961,545		10,123,535		10,406,713		19,875,744		20,366,765		20,784,865
FIS Facility		6,945,113		6,998,818		7,112,237		7,280,961		7,394,152		7,437,264		7,628,196		6,786,127		7,020,593		7,241,234
Less: Revenue share		-		-		-		-		-		-		-		-		-		-
Total Terminal Rentals	\$	40,394,312	\$	41,076,319	\$	41,597,256	\$	42,659,097	\$	43,083,369	\$	44,825,414	\$	47,079,794	\$	62,302,376	\$	61,046,226	\$	62,459,624
Net airline payments	\$	60,803,486	\$	62,220,465	\$	62,836,190	\$	64,355,656	\$	65,495,580	\$	73,514,567	\$	76,931,615	\$	92,838,584	\$	95,090,956	\$	97,359,262
Enplaned passengers		7,251,000		7,221,913		7,541,439		7,694,250		7,848,841		8,005,240		8,163,881		8,324,701		8,487,112		8,651,418
Average airline payment to HAS per enplaned passenger	\$	8.39	\$	8.62	\$	8.33	\$	8.36	\$	8.34	\$	9.18	\$	9.42	\$	11.15	\$	11.20	\$	11.25

NOTE:

Enplaned passengers reflect budgeted activity for FY 2023 and projected activity for FY 2024 through FY 2032.

SOURCE: Houston Airport System, June 2023; Ricondo & Associates, Inc., June 2023.

TABLE A-6 COST PER ENPLANED PASSENGER - INTERCONTINENTAL

(For Fiscal Years Ending June 30)

	BUDGET 2023	PROJECTED									
		2024	2025	2026	2027	2028	2029	2030	2031	2032	
George Bush Intercontinental Airport											
Airline payments to HAS	\$ 235,713,763	\$ 260,851,817	\$ 285,039,794	\$ 285,601,869	\$ 299,961,368	\$ 305,414,661	\$ 315,463,786	\$ 330,586,955	\$ 381,795,995	\$ 386,897,944	
Plus: Existing Special Facilities Debt Service	81,392,926	81,437,213	81,251,188	86,537,513	134,198,400	209,964,075	226,342,913	46,484,200	46,447,938	46,406,231	
Plus: Future Special Facilities Debt Service	-	-	-	-	-	-	-	-	-	-	
Plus: O&M Expenses Paid Directly by Airlines											
Terminal B	9,659,416	9,949,198	10,247,674	10,555,104	10,871,758	11,197,910	11,533,848	11,879,863	12,236,259	12,603,347	
Terminal C	20,382,685	20,994,166	21,623,991	22,272,711	22,940,892	23,629,119	24,337,992	25,068,132	25,820,176	26,594,781	
Terminal E	15,297,323	15,756,243	16,228,930	16,715,798	17,217,272	17,733,790	18,265,804	18,813,778	19,378,191	19,959,537	
Total Payments to HAS	\$ 362,446,113	\$ 388,988,636	\$ 414,391,576	\$ 421,682,994	\$ 485,189,689	\$ 567,939,555	\$ 595,944,342	\$ 432,832,928	\$ 485,678,559	\$ 492,461,840	
Enplaned Passengers	21,767,000	23,239,380	23,625,565	24,163,256	24,707,031	25,256,971	25,814,612	26,379,722	26,950,214	27,527,110	
Average payment per enplaned passenger	\$ 16.65	\$ 16.74	\$ 17.54	\$ 17.45	\$ 19.64	\$ 22.49	\$ 23.09	\$ 16.41	\$ 18.02	\$ 17.89	

SOURCE: Houston Airport System, June 2023; Ricondo & Associates, Inc., June 2023.

TABLE A-7 PROJECTED PFC REVENUE COLLECTIONS

(For Fiscal Years Ending June 30)

	BUDGET 2023	PROJECTED								
		2024	2025	2026	2027	2028	2029	2030	2031	2032
George Bush Intercontinental Airport										
Enplaned Passengers	21,767,000	23,239,380	23,625,565	24,163,256	24,707,031	25,256,971	25,814,612	26,379,722	26,950,214	27,527,110
Eligibility Ratio	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%
Eligible Enplaned Passengers	18,501,950	19,753,473	20,081,730	20,538,768	21,000,976	21,468,425	21,942,420	22,422,763	22,907,682	23,398,044
Beginning Fund Balance	\$ 216,563,104	\$ 211,830,800	\$ 203,385,654	\$ 189,195,344	\$ 165,681,286	\$ 187,563,539	\$ 208,837,009	\$ 228,330,596	\$ 245,846,982	\$ 262,643,351
Annual PFC collections	\$ 81,223,561	\$ 86,717,745	\$ 88,158,795	\$ 90,165,191	\$ 92,194,287	\$ 94,246,387	\$ 96,327,226	\$ 98,435,931	\$ 100,564,723	\$ 102,717,412
Interest Earnings	\$ 3,189,037	\$ 3,090,941	\$ 2,922,439	\$ 2,641,762	\$ 2,629,614	\$ 2,950,873	\$ 3,254,349	\$ 3,529,858	\$ 3,785,288	\$ 4,000,178
Applied as Pay-Go - Future Projects	\$ (40,035,216)	\$ (45,000,000)	\$ (45,000,000)	\$ (45,000,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
PFCs Used To Pay Existing Debt Service	\$ (49,109,685)	\$ (48,998,538)	\$ (50,095,490)	\$ (51,413,722)	\$ (51,942,509)	\$ (52,014,580)	\$ (52,753,281)	\$ (52,695,659)	\$ (45,533,719)	\$ (47,004,501)
PFCs Used To Pay 2023 Bonds and Future Debt Service ¹	\$ -	\$ (4,255,295)	\$ (10,176,054)	\$ (19,907,288)	\$ (20,999,139)	\$ (23,909,209)	\$ (27,334,707)	\$ (31,753,744)	\$ (42,019,922)	\$ (47,642,582)
Ending Fund Balance	\$ 211,830,800	\$ 203,385,654	\$ 189,195,344	\$ 165,681,286	\$ 187,563,539	\$ 208,837,009	\$ 228,330,596	\$ 245,846,982	\$ 262,643,351	\$ 274,713,858
William P. Hobby Airport										
Enplaned Passengers	7,251,000	7,221,913	7,541,439	7,694,250	7,848,841	8,005,240	8,163,881	8,324,701	8,487,112	8,651,418
Eligibility Ratio	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%
Eligible Enplaned Passengers	6,163,350	6,138,626	6,410,223	6,540,112	6,671,515	6,804,454	6,939,299	7,075,996	7,214,045	7,353,705
Beginning Fund Balance	\$ 30,200,000	\$ 38,129,020	\$ 36,782,800	\$ 41,447,986	\$ 37,294,952	\$ 24,517,065	\$ 16,027,003	\$ 18,080,613	\$ 17,728,115	\$ 14,934,208
Annual PFC collections	\$ 27,057,107	\$ 26,948,568	\$ 28,140,878	\$ 28,711,093	\$ 29,287,952	\$ 29,871,554	\$ 30,463,521	\$ 31,063,623	\$ 31,669,659	\$ 32,282,766
Interest Earnings	\$ 508,653	\$ 557,656	\$ 582,363	\$ 586,176	\$ 460,139	\$ 301,817	\$ 253,903	\$ 266,566	\$ 243,144	\$ 224,700
Applied as Pay-Go - Future Projects	\$ -	\$ (9,240,608)	\$ (4,825,808)	\$ (13,328,470)	\$ (21,999,394)	\$ (17,706,160)	\$ (5,278,560)	\$ -	\$ -	\$ -
PFCs Used To Pay Existing Debt Service	\$ (19,636,739)	\$ (19,611,836)	\$ (19,232,248)	\$ (19,057,769)	\$ (19,039,560)	\$ (18,576,211)	\$ (18,171,384)	\$ (23,656,663)	\$ (24,641,378)	\$ (21,736,145)
PFCs Used To Pay 2023 Bonds and Future Debt Service ¹	\$ -	\$ -	\$ -	\$ (1,064,064)	\$ (1,487,024)	\$ (2,381,062)	\$ (5,213,870)	\$ (8,026,024)	\$ (10,065,332)	\$ (10,455,042)
Ending Fund Balance	\$ 38,129,020	\$ 36,782,800	\$ 41,447,986	\$ 37,294,952	\$ 24,517,065	\$ 16,027,003	\$ 18,080,613	\$ 17,728,115	\$ 14,934,208	\$ 15,250,487

NOTE:

1 PFCs Used to Pay Future Debt Service reflect anticipated future approved PFC-eligible debt service related to the Domestic Redevelopment Program at IAH and the West Concourse Expansion at HOU.

SOURCE: Houston Airport System, June 2023; Ricondo & Associates, Inc., June 2023.

TABLE A-8 APPLICATIONS OF REVENUES

(For Fiscal Years Ending June 30)

	BUDGET 2023	PROJECTED									
		2024	2025	2026	2027	2028	2029	2030	2031	2032	
GROSS REVENUES	\$ 539,132,049	\$ 610,567,647	\$ 656,003,941	\$ 685,783,596	\$ 710,802,949	\$ 735,115,527	\$ 754,128,167	\$ 782,964,808	\$ 847,061,315	\$ 865,633,111	
Application of Gross Revenues											
1. Operation and Maintenance Expenses	\$ 367,356,528	\$ 383,350,618	\$ 391,806,817	\$ 402,483,822	\$ 415,194,315	\$ 426,669,754	\$ 438,687,441	\$ 458,445,389	\$ 470,866,450	\$ 484,251,930	
2. Senior Lien Bond Interest and Sinking Fund	\$ 7,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	
Less: PFC revenues to pay debt service											
Less: Grants to pay debt service	-	-	-	-	-	-	-	-	-	-	
Less: Interest and other amounts to pay debt service	-	-	-	-	-	-	-	-	-	-	
Net Senior Debt Service Requirements	\$ 7,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	
3. Senior Lien Bond Reserve Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
4. Subordinate Lien Bond Interest and Sinking Fund	\$ 199,622,718	\$ 208,474,748	\$ 220,718,543	\$ 245,545,546	\$ 254,024,717	\$ 275,933,997	\$ 315,430,454	\$ 348,669,463	\$ 385,683,508	\$ 400,426,318	
Less: PFC revenues to pay debt service	(68,746,424)	(72,865,670)	(79,503,792)	(91,442,844)	(93,468,231)	(96,881,062)	(103,473,242)	(116,132,091)	(122,260,351)	(126,838,271)	
Less: Grants to pay debt service	(50,000,000)	(10,000,000)	-	-	-	-	-	-	-	-	
Less: Interest and other amounts to pay debt service	-	-	-	-	-	-	-	-	-	-	
Net Subordinate Debt Service Requirements	\$ 80,876,294	\$ 125,609,079	\$ 141,214,751	\$ 154,102,702	\$ 160,556,485	\$ 179,052,935	\$ 211,957,212	\$ 232,537,372	\$ 263,423,157	\$ 273,588,047	
5. Subordinate Lien Bond Reserve Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
6. Inferior Lien obligations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Less: PFC revenues to pay debt service											
Less: Interest and other amounts to pay debt service	-	-	-	-	-	-	-	-	-	-	
Net Inferior Debt Service Requirements	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
7. Operation and Maintenance Reserve Fund	\$ 4,906,816	\$ 2,718,995	\$ 1,437,554	\$ 1,815,091	\$ 2,160,784	\$ 1,950,825	\$ 2,043,007	\$ 3,358,851	\$ 2,111,580	\$ 2,275,532	
8. Renewal and Replacement Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
9. Airports Improvement Fund	\$ 78,242,410	\$ 97,138,954	\$ 119,794,818	\$ 125,631,981	\$ 131,141,365	\$ 125,692,013	\$ 99,690,507	\$ 86,873,196	\$ 108,910,127	\$ 103,767,603	
Less: Revenue sharing ¹	\$ -	\$ -	\$ -	\$ (17,840,542)	\$ (17,712,702)	\$ (18,690,073)	\$ (12,931,932)	\$ -	\$ -	\$ -	
Available Airports Improvement Deposits for Capital Improvements	\$ 78,242,410	\$ 97,138,954	\$ 119,794,818	\$ 107,791,439	\$ 113,428,662	\$ 107,001,940	\$ 86,758,576	\$ 86,873,196	\$ 108,910,127	\$ 103,767,603	
TOTAL APPLICATION OF GROSS REVENUES	\$ 539,132,049	\$ 610,567,647	\$ 656,003,941	\$ 685,783,596	\$ 710,802,949	\$ 735,115,527	\$ 754,128,167	\$ 782,964,808	\$ 847,061,315	\$ 865,633,111	

NOTE:

¹ Annual revenue sharing is anticipated beginning in the fiscal year after completion of ITRP Phase 1 and Hobby west concourse expansion projects in the amount equal to 50% of net revenues above 1.5 debt service coverage for carriers at IAH and HOU, respectively.

SOURCE: Houston Airport System, June 2023; Ricondo & Associates, Inc., June 2023.

TABLE A-9 DEBT SERVICE COVERAGE

(For Fiscal Years Ending June 30)

	BUDGET 2023	PROJECTED									
		2024	2025	2026	2027	2028	2029	2030	2031	2032	
Gross Revenues	\$ 539,132,049	\$ 610,567,647	\$ 656,003,941	\$ 685,783,596	\$ 710,802,949	\$ 735,115,527	\$ 754,128,167	\$ 782,964,808	\$ 847,061,315	\$ 865,633,111	
Less: Operation and Maintenance Expenses	(367,356,528)	(383,350,618)	(391,806,817)	(402,483,822)	(415,194,315)	(426,669,754)	(438,687,441)	(458,445,389)	(470,866,450)	(484,251,930)	
Plus: Renewal and Replacement Fund transfer	-	-	-	-	-	-	-	-	-	-	
Net Revenues	\$ 171,775,520	\$ 227,217,028	\$ 264,197,124	\$ 283,299,774	\$ 295,608,634	\$ 308,445,772	\$ 315,440,726	\$ 324,519,419	\$ 376,194,865	\$ 381,381,181	
Calculation of debt service coverage											
Debt Service Requirements											
Senior Lien Obligations (Commercial Paper)	\$ 7,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	\$ 1,750,000	
Subordinate Lien Bonds (General Airport Revenue Bonds)	199,622,718	208,474,748	220,718,543	245,545,546	254,024,717	275,933,997	315,430,454	348,669,463	385,683,508	400,426,318	
Less: PFC revenues to pay debt service ¹	(68,746,424)	(72,865,670)	(79,503,792)	(91,442,844)	(93,468,231)	(96,881,062)	(103,473,242)	(116,132,091)	(122,260,351)	(126,838,271)	
Less: Grants to pay debt service	(50,000,000)	(10,000,000)	-	-	-	-	-	-	-	-	
Total Debt Service Requirements	\$ 88,626,294	\$ 127,359,079	\$ 142,964,751	\$ 155,852,702	\$ 162,306,485	\$ 180,802,935	\$ 213,707,212	\$ 234,287,372	\$ 265,173,157	\$ 275,338,047	
Debt service coverage for all Airport System Revenue Bonds	1.94 x	1.78 x	1.85 x	1.82 x	1.82 x	1.71 x	1.48 x	1.39 x	1.42 x	1.39 x	

NOTE:

1 PFC revenues to pay debt service are estimated based on existing PFC approvals as well as anticipated approvals for the HOU West Concourse Expansion and the IAH Domestic Redevelopment Program.

SOURCE: Houston Airport System, June 2023; Ricondo & Associates, Inc., June 2023.

APPENDIX B

ANNUAL COMPREHENSIVE FINANCIAL REPORT OF THE AIRPORT SYSTEM FUND, INCLUDING FINANCIAL STATEMENTS OF THE AIRPORT SYSTEM FUND

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Annual Comprehensive Financial Report



The Airport System Fund

An Enterprise Fund of the City of Houston, Texas
(For the Fiscal Years Ended - June 30, 2024 and June 30, 2023)

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AIRPORT SYSTEM FUND

An Enterprise Fund of the

City of Houston, Texas

ANNUAL COMPREHENSIVE FINANCIAL REPORT

For the Fiscal Years Ended June 30, 2024 and June 30, 2023

Prepared by:

Office of City Controller

Chris Hollins

City Controller

William Jones

Deputy City Controller

Houston Airport System

Clint Stephen

Chief Financial Officer

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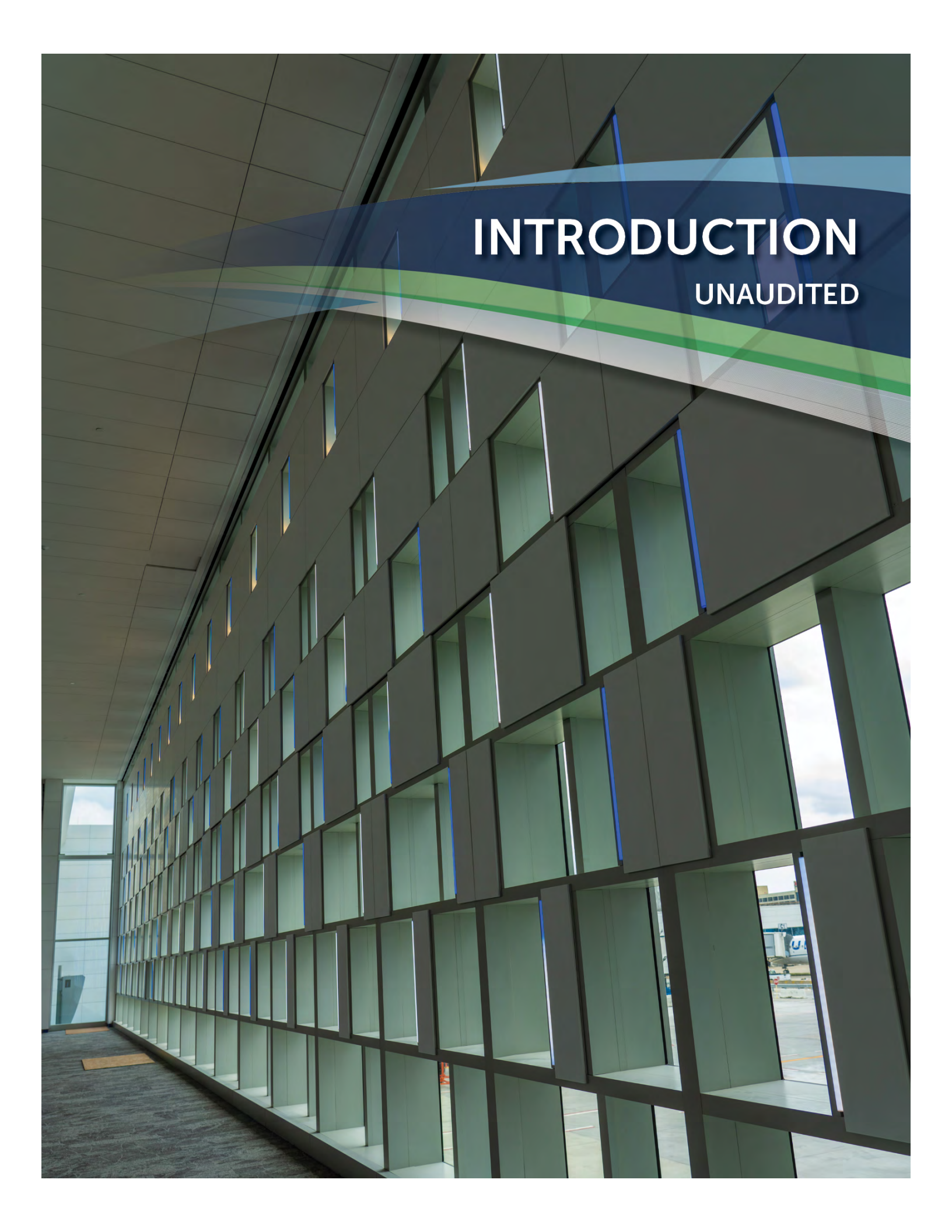
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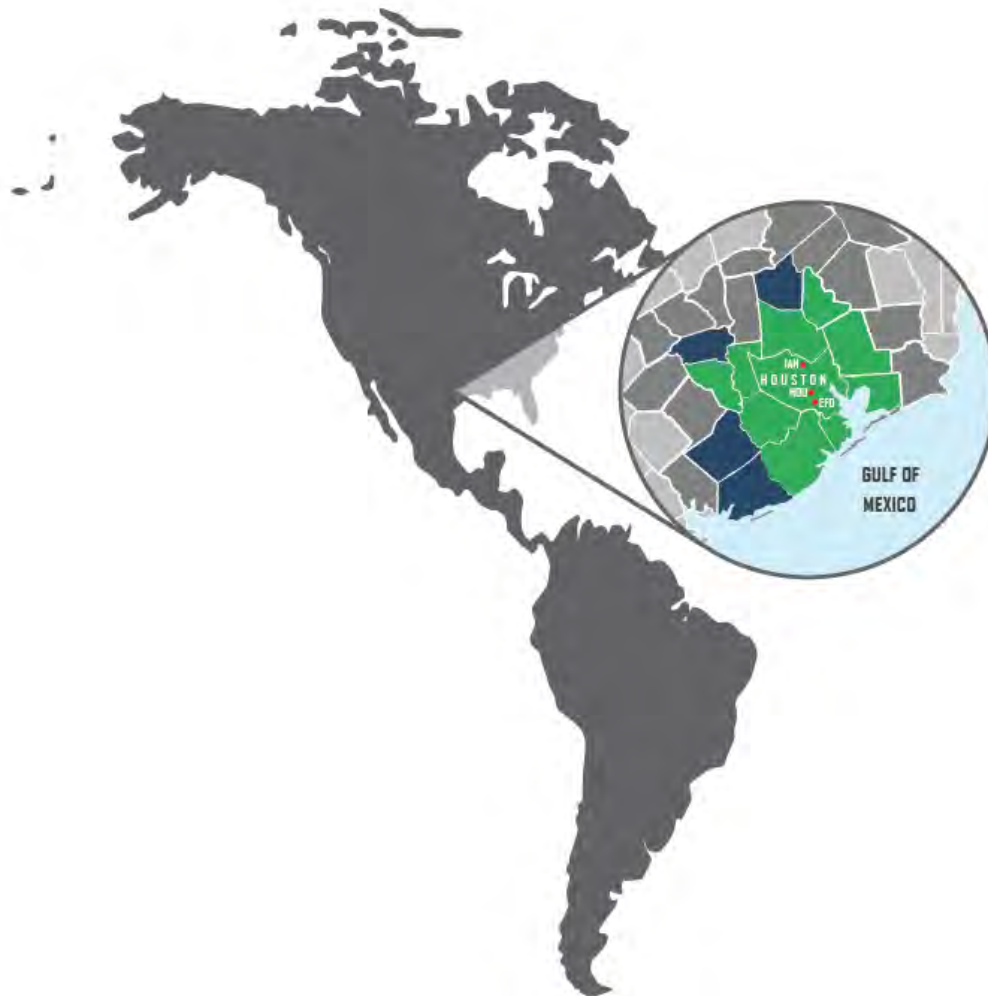
A photograph of a modern building's interior, featuring a large, curved wall composed of a grid of glass and metal panels. The wall is illuminated from within, creating a warm glow. The ceiling is a flat, white surface with a grid pattern. The floor is a dark, textured material. The overall design is clean and minimalist.

INTRODUCTION

UNAUDITED



HOUSTON AIRPORT SYSTEM



Metropolitan Statistical Area (MSA) of Houston-Pasadena-The Woodlands, TX includes 10 counties.



Consolidated Statistical Area (CSA) of Houston-Pasadena, TX adds Matagorda, Walker, Washington, and Wharton counties.



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in Financial
Reporting

Presented to

**City of Houston, Texas
Airport System Fund**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2023

A handwritten signature in black ink that reads "Christopher P. Morill". The signature is written in a cursive style.

Executive Director/CEO

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CHRIS HOLLINS

OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

November 18, 2024

Citizens of Houston, Honorable Mayor and City Council Members:

I am pleased to present you with the Annual Comprehensive Financial Report ("ACFR") for the City of Houston, Texas (the "City"), Airport System Fund (the "Fund") for the fiscal year ended June 30, 2024 ("FY2024"), and June 30, 2023 ("FY2023"), including the independent auditor's report. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering unmodified opinions on the Fund's basic financial statements as of and for the years ended June 30, 2024, and 2023. The City Controller's Office and the Houston Airport System ("HAS") 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 fairly present the financial position and results of operations of the Fund.

The ACFR includes four sections: Introductory, Financial, Statistical, and Compliance. The Introductory Section includes this transmittal letter, a list of principal officials, and the HAS organizational chart. The Financial Section includes Management's Discussion and Analysis ("MD&A"), financial statements with accompanying notes, required supplementary information, and the independent auditor's 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 auditor's report on HAS's compliance with the requirements of the Federal Aviation Administration ("FAA") Passenger Facility Charge ("PFC") Program.

The Financial Section, described above, is prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for governments as prescribed by the Governmental Accounting Standards Board. MD&A 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 the financial statements.

THE REPORTING ENTITY

The Fund is an enterprise fund of the City and is included in the City's Annual Comprehensive Financial Report. 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. HAS, under the administrative control of the Mayor, manages and operates the Fund. The City Controller, as the chief financial officer of the City, maintains the book of accounts, 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.

HAS OVERVIEW

HAS encompasses three airports: George Bush Intercontinental Airport (“IAH”), William P. Hobby Airport (“HOU”), and Ellington Airport (“EFD”). George Bush Intercontinental Airport serves as a major hub for United Airlines (“United”), and William P. Hobby Airport is predominantly operated by Southwest Airlines (“Southwest”). IAH ranks as the 15th-busiest airport in North America (United States and Canada), as measured by enplaned passengers in calendar year 2023, and is classified as a “large hub airport” by the FAA. IAH serves as an international gateway airport and a primary connecting point in the national air transportation system. In 2023, IAH was the third-largest hub for United based on number of available seats, and the third-largest hub by the number of departures. There were a total of 27 mainline carrier airlines and 6 regional carrier airlines that operated scheduled passenger service at IAH.

Additionally, IAH is the primary air cargo airport for the region and ranked 16th in North America (United States and Canada) in 2023, as measured by metric tons handled. IAH is a strategic hub for the importing and exporting of machinery, equipment, and parts for the oil and gas, aerospace, construction, and medical sectors, as Houston has a large manufacturing base of industrial machinery and chemicals needed worldwide. In 2023, IAH had 14 cargo airlines operating scheduled freighter service and/or ad hoc cargo charter flights.

HOU is the United States’ 40th-busiest airport in North America (US and Canada), as measured by enplaned passengers in calendar year 2023, and is classified as a “medium hub airport” by the FAA. HOU is one of the major operating bases for Southwest, which offers domestic and international service, including destinations in Mexico, Central America, and the Caribbean. Notably, HOU ranked seventh for the number of available seats and flight departures for Southwest last year. In 2023, seven mainline carrier airlines and three regional carrier airlines operated scheduled passenger service at HOU.

EFD is primarily used for general aviation, military, and the National Aeronautics and Space Administration’s (“NASA”) space operations, and currently has no commercial passenger service. In June 2015, HAS obtained a commercial spaceport license from the FAA for EFD, allowing EFD to accommodate horizontal-launch commercial spaceflight operations.

Houston’s airports position the City of Houston as the international passenger and cargo gateway to the south-central United States and a primary gateway to Latin America. Houston Airports served more than 62.0 million passengers and handled over 547,578 metric tons of air cargo in FY2024. Thanks to our partner airlines, together, we foster economic vitality for the transportation industry and facilitate a strong level of domestic and global connectivity for the diverse and growing population living in the greater Houston region.

ECONOMIC CONDITIONS AND MAJOR INITIATIVES

The city is the nation’s fourth-most populous and lies within the ten-county Houston-Pasadena-The Woodlands Metropolitan Statistical Area (the “MSA”), the fifth-largest metropolitan statistical area in the United States. The MSA continues to see year-over-year population growth. Based on the latest available data from 2023, the estimated population for the MSA increased from 7.34 million to 7.51 million. In addition, the overall business environment and available workforce in the State of Texas continue to attract multi-national enterprises and supporting industries to the region. The MSA was home to 24 Fortune 500 companies in 2023, including Phillips 66, Sysco Corp., ConocoPhillips, Enterprise Product Partners, and Occidental Petroleum, among others. As a result, the primary service region for HAS entertains a diverse economic base. Leading industries include energy, petrochemical, engineering and construction, real estate, aerospace, medicine and health care, transportation, biotechnology, and computer technology.

Widely recognized as the “Energy Capital of the World,” the city 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 to the Lyndon B. Johnson Space Center, NASA’s center for human spaceflight training, research, and flight control. The deep-water Port of Houston is the nation’s busiest port as ranked by foreign tonnage and the fifth-busiest container port as ranked by total tonnage.

Fiscal Year 2024 in Review

During FY2024, HAS systemwide passengers increased by 7.3% over FY2023 totals. IAH passengers increased 7.4% in total, including a domestic passenger increase of 5.8% and an international passenger increase of 12.4% over FY2023. At HOU, total passenger traffic increased by 7.2%, consisting of a domestic increase of 7.6% and an international increase of 1.9%. HAS systemwide passenger volume totaled 104.2% of the pre-pandemic FY2019 traffic level, with IAH reaching 105.5% and HOU reaching 100.1%. HAS currently connects directly to 198 destinations, of which 122 are domestic and 76 are international.

Key factors that will affect future airline traffic and passenger volume at HAS include (1) the cost and availability of financing, labor, fuel, aircraft, and insurance; (2) regional, national, and international economic conditions; (3) international trade; (4) competitive considerations, including the effects of airline ticket pricing; (5) traffic and airport capacity constraints of the HAS airports and competing airports; and (6) passenger demand for air travel. The number of passengers at HAS airports depends partly on the profitability of the U.S. airline industry and the associated ability of the industry and individual airlines, particularly United and Southwest, to make the necessary investments to provide service.

EFD - Houston Spaceport has four prominent tenants. Collins Aerospace is now operational at its new eight-acre, approximately 120,000 square-foot campus that, among other activities, is working with NASA and other aerospace companies in the production and manufacturing of human spaceflight, life-support systems for Low Earth Orbit ("LEO"), and Lunar activities. Collins has also completed the 10,000 square-foot facility that will become Houston's Aerospace Accelerator/Incubator facility at the Houston Spaceport.

Intuitive Machines' expansion into its new 125,000 square-foot facility is complete and fully operational. The company successfully launched and landed its Lunar Lander, NOVA-C, on the moon on February 22, 2024. The next mission to the moon is scheduled for early 2025. This lander is part of NASA's lunar program known as Commercial Lunar Payload Services ("CLPS"), which includes several lunar landers and deep space communications development.

The first commercial space station builder, Axiom Space operates a 105,000 square-foot facility, which is phase one of its planned worldwide headquarters at the Houston Spaceport. This campus contains employee offices, astronaut training, mission control facilities, engineering development, testing labs, and a high bay production facility to assemble and house commercially constructed space station modules.

Venus Aerospace, a startup company working on hypersonic flight technology, has grown its operations at EFD to over 100 employees and has garnered success through its first round of financing.

Capital Improvement Program

The HAS five-year Capital Improvement Plan ("CIP") for Fiscal Years 2025-2029 calls for \$2.8 billion to expand, update, and maintain the airport system. This CIP was developed in connection with master planning studies for all three system airports. Future improvements will be funded with airport earnings, proceeds from new bond issues, proceeds from the FAA and other grantors, and PFCs. The CIP excludes projects funded by airline tenants under the terms of special facilities leases. HAS continually reviews and updates its CIP to address changing economic conditions, air traffic demand levels, changing operating conditions, and facility conditions.

At IAH, HAS is partnering with United Airlines for Terminal B Modernization, in which HAS will fund \$624 million for enabling projects. Once completed, Terminal B will provide 22 new narrowbody gates for domestic and international flights, improved curbsides, and additional roadway capacity. HAS will begin the Domestic Redevelopment Program ("DRP") to address increased demand for other airlines at IAH. The DRP will include gate expansion for domestic airlines, increased airfield capacity, expanded parking facilities, and increased concession capacity. Also, IAH Central Utility Plant Upgrades will be necessary for terminal expansion and development.

At HOU, passenger traffic growth will be supported with a seven-gate expansion to the West Concourse. Other components of the project include baggage claim expansion, taxi lane and taxiway modification and expansion, and the addition of concession capacity. The HOU CIP also addresses sewer system replacement and other capital improvements planned for the airfield as required by the FAA, as well as normal pavement management and customer service enhancements for the HOU Central Concourse.

HAS will continue to review the CIP for changes necessary to “right-size” its facilities and to accommodate the growth in passenger volume at its airports. Management has committed to financial targets intended to optimize the use of resources and to expand facilities in a financially responsible manner. More specifically, the financial target set in the strategic plan for Fiscal Years 2025-2029 include the following:

FINANCIAL METRIC	TARGET		FY24 ACTUAL
Total debt per enplaned passenger	\$120 or less	*	\$89.41
Debt service coverage ratio (net of PFC offset)	1.5 or greater	**	2.68
Days of cash on-hand for operations	450 or greater		520

*Note - Total debt excludes special facility debt.

**Note - HAS used \$46.7 million from federal COVID grant proceeds to pay debt service in fiscal year 2024.

FINANCIAL INFORMATION

The Fund's financial accounting system utilizes the accrual basis of accounting. Management of HAS and the City are responsible for establishing and maintaining internal controls designed to ensure that the assets of the Fund are protected from loss, theft, or misuse and that adequate accounting data is compiled to allow for the preparation of the ACFR in conformity with GAAP. HAS controls current expenses at all division levels. HAS'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 level (e.g., 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 the vendors. This is accomplished primarily through an automated encumbrance and accounts payable system.

However, the Fund as a whole is not budgeted. The City Council approves the Fund's annual budget for operational expenses and authorizes capital project expenditures through individual appropriation ordinances based on a five-year CIP that is proposed by the Mayor and HAS Director. City Council can legally appropriate only those amounts of money that the City Controller has certified to be available for appropriation.

OTHER INFORMATION

Independent Audit

A joint venture of two independent accounting firms, McConnell & Jones, LLP and Banks, Finley, White & Co., performed the audits of the Fund's financial statements for the years ended June 30, 2024, and 2023. The financial section of this report includes the independent auditor's report on the basic financial statements. The compliance section of this report includes the independent auditor's report on HAS's compliance and internal control over compliance, applicable to the PFC Program instituted by the FAA.

The City, as a whole, is also required to undergo an annual compliance audit in conformity with the provisions of Title 2 of the U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and the State of Texas Uniform Grants Management Standards. This audit is conducted in conjunction with the City's annual financial statements audit. Information related to this compliance audit, including the schedule of expenditures of federal and state awards and related notes, and the schedule of findings, and questioned costs, are included in the City's Single Audit Report.

Awards/Acknowledgments

The Government Finance Officers Association of the United States and Canada ("GFOA") awarded a Certificate of Achievement for Excellence in Financial Reporting ("COA") to the City of Houston, Texas, Airport System Fund for its Financial Report submitted for the fiscal year ended June 30, 2023. This was the 30th consecutive year that the Fund has achieved this prestigious award. In order to be awarded a COA, a governmental unit must publish an easily readable and efficiently organized ACFR. This report must satisfy both GAAP and applicable legal requirements. A COA is valid for a period of one year. We believe our current ACFR continues to conform to the COA program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

The preparation of this ACFR was made possible by the dedicated service of the Finance Department of HAS and the City Controller's Office.

Respectfully submitted,

Signed by:

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Chris Hollins, City Controller



JOHN WHITMIRE
MAYOR



CHRIS HOLLINS
CONTROLLER



AMY PECK
DISTRICT A



TARSHA JACKSON
DISTRICT B



ABBIE KAMIN
DISTRICT C



CAROLYN EVANS-SHABAZZ
DISTRICT D



FRED FLICKINGER
DISTRICT E



TIFFANY D. THOMAS
DISTRICT F



MARY NAN HUFFMAN
DISTRICT G



MARIO CASTILLO
DISTRICT H



JOAQUIN MARTINEZ
DISTRICT I



EDWARD POLLARD
DISTRICT J



MARTHA CASTEX-TATUM
DISTRICT K



JULIAN RAMIREZ
AT-LARGE POSITION 1



WILLIE DAVIS
AT-LARGE POSITION 2



TWILA CARTER
AT-LARGE POSITION 3



LETITIA PLUMMER
AT-LARGE POSITION 4



SALLIE ALCORN
AT-LARGE POSITION 5



Saba Abashawl
Chief External Affairs Officer



Francisco Cuellar
Chief Commercial Officer



Darryl Daniel
Chief Technology Officer



Gary High
Chief Development Officer



Scott Hill
Chief Maintenance Officer



Jim Szczesniak
Director of Aviation



Julie Landry
Chief Workforce Innovation and
Development Officer



Arturo Machuca
Director
Ellington Airport &
Houston Spaceport



Liliana Rambo
Chief Terminal Management &
Administration Officer



Steve Runge
Chief of Operations



Clint Stephen
Chief Financial Officer



Molly Waits
Chief Marketing, Air Service
Development &
Communications Officer



Kelly Woodward
Chief Operating Officer

2024 SKYTRAX WORLD AIRPORT AWARDS

Hobby Airport became the first and only 5-Star Skytrax airport in North America in 2022.

Today, Hobby Airport is among 20 airports worldwide, and the only airport in North America with a 5-Star Skytrax rating. Bush Airport maintains its 4-Star Skytrax rating for a seventh consecutive year.

Houston Airports was awarded 2024 World's Best Airport Art & Entertainment Program

Houston Airports boasts one of the aviation industry's largest civic art collection. The 350-piece collection is set to grow with the addition of 12 commissioned pieces for the new IAH international terminal. Houston Airports employs more than 75 local professional musicians through its performing arts program, Harmony in the Air. Passengers at Bush and Hobby airports enjoy live performances, making Harmony in the Air a beloved amenity that is often praised on customer comment cards.

Other notable wins at the 2024 World Airport Awards:



IAH

**Bush Airport ranks among the Top 10
World's Best Airport Dining Experiences**

**Ranks among the Top 40 Best Airports in
the World**

**Ranks as the 3rd Best Airport by
passenger numbers in the 40 to 50 million
passengers category**

HOU



**Best Regional Airport in North America for
3rd consecutive year**

**Hobby Airport is the 4th Best Regional
Airport in the World**

**Hobby Airport ranked among the Top 8
World's Best Airport Staff in North
America**





GOVERNMENT FINANCE OFFICERS ASSOCIATION

The City of Houston Airport System Fund was awarded the Certificate of Achievement for Excellence in Financial Reporting for the 30th consecutive year for its Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2023.

ACI AIRPORT CARBON ACCREDITATION PROGRAM

Houston Airports achieved a significant milestone in its commitment to environmental sustainability. In 2024, both IAH and HOU airports advanced to Level 2 of the Airports Council International's Airport Carbon Accreditation program, recognizing their effective carbon management and emissions reduction efforts. EFD renewed its Level 1 certification, demonstrating ongoing progress in carbon footprint measurement.

This achievement underscores Houston Airports' dedication to reducing its environmental impact and contributing to a more sustainable future for aviation.





\$596M

OPERATING REVENUE



62.0

MILLION PASSENGERS

50^(A)

AIRLINES*



*MKT

198^(A)

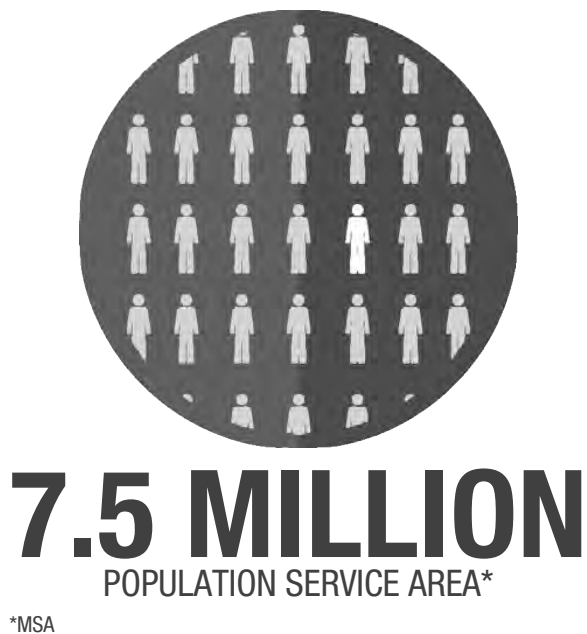
NON-STOP DESTINATIONS



42^(A)

COUNTRIES

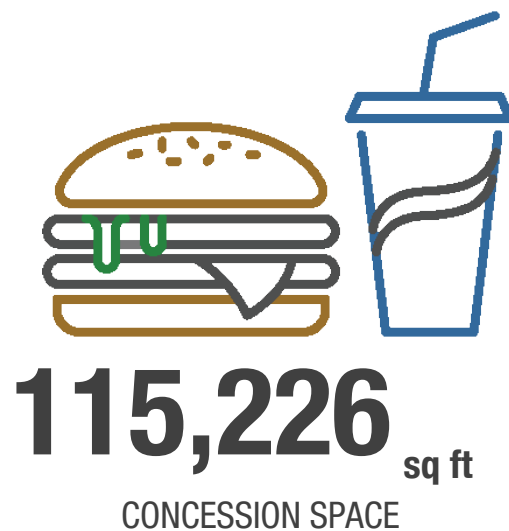
(A) Data presented for the Houston Airport System as a whole, not by airport; for fiscal year 2024



748^(A)
DAILY DEPARTURES*



*AVG flights



(A) Data presented for the Houston Airport System as a whole, not by airport; for fiscal year 2024



MISSION

We exist to connect the people, businesses, cultures and economies of the world to Houston.

VISION

Establish Houston Airports as a 5-Star global air service gateway where the magic of flight is celebrated.

STRATEGIC PRIORITIES

- Make our passengers happy.
- Act responsibly to achieve social, environmental and economic sustainability.
- Build platforms for future success.
- Invest in our partnerships and our employees.



HOUSTON SPACEPORT



Houston Spaceport is a state-of-the-art commercial spaceport located in Houston, Texas. Intuitive Machines, Collins Aerospace, Venues Aerospace and Axiom Space are major tenants of the Houston Spaceport. As an FAA-licensed facility, it provides a unique platform for aerospace companies to conduct a variety of operations, including launching and landing suborbital, reusable launch vehicles.

Houston Spaceport offers a range of essential facilities and services, such as laboratory office space and large-scale hardware production facilities. This comprehensive ecosystem fosters innovation, collaboration, and growth within the aerospace industry. The Spaceport's partnership with San Jacinto College's EDGE Center ensures a steady supply of skilled technicians, further enhancing its appeal to aerospace businesses seeking to establish or expand their operations in the region.

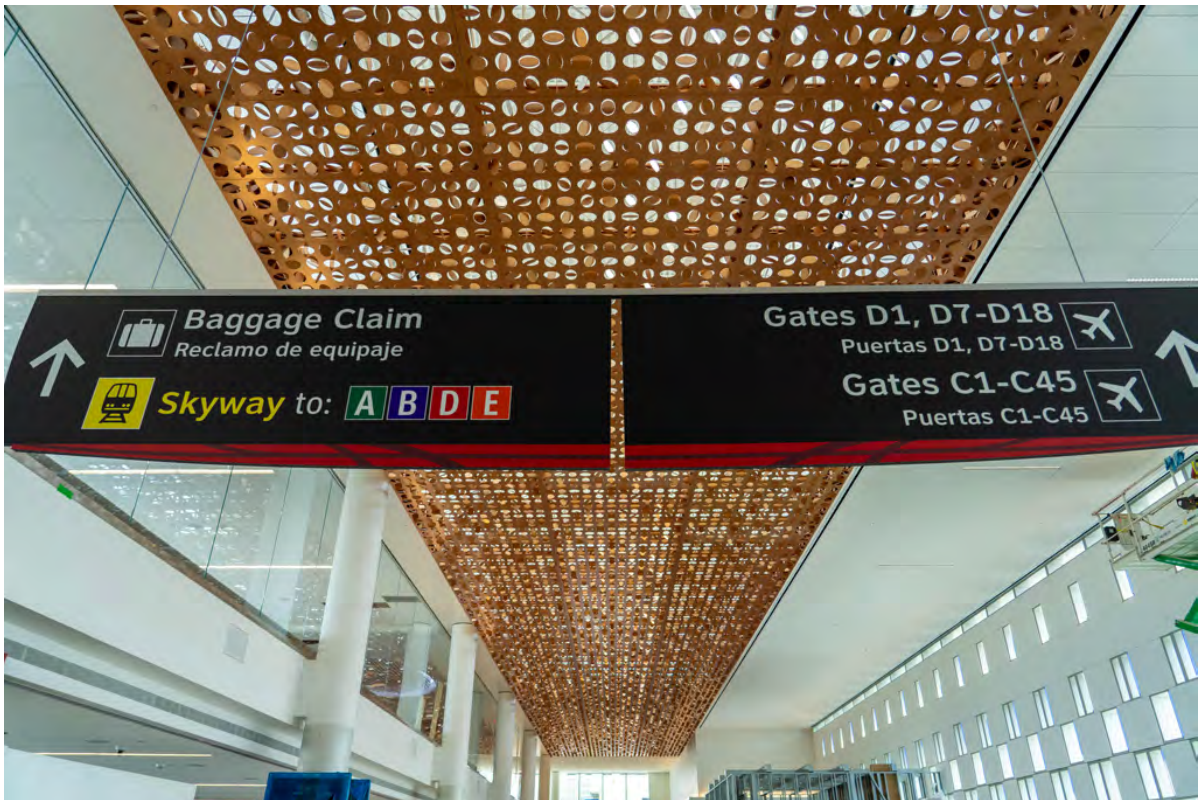


IAH TERMINAL REDEVELOPMENT PROGRAM

The Houston Airport System is embarking on an ambitious project to modernize the George Bush International Airport's international terminal and further cement Houston as a global city. The IAH Terminal Redevelopment Program, also known as ITRP, is the largest expansion program in the 53-year history of Bush Airport and builds on a series of previous renovation programs. The program budget is approximately \$1.458 billion and is anticipated to be completed in 2025.

The ITRP effort was undertaken to develop additional facilities in support of aging infrastructure and unprecedented growth in international traffic at IAH. The program will support international flight operations for United Airlines and more than a dozen foreign flag carriers. Additional international gates will accommodate continued international airline growth and larger, widebody aircraft.

The program will improve current and future roadway and curbside capacity constraints in the central terminal area, improve baggage handling system capacity and reliability challenges, and significantly improve the overall guest experience for every international passenger.



IAH TERMINAL B TRANSFORMATION

The Terminal B Transformation at IAH is a groundbreaking initiative representing United Airlines' and the Houston Airport System's joint commitment to revolutionizing the passenger experience. A new Terminal B will triple the capacity on curbs and roads and provide safe, clean and world-class facilities. The \$2.55 billion project includes 40 new gates for domestic and international travel, a new processor for ticketing, security and baggage claim, and two new concourses. With a strong focus on intuitive customer movements, we are creating a terminal that truly embodies the spirit of Houston while prioritizing sustainability.



HOU WEST CONCOURSE SEVEN GATE EXPANSION

An overall \$470 million investment will support increased demand and the continued growth of Southwest Airlines at HOU. The West Concourse expansion includes 7 additional gates that can accommodate domestic and international flights, an expanded and renovated baggage handling system and baggage claim area, and an overhead canopy along the departures curb that will protect against inclement weather and connect the Red Garage to the terminal. The expansion will create space for more restaurants, retail establishments, and art. The West Concourse Expansion Project comes less than a decade after Hobby Airport last expanded.

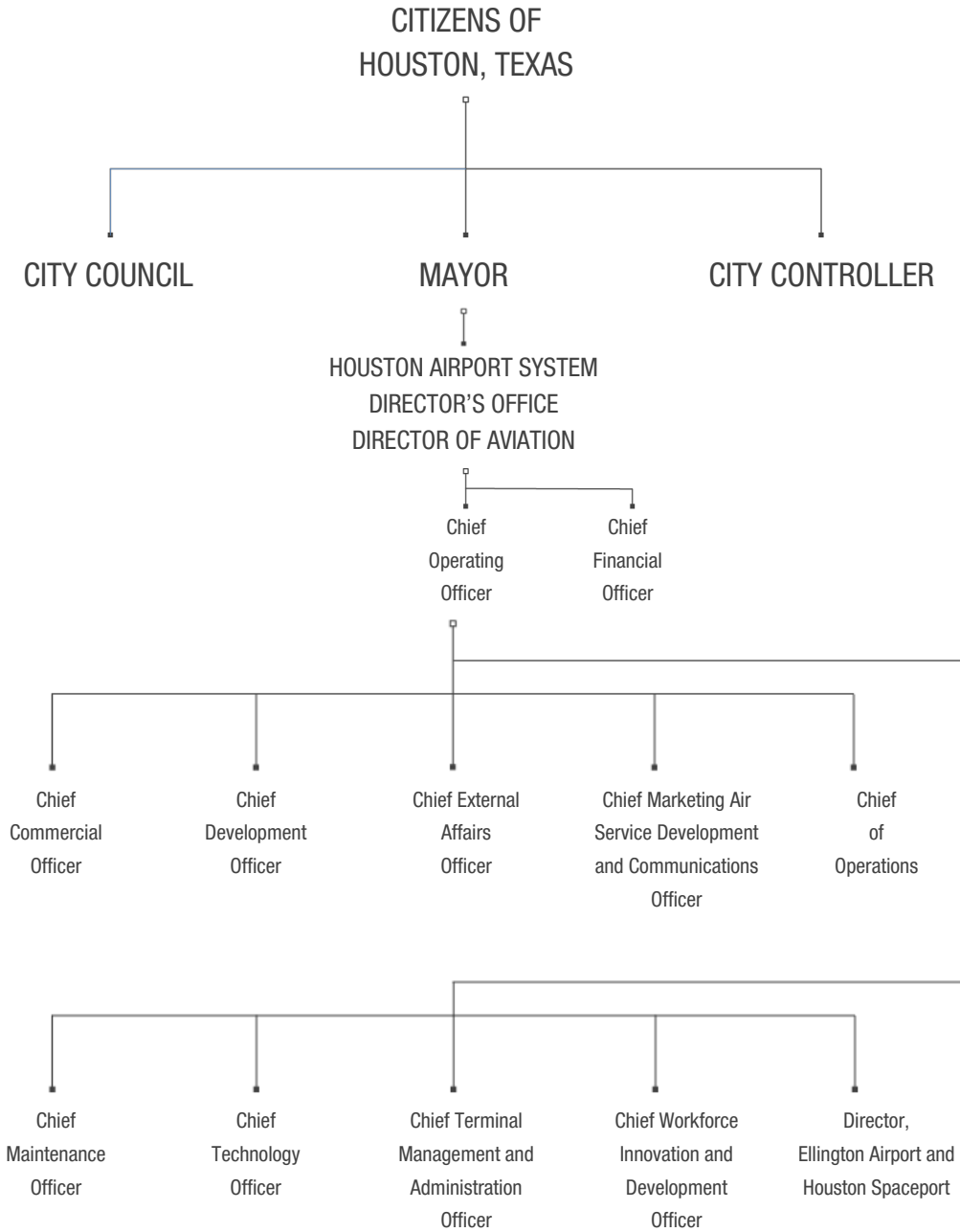


ART IN THE AIRPORT



Houston Airports has proudly claimed the prestigious Skytrax "Best Art in the Airport" award for two consecutive years, a testament to our exceptional commitment to enriching the passenger experience with the visual and performing arts. The airport's extensive art collection, featuring over 350 pieces, showcases the work of local and international artists, reflecting the city's vibrant cultural scene. From stunning murals to thought-provoking sculptures, the art seamlessly integrates into the airport's architecture, creating a visually captivating environment. Complementing the art collection is the renowned Harmony in the Air program, which brings live music from more than 75 local professional musicians to the terminals. This initiative features diverse performances in multiple genres, providing travelers with a soothing and enjoyable atmosphere.





FINANCIAL SECTION







INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of the Airport System Fund of the City of Houston Texas (the "Airport System Fund"), as of and for the years ended June 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Airport System Fund's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Airport System Fund, as of June 30, 2024 and 2023, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are required to be independent of the City of Houston, Texas, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Airport System Fund and do not purport to, and do not, present fairly the financial position of the City of Houston, Texas, as of June 30, 2024 and 2023, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.



To the Honorable Mayor,
Members of the City Council, and City Controller
City of Houston, Texas
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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with (GAAS) will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with (GAAS) and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Houston, Texas' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 5-16) and the Pension System Supplementary Information and Other Post-Employment Benefits Supplementary Information (pages 68-73) be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.



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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Introductory and Statistical Section and Compliance Section but does not include the basic financial statements and our auditor's report thereon.

The Passenger Facility Charge Revenues and Disbursements Schedule and accompanying notes (pages 116-118) 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.

Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audits of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 18, 2024, on our consideration of the Airport System Fund'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 solely 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 the effectiveness of the Airport System Fund's 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 Airport System Fund's internal control over financial reporting and compliance.

McConnell Jones LLP *Banks, Finley, White & Co.*
November 18, 2024

Management's Discussion and Analysis (Unaudited)

The Houston Airport System ("HAS") is an independent, financially self-sufficient department of the City of Houston, Texas (the "City") that owns George Bush Intercontinental Airport ("IAH"), William P. Hobby Airport ("HOU"), and Ellington Airport ("EFD"). The Airport System Fund (the "Fund") is an enterprise fund of the City. HAS, under the administrative control of the Mayor, manages and operates the Fund. Management of HAS offers readers of the Fund's financial statements this overview and analysis of the financial activities for the fiscal years ended June 30, 2024 ("FY2024") and June 30, 2023 ("FY2023"). This discussion and analysis should be read in conjunction with the Fund's financial statements that begin on page 16.

Financial Highlights

The Fund's net position increased \$179.2 million or 9.1% during FY2024 and increased \$170.6 million or 9.5% for FY2023.

Operating revenues for FY2024 increased by \$35.3 million or 6.3% compared to \$595.6 million prior year operating revenues due to an increase in terminal space rentals of \$14.6 million; an increase in parking revenues of \$5.1 million; and an increase in concessions revenues of \$8.6 million. In FY2023, operating revenues increased by \$79.1 million or 16.4% compared to the prior year's operating revenues due to an increase in terminal space rentals of \$43.8 million; and an increase in parking revenues of \$19.0 million; an increase in concessions revenues of \$18.9 million. For both FY2024 and FY2023, the increases were due to an increase in the total number of passengers from 57.8 million in FY2023 to 62.0 million in FY2024 as both business and leisure travel continued to recover since the Pandemic.

In FY2024, operating expenses increased by \$36.0 million or 6.3% compared to FY2023, primarily due to an increase in personnel costs of \$13.9 million due to contractual salary increases with Houston Organization of Public Employees ("HOPE"), and an increase for professional services of \$11.5 million or 4.9% due to ongoing planning efforts related to HAS five-year Capital Improvement Plan ("CIP"), which includes calls for \$2.8 billion to expand, update, and maintain the airport system. At IAH, HAS is partnering with United Airlines for Terminal B Modernization, in which HAS will fund \$624.0 million for enabling projects. Once completed, Terminal B will provide 40 new gates for domestic and international flights, improved curbsides, and roadway capacity. HAS will begin the Domestic Redevelopment Program ("DRP") which will include gate expansion for domestic airlines, increased airfield capacity, expanding parking facilities, and increased concession capacity. At HOU, passenger traffic growth will be supported with a seven-gate expansion to the West Concourse. Other projects include baggage claim expansion, sewer system replacement, and other capital improvements planned for the airfield as required by the Federal Aviation Administration ("FAA"), as well as normal pavement management and customer service enhancements for the HOU Central Concourse. In FY2023, operating expenses increased by \$89.1 million or 18.5%, primarily due to an increase in personnel costs of \$36.5 million.

Investment income increased by \$53.1 million or 137.2% in FY2024 and decreased by \$85.8 million or 182.2% in FY2023 as the result of an investment loss.

Key Performance Indicators

The following table highlights changes in some of HAS' operating and financial key performance indicators for the years ended June 30, 2024, 2023, and 2022. Additional details can be found in the Statistical section of this Annual Comprehensive Financial Report in the Operational Information sub-section.

	For the Years Ended	June 30, 2024	June 30, 2023	June 30, 2022
	Total passengers (in millions)	62.0	57.8	52.0
	Aircraft operations (in thousands)	734.2	689.8	690.9
(1)	Passenger landed weight (in million pounds)	36,574.8	33,510.1	31,572.5
(2)	Cargo landed weight (in million pounds)	2,186.5	2,375.4	2,290.9
	Cargo metric tons (in thousands)	539.7	519.5	533.9

(1) FY2022 and FY2023 were adjusted

(2) FY2023 was adjusted

Adoption of New Accounting Standards – Accounting for Subscription-Based Information Technology Arrangements

The Fund implemented Government Accounting Standards Board Statement No. 96, Subscription-Based Information Technology Arrangements ("GASBS 96"), for the fiscal year beginning July 1, 2022. Upon adoption of the new standard, the Fund recognized the subscription right-of-use assets and subscription liabilities totaling \$3.7 million. See Notes 1 and 4 for disclosures on significant accounting policies, subscription right-to-use assets, and liabilities.

Overview of the Financial Statements

This discussion and analysis is an introduction to the Fund's financial statements, which consist of the following components: management's discussion and analysis ("MD&A"), financial statements, notes to the financial statements, and required supplementary information. The notes are essential to a full understanding of the financial statements. A statistical section is included for further analysis.

A fund is a group of related accounts 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 Fund is an enterprise fund of the City; thus, it is included in the City's Annual Comprehensive Financial Report.

The Statements of Net Position present information on the Fund's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between these sections reported as net position. Changes in net position from year to year may serve as useful indicators of whether the financial position of the Fund is improving or deteriorating.

The Statements of Revenues, Expenses, and Changes in Net Position present information showing how the Fund's net position changed during the two most recent fiscal years. 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 Statements of Cash Flows report 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 note disclosures as well as required supplementary information that provide additional explanations and details on significant accounting policies and significant financial statement line items.

Management's Discussion and Analysis (Unaudited)

NET POSITION JUNE 30, 2024, JUNE 30, 2023, AND JUNE 30, 2022 (in thousands)

	2024	2023	2022
Assets			
Current assets	\$ 785,544	\$ 597,426	\$ 740,025
Noncurrent assets	1,538,473	1,618,471	1,492,006
Net capital assets	3,432,998	3,197,399	2,866,747
Total assets	5,757,015	5,413,296	5,098,778
Deferred outflows of resources	34,418	38,591	34,065
Liabilities			
Current liabilities	399,446	438,856	287,422
Noncurrent liabilities	2,874,301	2,766,289	2,751,127
Total liabilities	3,273,747	3,205,145	3,038,549
Deferred inflows of resources	370,143	278,418	296,569
Net Position			
Net investment in capital assets	728,106	591,494	507,167
Restricted net position	1,391,866	1,444,873	1,209,671
Unrestricted (deficit) surplus	27,571	(68,043)	80,887
Total net position	\$ 2,147,543	\$ 1,968,324	\$ 1,797,725

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

Total net position at FY2024 was \$2,147.5 million, a \$179.2 million or 9.1% increase from FY2023. Total net position at June 30, 2023, was \$1,968.3 million, a \$170.6 million or 9.5% increase from FY2022.

Approximately a third of the Fund's total net position, 33.9% and 30.1% as of FY2024 and FY2023, respectively, reflects net investment in capital assets (e.g., land, buildings, runways, equipment, and infrastructure), net of related outstanding debt used to acquire those assets, offset by bond proceeds remaining in cash and investment accounts at fiscal year-end. 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 any related debt, it should be noted that the resources needed to repay this debt must be provided by airport revenue or other sources procured by the Fund, since the capital assets cannot be used to liquidate these liabilities.

The other portions of the Fund's net position represent resources that are restricted, and the unrestricted net position surplus or deficit. The restricted net position in FY2024 was \$1,391.9 million or a 6.3% increase from FY2023. The restricted net position in FY2023 was \$1,444.9 million or a 19.4% increase from FY2022. The Restricted net position is 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 the 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 net position deficit was \$27.6 million as of FY2024 and the unrestricted net position deficit was \$68.0 million as of FY2023.

FY2024

Total assets increased by \$343.7 million, or 6.3%, from \$5,413.3 million in FY2023 to \$5,757.0 million in

FY2024. Unrestricted and restricted cash and cash & cash equivalents increased by \$122.5 million, or 37.2%, while investments increased by \$122.0 million, or 7.9%, compared to FY2023. Accounts receivable increased by \$23.5 million or 218.6% compared to the balance at the end of FY2023. Receivables from customers increased by \$17.8 million while rates and charges resulted in a credit that was \$6.5 million less compared to FY2023. Restricted receivables for Passenger Facility Charges ("PFC") and Customer Facility Charges ("CFC") increased by \$8.0 million or 67.8% due to the fact that both business and leisure travel exceeded pre-pandemic activity by 4.2%. The majority of this growth occurred at IAH, with a rise of 2.9% in domestic travel and a 9.3% rise in international travel. Travel activity at HOU returned to 100% of pre-pandemic levels in FY2024.

Balance due from other governments decreased by \$17.1 million or 29.6% compared to FY2023 as HAS available funds have been reimbursed from Coronavirus Response and Consolidated Appropriations Act ("CCRSA") and American Rescue Plan Act ("ARPA") for eligible expenditures related to the pandemic. As of June 30, 2024, the remaining amounts for reimbursement are \$18.6 million for CCRSA and \$4.7 million for ARPA. Furthermore, construction in progress increased by \$249.9 million or 28.8% due to costs capitalized for expansion and renovation projects during FY2024 as HAS continues with its five-year Capital Improvement Program ("CIP") that will continue through FY2029 which calls for \$2.8 billion to expand, update, and maintain the airport system. There was also an increase in buildings and improvements of \$144.6 million or 2.5%. See the Capital Assets section in this MD&A for further discussion and analysis on current and future capital projects.

Deferred outflows of resources decreased by \$4.2 million or 10.8% mainly attributable to a decrease of \$4.4 million or 25.0% in debt refunding related deferred outflows and a decrease of \$1.0 million or 8.7% in pension related deferred outflows.

Total liabilities increased by \$68.6 million or 2.1% compared to June 30, 2023, primarily due to an increase of \$477.7 million in subordinate lien revenue bonds payable in FY2024, partially offset by a decrease of \$350.0 million in commercial paper due to the issuance of the Subordinate Lien Revenue and Refunding Bonds Series 2023A and 2023B. Contracts and retainages payable decreased by \$56.4 million or 30.4% as significant construction work is being performed at all HAS airports. Net pension liability decreased by \$15.0 million or 8.4% mainly due to an increase in HAS proportionate share based on contributions during the measurement period. Other post-employment benefits payable increased by \$8.1 million or 14.9% mainly due to an increase of \$8.2 million or 15.9% for other post-employment benefits - health benefit plan ("OPEB-HB"). The OPEB-HB increase is due to valuation assumption changes related to raising the discount rate, updating the valuation for health costs and future trend costs, and an update in the actuarial spread factors.

Total deferred inflows of resources increased by \$91.7 million or 32.9% due to an increase of \$82.3 million in deferred inflows from leases and an increase of \$14.3 million in deferred inflows from debt refunding. Deferred inflows from leases increased due to normal lease amortization and deferred inflows from debt refunding increased as a result of the issuance of the Subordinate Lien Revenue and Refunding Bonds Series 2023A and 2023B.

FY2023

Total assets increased by \$314.5 million, or 6.2%, from \$5,098.8 million in FY2022 to \$5,413.3 million in FY2023. Unrestricted and restricted cash and cash & cash equivalents decreased by \$53.2 million, or 13.9%, while investments increased by \$74.1 million, or 5.0%, compared to FY2022. Accounts receivable increased by \$5.9 million or 122.0% compared to the balance at the end of FY2022. Receivables from customers decreased by \$48.0 million due to collection efforts while receivables related to rates and charges increased by \$13.0 million compared to FY2022. Restricted receivables for PFC and CFC increased by \$1.7 million or 16.6% due to higher travel demand during FY2023 as both business and leisure travel continued to recover since the pandemic.

Management's Discussion and Analysis (Unaudited)

Balance due from other governments decreased by \$32.8 million or 36.2% compared to FY2022 as HAS available funds have been fully reimbursed from Coronavirus Aid, Relief, and Economic Security ("CARES"), CCRSA, and ARPA Acts for eligible expenditures related to the pandemic. Furthermore, construction in progress increased by \$312.2 million or 56.1% due to costs capitalized for expansion and renovation projects during FY2023 as HAS continues with its five-year CIP that will continue through FY2028 which calls for \$2.8 billion to expand, update, and maintain the airport system. There was also an increase in buildings and improvements of \$147.0 million or 2.6%. See the Capital Assets section in this MD&A for further discussion and analysis on current and future capital projects.

Deferred outflows of resources increased by \$4.5 million or 13.3% mainly attributable to an increase of \$9.5 million or 456.4% in pension related deferred outflows.

Total liabilities increased by \$166.6 million or 5.5% compared to June 30, 2022, primarily due to \$165.0 million in draws for commercial paper in FY2023 partially offset by principal payments on bonds of \$77.7 million and a \$8.2 million or 13.5% decrease in special facility bonds for principal payments made during FY2023. Contracts and retainages payable increased by \$95.7 million or 106.4% as significant construction work is being performed at all HAS airports. Net pension liability increased by \$12.8 million or 7.7% mainly due to an increase in HAS proportionate share based on contributions during the measurement period. There was also a decrease of \$16.6 million or 23.7% for OPEB-HB due to valuation assumption changes related to raising the discount rate, updating the valuation for health costs and future trend costs, and an update in the actuarial spread factors.

Total deferred inflows of resources decreased by \$18.2 million or 6.1% mainly due to reduced inflows from leases of \$18.8 million due to normal lease amortization. In addition, deferred inflows related to the pension plan decreased by \$14.4 million or 37.7% compared to FY2022 mainly due to appreciation in fair value of plan investments being less than projected earnings for FY2023. Deferred inflows for OPEB-HB increased by \$15.0 million or 130.1% in FY2023 mainly due to changes in assumptions.

Changes in Net Position

For FY2024 and FY2023, net position of the Fund increased by \$179.2 million or 9.1% and \$170.6 million or 9.5%, respectively.

CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2024, JUNE 30, 2023, and JUNE 30, 2022

(in thousands)

	2024	2023	2022
Operating revenues	\$ 595,563	\$ 560,247	\$ 481,174
Operating expenses	607,925	571,878	482,793
Operating loss	(12,362)	(11,631)	(1,619)
Nonoperating revenues	286,308	224,081	257,450
Nonoperating expenses	99,966	78,938	132,536
Nonoperating income	186,342	145,143	124,914
Income before capital contributions	173,980	133,512	123,295
Capital contributions	5,239	37,087	41,047
Change in net position	179,219	170,599	164,342
Total net position, July 1	1,968,324	1,797,725	1,633,383
Total net position, June 30	\$ 2,147,543	\$ 1,968,324	\$ 1,797,725

TOTAL REVENUES AND CAPITAL CONTRIBUTION
FOR THE YEARS ENDED JUNE 30, 2024, JUNE 30, 2023, and JUNE 30, 2022
(in thousands)

	2024	2023	2022
Operating Revenues			
Landing area fees	\$ 98,556	\$ 92,601	\$ 94,253
Rentals, building and ground areas	250,353	234,751	192,029
Parking and concessions	238,920	225,151	187,235
Other operating revenues	7,734	7,744	7,657
Nonoperating Revenues			
Passenger Facility Charges	117,407	108,754	98,446
Customer Facility Charges	17,946	16,075	13,723
Investment income	91,803	38,706	—
Gain on disposal of assets and incomplete projects	—	405	—
CARES Act/CRRSAA/ARPA grants	48,005	50,230	134,621
Other nonoperating revenues	11,147	9,911	10,660
Total revenues	881,871	784,328	738,624
Capital contributions	5,239	37,087	41,047
Total revenues and capital contributions	\$ 887,110	\$ 821,415	\$ 779,671

FY2024

Operating revenues increased by 35.3 or 6.3% as total enplaned and deplaned passenger volume at IAH and HOU increased by 7.3%. Airline landing fees increased by \$6.0 million or 6.4% compared to FY2023, and rental revenues increased by \$15.6 million or 6.6%. In addition, parking revenues increased by \$5.1 million or 4.4% compared to FY2023. Concession revenues also increased by \$8.6 million or 8.0%. For FY2024, the increases were due to the total number of passengers increasing from 57.8 million in FY2023 to 62.0 million in FY2024 due to the fact that both business and leisure travel exceeded pre-pandemic activity.

Nonoperating revenues increased by \$62.2 million or 27.8% due to an increase in PFC revenue of \$8.7 million or 8.0% and an increase in CFC charges of \$1.9 million or 11.6% due to higher numbers of passengers compared to FY2023. In addition, investment income increased by \$53.1 million or 137.2%.

FY2023

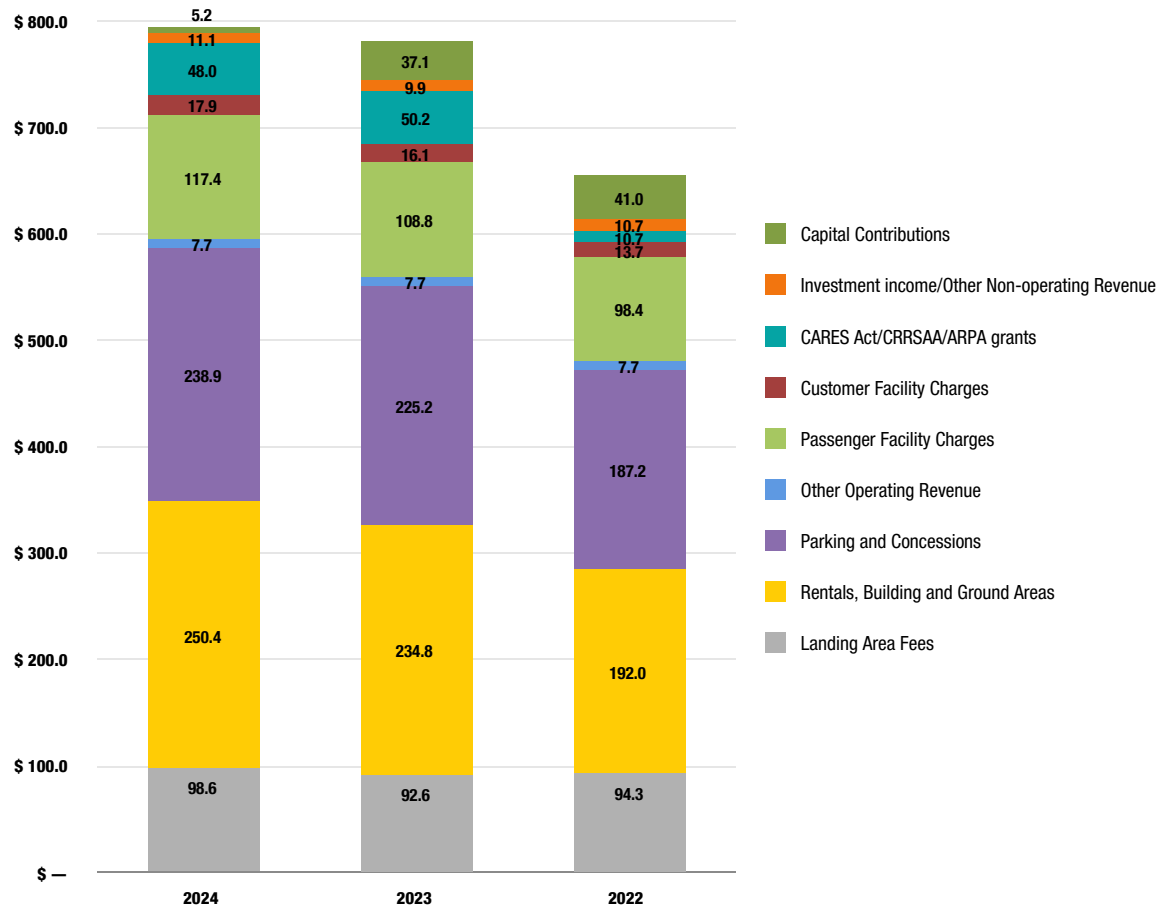
Operating revenues increased by 79.1 or 16.4% as total enplaned and deplaned passenger volume at IAH and HOU increased by 11.1%. Airline landing fees decreased by \$1.7 million or 1.8% compared to FY2022, and rental revenues increased by \$42.7 million or 22.2%. In addition, parking revenues increased by \$19.0 million or 19.3% compared to FY2022. Concession revenues also increased by \$18.9 million or 21.3%. For FY2023, the increases were due to the total number of passengers increasing from 52.0 million in FY2022 to 57.8 million in FY2023 as both business and leisure travel continued to recover since the pandemic.

Nonoperating revenues decreased by \$33.4 million or 13.0% mainly due to a decrease in CARES Act/CRRSAA/ARPA grants of \$84.4 million or 62.7% and an increase of \$85.8 million or 182.2% in investment income. PFC revenue increased by \$10.3 million or 10.5% and CFC charges increased by \$2.4 million or 17.1% due to higher numbers of passengers compared to FY2022.

Capital contributions from the FAA decreased by \$4.0 million or 9.6% as HAS continued with various renovation and expansion projects at IAH and HOU.

TOTAL REVENUES and CAPITAL CONTRIBUTIONS

(in millions)



TOTAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2024, JUNE 30, 2023, and JUNE 30, 2022

(in thousands)

	2024	2023	2022
Operating Expenses			
Maintenance and operating	\$ 437,178	\$ 400,956	\$ 316,001
Depreciation and amortization	170,747	170,922	166,792
Interest expense	94,609	78,655	76,705
Investment loss	—	—	47,109
Loss on disposal of assets and incomplete projects	415	—	8,594
Other nonoperating expenses	4,942	283	128
Total expenses	\$ 707,891	\$ 650,816	\$ 615,329

FY2024

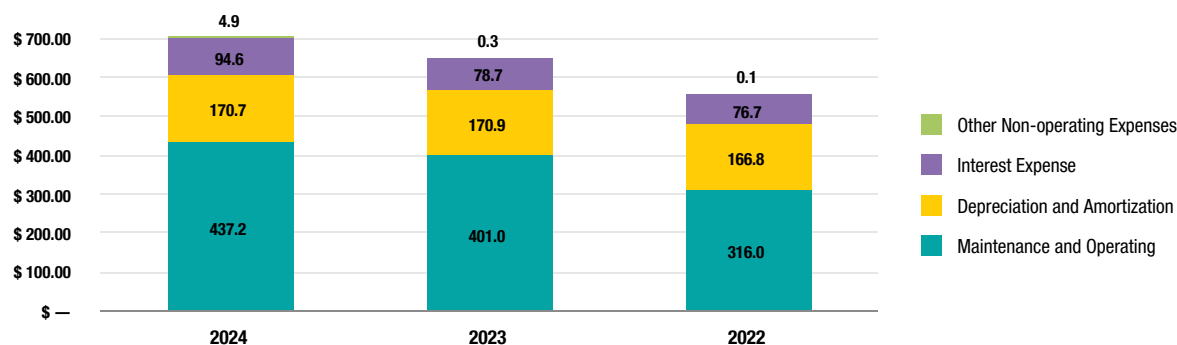
In FY2024, operating expenses increased by \$36.0 million or 6.3% compared to FY2023, primarily due to an increase in personnel costs of \$13.9 million due to contractual increases with HOPE and an increase for professional services of \$11.5 million or 4.9% due to ongoing planning efforts related to HAS five-year CIP project. Overtime pay increased by \$1.0 million or 21.11% due to ongoing construction activity in FY2024. Salaries increased by \$2.6 million or 3.9% due to HOPE's increase in FY2024. Expenses for professional services increased by \$11.5 million or 4.9% compared to FY2023. Expenses for non-capital outlay increased by \$0.1 million or 6.3% compared to FY2023.

FY2023

In FY2023, operating expenses increased by \$89.1 million or 18.5% compared to FY2022, primarily due to an increase in personnel costs of \$36.5 million due to contractual increases with HOPE and pension related expenses, which accounted for \$7.47 million of the increase, and an increase for professional services of \$22.7 million or 10.7% due to ongoing planning efforts related to HAS five-year CIP project. Depreciation expense increased by \$4.1 million or 2.5% due to new assets being added in FY2023 as part of the CIP project. Overtime pay increased by \$1.0 million or 27.0% due to ongoing construction activity in FY2023. Salaries increased by \$2.6 million or 3.9% due to HOPE's increase in FY2023. Expenses for professional services increased by \$22.7 million or 10.7% compared to FY2022. Expenses for non-capital outlay increased by \$0.2 million or 9.9% compared to FY2022.

TOTAL EXPENSES

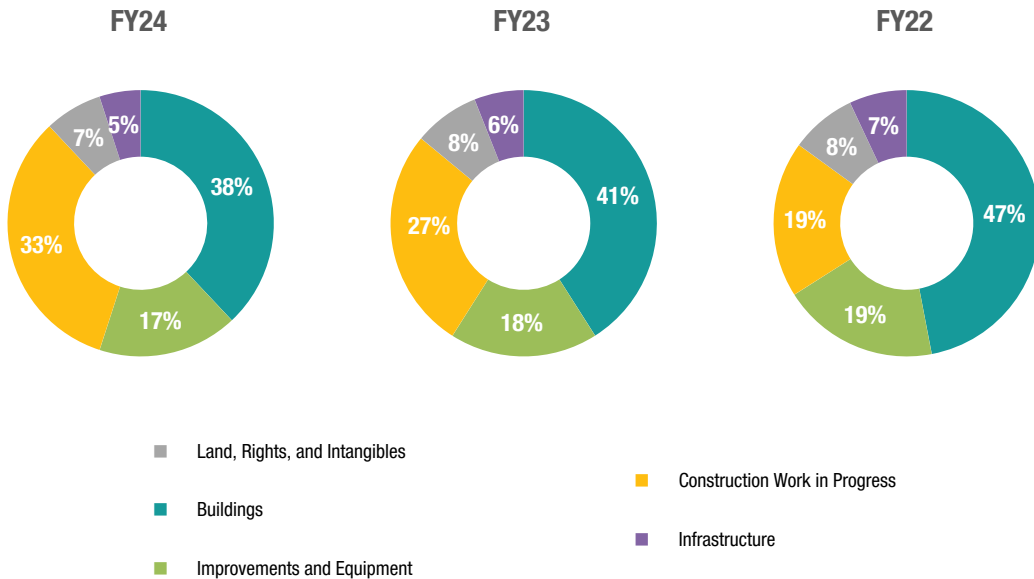
(in millions)



Capital Assets

CAPITAL ASSETS
JUNE 30, 2024, JUNE 30, 2023, AND JUNE 30, 2022
 (Net of Depreciation and Amortization)
 (in thousands)

	2024	2023	2022
Land	\$ 214,457	\$ 214,457	\$ 216,039
Buildings	1,320,889	1,321,918	1,352,792
Rights and Intangibles	24,365	25,556	21,095
Improvements and Equipment	581,515	589,489	537,315
Infrastructure	172,821	176,899	182,592
Construction work in progress	1,118,951	869,080	556,914
	<u>\$ 3,432,998</u>	<u>\$ 3,197,399</u>	<u>\$ 2,866,747</u>



FY2024

The Fund's investment in capital assets, net of accumulated depreciation and amortization, amounted to \$3.4 billion for FY2024, an increase of \$235.6 million or 7.4% compared to FY2023. During FY2024, the Fund added approximately \$406.4 million of capital assets, with \$391.2 million to construction work in progress balance. The additions were mainly related to the ITRP with more than \$291.0 million in additions, \$12.8 million in Aircraft Rescue and Fire Fighting ("ARFF") upgrades at both IAH and HOU, and \$7.6 million for the Southwest Airlines gate expansion at HOU. FY2024 depreciation expense was approximately \$170.7 million.

FY2023

Management's Discussion and Analysis (Unaudited)

The Fund's investment in capital assets, net of accumulated depreciation and amortization, amounted to \$3.19 billion for FY2023, an increase of \$326.9 million or 11.4% compared to FY2022. During FY2023, the Fund added approximately \$312.2 million, net of transfers, to its construction work in progress balance. The additions were mainly related to the ITRP with more than \$286.0 million in additions and \$22.4 million for the Southwest Airlines gate expansion at HOU. FY2023 depreciation expense was approximately \$170.9 million.

Capital Improvement Program

The City updates and adopts annually a rolling five-year comprehensive plan that determines and prioritizes its capital and infrastructure needs, including HAS. Management of HAS continuously monitors and adjusts the CIP based on financial capacity, air travel demand, and airline industry developments. The HAS five-year CIP for fiscal years 2025-2029 calls for \$2.8 billion to expand, update, and maintain the airport system.

Major projects, greater than \$100.0 million individually, are as follows:

1. IAH – Terminal Redevelopment Program: \$913.0 million
2. IAH – Terminal B Redevelopment – Enabling Projects: \$624.0 million
3. IAH – Rehabilitate Runway 13R-31L: \$150.0 million
4. IAH – Central Utility Plant Upgrades: \$110.0 million
5. HOU – Seven gate expansion: \$200.0 million

The remainder of the budget consists of the improvement and rehabilitation of infrastructure for IAH, HOU, and EFD, and Houston Spaceport.

In addition, on August 25, 2021, the City issued Special Facilities Bonds in the approximate aggregate principal amount of \$289.5 million to finance improvements to the baggage handling system at IAH, which will include an early baggage storage system and other terminal facilities. These Special Facilities Bonds will be limited special obligations of the City and not secured by the Fund's Net Revenues. Additional information on conduit debt obligations is disclosed in Note 10 to the financial statements.

Debt

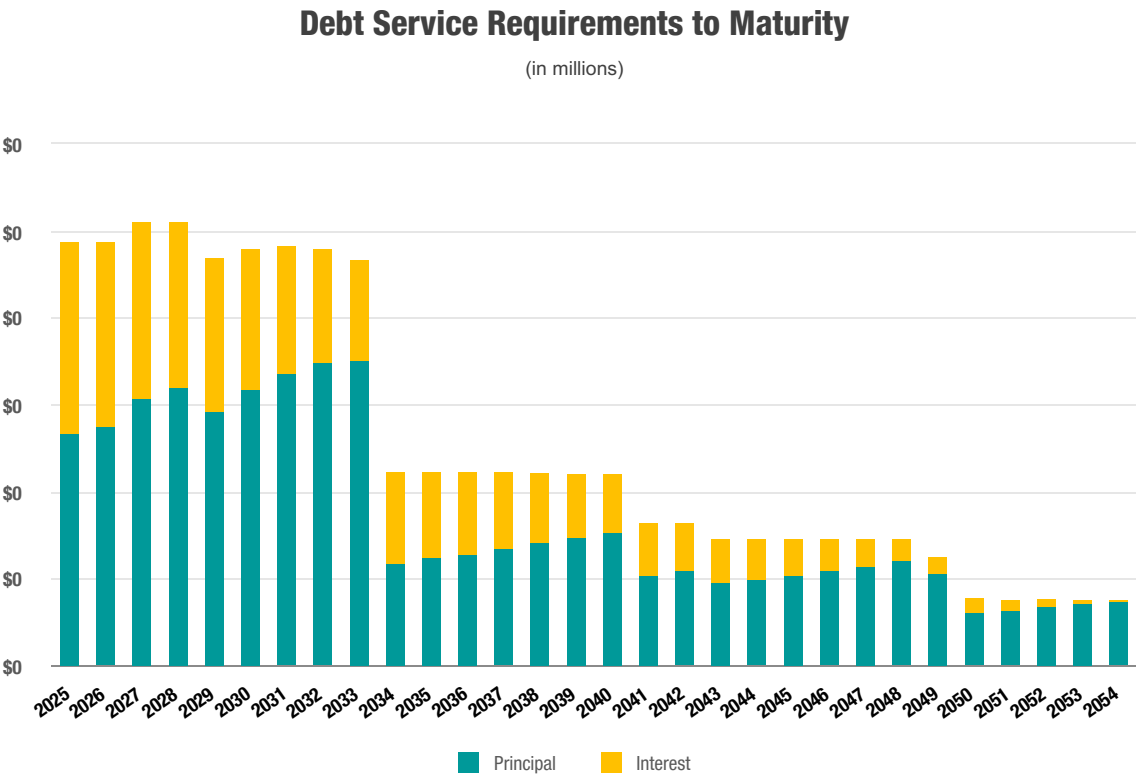
OUTSTANDING DEBT JUNE 30, 2024, JUNE 30, 2023, AND JUNE 30, 2022 (in thousands)

	2024	2023	2022
Senior Lien Debt			
Commercial paper	\$ —	\$ 350,000	\$ 185,000
Total senior lien debt	—	350,000	185,000
Subordinate Lien Debt			
Revenue bonds	2,493,320	2,055,965	2,133,665
Unamortized discount and premium	217,875	177,531	197,747
Total subordinate lien debt	2,711,195	2,233,496	2,331,412
Other Debt			
Direct borrowing debt	13,582	14,800	15,993
Pension obligation bonds	2,006	2,006	2,006
Special facility revenue bonds			
Consolidated rental car facility	43,645	52,515	60,680
Lease and subscription liabilities	2,482	3,957	111
Total other debt	61,715	73,278	78,790
Total outstanding debt	\$ 2,772,910	\$ 2,656,774	\$ 2,595,202
Deferred Outflows of Resources			
Deferred outflows from debt refunding	\$ (13,114)	\$ (17,495)	\$ (21,823)
Deferred Inflows of Resources			
Deferred inflows from debt refunding	\$ 14,270	\$ —	\$ —

Management’s Discussion and Analysis (Unaudited)

HAS funds major projects like terminal expansion/renovations, runway improvements, and other expansion projects through the issuance of debt, net of available FAA discretionary funding. Minor renewals and replacements are generally funded out of the Fund’s “Renewal & Replacement Fund” and “Airports Improvement Fund.” HAS continuously monitors the cash flow and contracting requirements for all approved capital projects.

On June 30, 2024, and 2023, the Fund’s outstanding senior lien and subordinate lien debt, net of unamortized discount and premium totaled \$2.71 billion and \$2.58 billion, respectively. In addition, the Fund is responsible for other debt totaling \$61.7 million and \$69.3 million as summarized in the above table on June 30, 2024 and 2023, respectively.



The underlying ratings of the Fund’s obligations at June 30, 2024 are as follows:

	Senior Lien	Subordinate Lien	Consolidated Rental Car SFRB
Fitch’s Bond Rating:	No bonds outstanding	A+	A-
Moody’s Bond Rating:	No bonds outstanding	A1	A3
Standard & Poor’s Bond Rating:	No bonds outstanding	A+	A

Additional information on long-term capital asset activity and debt activity are disclosed in Notes 3 and 5 to the financial statements.

Requests for Information

This financial report is designed to provide a general overview of the City of Houston, Texas, Airport System Fund's finances for all of those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Finance Department, Houston Airport System, 16930 JFK Boulevard, Houston, Texas 77032.

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Financial Statements
(in thousands)

Statements of Net Position
June 30, 2024 and 2023

	2024	2023
Assets		
Current assets		
Cash and cash equivalents	\$ 202,927	\$ 119,296
Restricted cash and cash equivalents	248,418	209,582
Investments	110,191	71,589
Restricted investments	101,994	93,507
Accounts receivable (net of allowance for doubtful accounts of \$3,827 and \$3,827 in 2024 and 2023, respectively)	34,238	10,745
Restricted accounts receivable	19,732	11,762
Lease receivable	14,747	12,235
Due from City of Houston	1,034	559
Inventory	2,207	2,428
Prepays	9,416	7,997
Due from other governments - grants receivable	40,640	57,726
Total current assets	<u>785,544</u>	<u>597,426</u>
Noncurrent assets		
Investments	14,025	10,532
Restricted investments	1,199,486	1,372,045
Prepays	1,799	150
Lease receivable, non-current	323,163	235,744
Capital assets		
Land	214,457	214,457
Rights and intangibles	21,750	21,692
Buildings, improvements and equipment	5,982,532	5,837,923
Construction in progress	1,118,951	869,080
Lease right-of-use assets	295	295
Subscription right-of-use assets	5,362	5,254
Total capital assets	<u>7,343,347</u>	<u>6,948,701</u>
Less accumulated depreciation and amortization	<u>(3,910,349)</u>	<u>(3,751,302)</u>
Net capital assets	<u>3,432,998</u>	<u>3,197,399</u>
Total noncurrent assets	<u>4,971,471</u>	<u>4,815,870</u>
Total assets	<u>5,757,015</u>	<u>5,413,296</u>
Deferred outflows of resources		
Deferred outflows from debt refunding	13,114	17,495
Deferred outflows from pensions	10,585	11,588
Deferred outflows from other post-employment benefits	10,719	9,508
Total deferred outflows of resources	<u>\$ 34,418</u>	<u>\$ 38,591</u>

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

(continued)

Statements of Net Position**June 30, 2024 and 2023****Financial Statements****(in thousands)**

	2024	2023
Liabilities		
Current liabilities		
Accounts payable	\$ 24,793	\$ 18,623
Accrued payroll liabilities	3,077	2,299
Due to City of Houston	1,156	609
Due to other governments	1,843	1,843
Advances and deposits	2,785	2,824
Unearned revenue	34,095	43,389
Claims for workers' compensation	1,279	1,064
Compensated absences	7,589	6,887
Revenue bonds payable	122,925	119,710
Special facility revenue bonds payable	9,630	8,870
Notes payable	1,241	1,217
Accrued interest payable	56,625	42,405
Contracts and retainages payable	129,237	185,666
Lease liabilities	10	45
Subscription liabilities	1,131	1,303
Other post-employment benefits	2,030	2,102
Total current liabilities	<u>399,446</u>	<u>438,856</u>
Noncurrent liabilities		
Revenue bonds payable, net of current portion	2,588,270	2,113,786
Special facility revenue bonds payable, net of current portion	34,015	43,645
Commercial paper payable	—	350,000
Pension obligation bonds payable, net of current portion	2,006	2,006
Lease liabilities, net of current portion	8	18
Subscription liabilities, net of current portion	1,333	2,591
Notes payable, net of current portion	12,341	13,583
Claims for workers' compensation, net of current portion	4,461	1,890
Compensated absences, net of current portion	8,146	8,277
Net pension liability	163,240	178,211
Other post-employment benefits, net of current portion	60,481	52,282
Total noncurrent liabilities	<u>2,874,301</u>	<u>2,766,289</u>
Total liabilities	<u>3,273,747</u>	<u>3,205,145</u>
Deferred inflows of resources		
Deferred inflows from leases	310,100	227,753
Deferred inflows from debt refunding	14,270	—
Deferred inflows from pensions	25,124	23,861
Deferred inflows from other post-employment benefits	20,649	26,804
Total deferred inflows of resources	<u>370,143</u>	<u>278,418</u>
Net Position		
Net investment in capital assets	728,106	591,494
Restricted net position		
Restricted for debt service	492,900	472,782
Restricted for maintenance and operations	63,032	55,457
Restricted for special facility	62,152	55,143
Restricted for renewal and replacement	10,000	10,000
Restricted for capital improvements	763,782	851,491
Unrestricted surplus (deficit)	<u>27,571</u>	<u>(68,043)</u>
Total net position	<u>\$ 2,147,543</u>	<u>\$ 1,968,324</u>

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

Financial Statements
(in thousands)

Statements of Revenues, Expenses and Changes in Net Position
June 30, 2024 and 2023

	2024	2023
Operating revenues		
Landing area fees	\$ 98,556	\$ 92,601
Rentals, building, and ground area	250,353	234,751
Parking	122,588	117,460
Concessions	116,332	107,691
Other	7,734	7,744
Total operating revenues	595,563	560,247
Operating expenses		
Maintenance and operating	437,178	400,956
Depreciation and amortization	170,747	170,922
Total operating expenses	607,925	571,878
Operating loss	(12,362)	(11,631)
Nonoperating revenues (expenses)		
Investment income	91,803	38,706
Interest expense	(94,609)	(78,655)
Gain (loss) on disposal of assets and incomplete projects	(415)	405
Passenger Facility Charges	117,407	108,754
Customer Facility Charges	17,946	16,075
Special facility cost	(206)	(283)
Cost of issuance for debt	(4,736)	—
CRRSAA/ARPA grants	48,005	50,230
Other revenues	11,147	9,911
Total nonoperating revenues, net	186,342	145,143
Income before capital contributions	173,980	133,512
Capital contributions	5,239	37,087
Change in net position	179,219	170,599
Total net position, July 1	1,968,324	1,797,725
Total net position, June 30	\$ 2,147,543	\$ 1,968,324

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

Statements of Cash Flows**June 30, 2024 and 2023****Financial Statements****(in thousands)**

	2024	2023
Cash Flows from Operating Activities		
Receipts from customers	\$ 553,830	\$ 561,055
Payments to employees	(221,033)	(200,540)
Payments to suppliers	(137,675)	(128,669)
Interfund activity payments to other funds	(82,884)	(80,438)
Other receipts	7,734	7,744
Net cash provided by operating activities	119,972	159,152
Cash Flows from Investing Activities		
Sale of investments	2,689,490	2,240,360
Purchase of investments	(2,539,446)	(2,311,957)
Investment income	63,735	36,188
Net cash provided by (used for) investing activities	213,779	(35,409)
Cash Flows from Noncapital Financing Activities		
CRRSAA/ARPA grants	58,473	60,625
Net cash provided by noncapital financing activities	58,473	60,625
Cash Flows from Capital and Related Financing Activities		
Net proceeds from issuance of revenue bonds	816,486	—
Retirement of revenue bonds	(318,695)	(77,700)
Interest expense on debt	(81,830)	(96,256)
Proceeds from issuance of commercial paper	—	165,000
Retirement of SECO loans	(1,218)	(1,193)
Retirement of commercial paper	(350,000)	—
Retirement of special facility bonds	(8,870)	(8,165)
Passenger Facility Charges	109,633	107,286
Customer Facility Charges	17,750	15,870
Grant receipts	11,857	59,470
Acquisition of capital assets	(463,081)	(400,182)
Lease liabilities	(45)	(48)
Subscription Liabilities	(1,538)	(1,360)
Special facility cost	(206)	(283)
Net cash used for capital and related financing activities	(269,757)	(237,561)
Net increase (decrease) in cash and cash equivalents	122,467	(53,193)
Cash and cash equivalents, beginning of year	328,878	382,071
Cash and Cash Equivalents, End of the Year	\$ 451,345	\$ 328,878
Cash and cash equivalents	\$ 202,927	\$ 119,296
Restricted cash and cash equivalents	248,418	209,582
Cash and Cash Equivalents, End of the Year	\$ 451,345	\$ 328,878

The accompanying notes are an integral part of these financial statements.**(continued)**

Financial Statements
(in thousands)

Statements of Cash Flows
June 30, 2024 and 2023

	2024	2023
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	\$ (12,362)	\$ (11,631)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities		
Depreciation and amortization	170,747	170,922
Changes in assets and liabilities		
Accounts receivable, net of allowance	(23,493)	(5,904)
Due from City of Houston	(475)	136
Inventory and prepaids	(2,847)	(877)
Lease receivable	(83,520)	22,507
Accounts payable	6,170	6,895
Accrued payroll liabilities	778	(2,281)
Other current and non-current liabilities	(9,294)	9,339
Due to City of Houston and other governments	547	(857)
Advances and deposits	(39)	34
Other post-employment benefits and deferred amounts	761	(865)
Pension related payables and deferred amounts	(12,705)	(11,128)
Deferred inflows - leases	82,347	(18,752)
Claims for workers' compensation	2,786	730
Compensated absences	571	884
Net cash provided by operating activities	\$ 119,972	\$ 159,152

Noncash Transactions

Capital additions included in liabilities	\$ (70,178)	\$ (144,172)
Amortization of premium and discount	\$ (20,092)	\$ (20,216)
(Loss) gain on disposal of assets	\$ (415)	\$ 405
Unrealized gain on investments	\$ 28,068	\$ 2,518

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

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Summary of Significant Accounting Policies**Reporting Entity**

The Airport System Fund (the “Fund”), an enterprise fund of the City of Houston (the “City”), is responsible for the operations, maintenance, and development of the City’s Airport System. The Airport System consists of George Bush Intercontinental Airport (“IAH” or “Intercontinental”), William P. Hobby Airport (“HOU” or “Hobby”), and Ellington Airport (“EFD” or “Ellington”).

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

The Fund is not financially accountable for any other operations of the City, and accordingly, is accounted for as a single major enterprise fund. The Fund is included in the City’s Annual Comprehensive Financial Report (“Financial Report”), which is a matter of public record.

Created on September 15, 2021, Houston Spaceport Development Corporation (“HSDC” or “Houston Spaceport”) has a seven-member board of directors, including the Director of Aviation of HAS, appointed by the mayor. This corporation is responsible for managing and promoting the development of Houston Spaceport as well as applying for funds under the Texas Spaceport Trust Fund. In accordance with Governmental Accounting Standards Board (“GASB”): Statement No. 14 and Statement No. 61, the HSDC is considered a blended component of the City, the primary government, because the component unit’s governing body is substantively the same as the primary government. In addition, HSDC provides direct benefits exclusively or almost exclusively to the HAS. Therefore, HSDC is incorporated into the financial statements of the Fund. As of and for the year ended June 30, 2024, HSDC did not have any financial activities and had no impact on the operating results of the Fund.

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, current and noncurrent, as well as deferred outflows and inflows of resources, are included on the statements of net position.

The financial statements presented in this report conform to the reporting requirements of the GASB which establishes combined statements as the required level for governmental entities that present financial statements in accordance with generally accepted accounting principles (“GAAP”). 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.

Recent Accounting Pronouncements

In March 2020, the GASB issued Statement No. 94, “Public-Private and Public-Public Partnerships and Availability Payment Arrangements”. This Statement establishes standards of accounting and financial reporting for Public-Public Partnerships and Availability Payment Arrangements for governments. The requirements of this statement are effective for reporting periods beginning after June 15, 2022. The City and the Fund have implemented GASB Statement No. 94 in this annual report. There was no material effect on the Fund’s financial statements.

Summary of Significant Accounting Policies

In April 2022, the GASB issued Statement No. 99, "Omnibus 2022". The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during the implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements related to an extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023. The City and the Fund have implemented GASB Statement No. 99 in this annual report. There was no material effect on the Fund's financial statements.

In June 2022, the GASB issued Statement No. 100, "Accounting Changes and Error Corrections – Amendment of GASB Statement No. 62". This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating the prior period, (b) changes to or within the financial reporting entity be reported by adjusting the beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this statement are effective for financial statement for the reporting period beginning after June 15, 2023. The City and the Fund are evaluating the impact that adoption of this Statement will have on its financial statements.

In June 2022, the GASB issued Statement No. 101, "Compensated Absences". This Statement clarifies the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. The requirements of this Statement are effective for financial statements for reporting periods beginning after December 15, 2023. The City and the Fund are evaluating the impact that adoption of this Statement will have on its financial statements.

In December 2023, the GASB issued Statements No. 102, "Certain Risk Disclosures". The objective of this statement is to provide users of governmental financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This Statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2024. The City and the Fund are evaluating the impact that adoption of this Statement will have on its financial statements.

In April 2024, the GASB issued Statement No. 103, "Financial Reporting Model Improvements". This Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. The City and the Fund is evaluating the impact that adoption of this Statement will have on its financial statements.

In September 2024, the GASB issued Statement No. 104, "Disclosure of Certain Capital Assets". This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement No. 34. This Statement also requires additional disclosures for capital assets held for sale. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. The City and the Fund is evaluating the impact that adoption of this Statement will have on its financial statements.

Operating and Nonoperating Revenues and Expenses

The Fund distinguishes between operating revenues and expenses and nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with HAS' principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. HAS derives its operating revenues primarily from landing fees, terminal space rental, auto parking, and concessions. HAS' major operating expenses include salaries and employee benefits, fees for contractual services including professional services, parking operations and shuttle services, and other expenses including depreciation and amortization, maintenance, insurance, and utilities.

Non-operating revenues, such as interest income, Passenger Facility Charges ("PFC"), and Customer Facility Charges ("CFC"), result from non-exchange transactions or ancillary activities. Non-operating expenses primarily consist of the interest expense on revenue bonds.

Passenger Facility Charges

The Federal Aviation Administration ("FAA") approved a \$3.00 PFC per enplaned passenger to be used for the construction of FAA approved airport capital assets at IAH effective December 1, 2008, and at 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 for HOU with the earliest collection date of August 1, 2017. On September 24, 2020, a second PFC application was approved for IAH with the earliest collection date of January 1, 2028. The collection expiration dates are estimated to be April 1, 2039, for IAH and September 1, 2038 for HOU. The airlines collect and remit this revenue to HAS. See the Compliance Section for further information.

Federal Grants

When a grant agreement is approved and eligible expenditures are incurred, the amount is recorded as a grant receivable and as nonoperating revenue (operating grants) or capital grant contributions in the statements of revenues, expenses, and changes in net position.

Cash, Cash Equivalents, and Investments

The Fund's cash, cash equivalents, investments, and a significant portion of its restricted cash and investments are maintained as part of the City's pool of cash and investments. The Fund's portion of the pool is presented on the statements of net position as 'Cash and Cash Equivalents' and 'Investments.' Interest earned on such pooled investments is allocated to the participating City funds based on each fund's average daily cash balance during the allocation period. The Fund considers its unrestricted and restricted cash and investments held in the City treasury as demand deposits and/or investments. The Fund also has funds that are held by fiscal agents. Investments with maturities of three months or less at the time of purchase are considered cash equivalents. Investments are recorded at fair value. Investment income and expenses, including changes in the fair value of the investments, are recognized in the Statements of Revenues, Expenses, and Changes in Net Position.

Accounts Receivable

Receivables are reported at their gross value when earned. The Fund's collection terms are 30 days. The allowance for uncollectible accounts is based on specific identification of past due accounts and balances. As a customer's balance is deemed uncollectible, the receivable is cleared and the amount is written off. If the balance is subsequently collected, such payments are applied to the allowance account. The allowance for doubtful accounts was approximately \$3.8 million and \$3.8 million as of June 30, 2024 and 2023, respectively. This allowance is netted against the accounts receivable balance. For the years ended June 30, 2024 and 2023, no accounts receivable balance was written off.

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 the lower of average cost or market.

Capital Assets

The Fund defines capital assets as assets with an initial cost of \$5,000 or more and a useful life of more than one year. Acquired or constructed property is recorded at historical cost or estimated historical cost. Donated property is recorded at acquisition value. Capital assets received in a service concession arrangement are recorded at acquisition value. 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 on the date it is placed in service.

Depreciation on 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 fifty (50) years. Depreciation on equipment is computed using the straight-line method over the estimated useful life, ranging from three (3) 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.

Leases

HAS as Lessee

The Fund recognizes a lease liability and an intangible right-of-use lease asset at the beginning of a lease unless the lease is considered a short-term lease or transfers ownership of the underlying assets. Right-of-use lease asset is measured based on the net present value of the payment, using the HAS' weighted average cost of capital ("WACC"), which approximates HAS' incremental borrowing rate, required to the lessor under long-term lease contracts. Remeasurement of lease liability occurs when there is a change in the lease term and/or other changes that are likely to have a significant impact on the lease liability.

Summary of Significant Accounting Policies

HAS calculates the amortization of the discount on the lease liability and reports that amount as an outflow of resources in that period. Payments are allocated first to accrued interest liability and then to the lease liability. Variable lease payments based on the usage of the underlying assets are not included in the lease liability calculations and are recognized as outflows of resources in the periods in which the obligation for the payments is incurred.

HAS as Lessor

The Fund recognizes a lease receivable, measured using a present value of lease payments - based on a discount rate that HAS charges the lessee or HAS' WACC - to be received for the lease term, and a deferred inflow of receivables at the beginning of the lease term. Periodic amortization of the discount on the receivable is reported as interest revenue for that period. Deferred inflows of resources are recognized as inflows on a straight-line basis over the term of the lease. This recognition does not apply to short-term leases, contracts that transfer ownership, leases of assets that are investments, or certain regulated leases. Any initial direct costs are reported as an outflow of resources for that period. Remeasurement of lease receivable occurs when there are modifications, including but not limited to changes in the contract price, lease term, and adding or removing an underlying asset to the lease agreements. In the case of a partial or full lease termination, the Fund will reduce the carrying value of the lease receivable and the related deferred inflow of resources and include a gain or loss for the difference.

For short-term lease contracts, the Fund recognizes short-term lease payments as inflows of resources (revenues) based on the payment provisions of the lease contract. Liabilities are only recognized if payments are received in advance, and receivables are only recognized if payments are received after the reporting period.

Regulated Leases

The leases between HAS and air carriers and other aeronautical users are subject to external laws and regulations. As permitted by GASBS No. 87, paragraph 43, the Fund recognizes inflows of resources based on the payment provisions of the lease contract, and the accounting policies under "HAS as Lessor" do not apply to regulated leases. Additional disclosures regarding regulated leases are in Note 4.

Subscription Based Information Technology Arrangements

Subscription based information technology arrangement ("SBITA") assets are defined by the general government as the right to use vendor-provided information technology ("IT") with access to vendors' IT assets. The Fund recognizes a subscription liability and an intangible SBITA asset at the beginning of the subscription term that has a term exceeding one year and the cumulative future payments on the contract exceed \$100,000 unless the contract is considered a short-term SBITA. An SBITA asset is measured based on the net present value of subscription payments expected to be made during the subscription term, using the incremental borrowing rate, and is amortized using the straight-line method over the shorter of the subscription term or the useful life of the underlying IT assets. Re-measurement of a subscription liability occurs when there is a change in the contract term and/or other changes that are likely to have a significant impact on the subscription liability.

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). 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.

Summary of Significant Accounting Policies

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 hour 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 as amended in 1985. These policies provide limits to the accumulation of compensatory time and 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 Fund's obligation is attributable to employees' services already rendered, and it is probable that the Fund will compensate the employees for the benefits through paid time off or some other means, such as cash payments.

Self-Insurance/Risk Management

The City is self-insured for general liability, workers' compensation, and unemployment compensation. The accrued liability for the various types of claims represents an estimate by management of the eventual loss on the claims. Estimated expenses and recoveries are based on a case-by-case review.

Environmental Remediation Expenses and Recoveries

HAS incurs costs associated with environmental remediation activities, which arise during the normal course of business. These costs are recorded as a liability when HAS is required to perform the remediation and if the costs can be reasonably estimated. HAS records environmental remediation cost recoveries as nonoperating revenues in the financial statements. Additional information regarding environmental remediation's can be found in Note 11.

Bond Premiums, Discounts, and Issuance Costs

Bond premiums, discounts, and prepaid bond insurance 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. Debt issuance costs are recognized as an expense when incurred.

Net Pension Liability

For the purposes of measuring net pension liability, deferred outflows of resources, and deferred inflows of resources related to pension and pension expense, information about the fiduciary net position of the Houston Municipal Employees' Pension System, and additions to/deductions from the pension system's fiduciary net position have been determined on the same basis as they are reported by the pension system. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Additional information regarding net pension liability can be found in Note 6.

Summary of Significant Accounting Policies**Other Post-employment Liability**

For purposes of measuring total/net other post-employment liability ("OPEB"), deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Additional information regarding total/net other post-employment liability can be found in Note 7.

Deferred Inflows/Outflows of Resources

Deferred outflows of resources represent a consumption of net assets that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. Deferred inflows of resources represent an acquisition of net assets that applies to future periods. The deferred charge on refunding recorded on the statements of net position results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Deferred inflows and outflows have been recognized for the net difference between the projected and actual investment earnings, this amount is deferred and amortized over a period of five years. In addition, deferred inflows and outflows have been recognized for the differences between the actuarial expectation and the actual economic experience and changes in actuarial assumptions related to the defined benefit pension plan and the other post-retirement benefit plan. These amounts are deferred and amortized over the average of the expected service lives of pension plan members. See Note 6 and Note 7 for additional information on deferred inflows and outflows related to the pension plan and the other post-retirement benefits plans, respectively.

Accounting policies for deferred inflows and outflows related to leases are described under the caption – 'Leases' in Note 1.

Net Position Classification

Net position is displayed in three separate categories based on the accessibility of the underlying assets: net investment in capital assets; restricted net position; and unrestricted net position. Net investment in capital assets includes all capital assets, however acquired, including accumulated depreciation, and the outstanding debt and deferred 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 timing 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 the City Council as a protection to HAS' bondholders.

Net Position Flow Assumption

Sometimes the Fund will fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position, a flow assumption must be made about the order in which the resources are considered to be applied. The Fund's policy is to consider the restricted net position to have been depleted before the unrestricted net position is applied.

Restricted Net Position – Restricted for Debt Service

This category includes net position in the interest and sinking funds, debt service funds, and debt reserve funds that pay principal and interest for the revenue bonds, commercial paper notes, inferior lien contracts, and special facility revenue bonds. Unexpended PFCs are also included in this category as they are primarily held, through agreements with the 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 expenses, mandated by the various City ordinances which authorize 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 expenses, based on the annual operating budget authorized by City Council for the next fiscal year.

Restricted Net Position – Restricted for Special Facility

This category holds CFC 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 the 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 Fund (the “R&R”) was created by the various City ordinances which authorized the issuance of airport revenue and revenue refunding bonds. The R&R is intended to replace depreciable assets and to make major repairs and renovations. Net revenue is transferred to this fund if it is not needed for maintenance and operations, for the debt service reserve funds, or the operating and maintenance reserve fund. The R&R fund can also be used for operations or debt service if other funds are exhausted. If the R&R does not have a net position of at least \$10 million at the end of each fiscal year, then additional revenue funding must be transferred during the next fiscal year. If the R&R 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 (the “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. 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.

Net Position – Unrestricted Surplus (Deficit)

This category is defined as any portion of the 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 specifically defined purposes be restricted for capital improvement.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the recorded amounts of revenue and expenditures during the period. Actual results could differ from those estimates.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements. This reclassification had no effect on previously reported change in net position.

Deposits and Investments**Deposits**

The City's investment policy (the "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 as of and during the years ended June 30, 2024, and 2023.

Cash and Investments

The City maintains a cash and investment pool (the "Pool") that is available for use by all funds and City departments. Participation in the Pool is limited to normal operating activities of the Fund and other activities that are restricted due to contractual considerations. Petty cash and change funds are included in non-pooled cash. The Fund's balance in pooled and non-pooled accounts at June 30, 2024 and 2023 are as follows:

Fiscal Year	Pooled Cash and Cash Equivalents	Pooled Investments	Total Pooled Cash and Investment	Non-pooled cash	Total Cash and Investments
2024	\$ 390,756,462	\$ 1,425,696,424	\$ 1,816,452,886	\$ 60,588,408	\$ 1,877,041,294
2023	\$ 275,113,471	\$ 1,547,673,296	\$ 1,822,786,767	\$ 53,763,944	\$ 1,876,550,711

Investments and Risk Disclosures

The following describes the investment positions of the City's operating funds as of June 30, 2024, and June 30, 2023. On these dates, the City had \$5.8 billion and \$5.7 billion, respectively, in high-grade, fixed-income investments. All investments are governed by state law and 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. The investments listed below do not include the City's pension funds, which are described separately in Note 6 as well as the City's ACFR. The Pool consists of all working capital, construction, and debt service funds that are not subject to yield restriction under Internal Revenue Service arbitrage regulations. The funds of the City's enterprise systems, which include the Fund, as well as the general fund, are commingled in this pool gain operational efficiency. Approximately 98.7% of the City's total investable funds are contained in this portfolio on June 30, 2024, and June 30, 2023.

Deposits and Investments

City of Houston Investment	(1)(2) FY2024 & FY2023 Credit Quality Ratings	June 30, 2024		June 30, 2023	
		Fair Value (\$ in millions)	WAM* (years)	Fair Value (\$ in millions)	WAM* (years)
U.S. Treasury Securities	AAA	\$ 3,026.90	0.002	\$ 2,824.41	1.515
Agency Discount Notes	AAA	—	—	247.28	0.205
Govt. Agency Securities (3)	AAA	730.42	0.001	1,034.99	1.422
Govt. Agency Securities (State of Israel Bond)	AAA	—	—	9.98	0.088
Govt. Agency Securities (3) (4)	Not Rated	133.32	0.001	237.89	0.905
Govt. Mortgaged Backed Securities (3) (4)	Not Rated	221.44	0.005	0.16	0.597
MMF - TexSTAR Cash Reserves	AAA Short Term	280.74	—	268.85	0.003
Commercial Paper	A-1/P-1 Short Term	1,017.24	—	621.22	0.205
Municipal Securities	AAA Long Term	159.42	0.001	221.36	1.373
Municipal Securities	AA Long Term	191.56	0.001	203.71	1.633
Total Investments		<u>\$ 5,761.04</u>		<u>\$ 5,669.85</u>	

* 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 S1 volatility rating to the City's General Investment Pool. The AAA signifies the highest level of credit protection, and the S1 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.

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 Policy limits this investment portfolio's dollar-weighted average maturity to 2.5 years maximum. As of June 30, 2024 and 2023, this investment portfolio's dollar-weighted average maturity was 1.343 years and 1.65 years, respectively. Modified duration was 1.305 and 1.63 years at June 30, 2024 and 2023, respectively. 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 1.305 years would experience approximately a 1.305% change in market price for every 100 basis point change in yield.

Deposits and Investments

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 are issued by government-sponsored enterprises but are not direct obligations of the U.S. Government. The money market mutual funds are rated AAA. Municipal securities are rated at least AA. The Policy limits investments in the Pool to high-quality securities with a maximum maturity of five years for all U.S. treasuries, government agencies, and municipal securities except government mortgaged-backed securities which can have a maximum maturity of 15 years. Certificates of deposit maximum maturity is two years, and commercial paper maximum maturity is 365 days. The Pool's maximum sector exposure is as follows: 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; money market mutual funds up to 25%; Certificates of Deposit up to 15%; and commercial paper up to 20%.

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. On June 30, 2024, and 2023, 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, the counterparty's trust department, or an agent. As of June 30, 2024, and 2023, none of the City's investments in the Pool 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 the time of purchase and reporting or sale. The investments in the Pool are limited by the Policy to US dollar-denominated investments and are not subject to this risk.

Fair Value Measurements

To the extent available, the City's investments are recorded at fair value as of December 31, 2024, and 2023. GASBS No. 72 — "Fair Value Measurement and Application," defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis.

The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the City has the ability to access at the measurement date.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

TexSTAR uses the fair value method to determine the Net Asset Value ("NAV") per unit of the Cash Reserve Fund. Under the fair value method, fixed-income securities are valued each day by independent or affiliated commercial pricing services or third-party broker-dealers. In instances where 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 to estimate the relevant cash flows, which are then discounted to calculate the fair values.

TexSTAR Cash Reserve Fund has not been classified in the fair value hierarchy table. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of net position. For additional disclosures and program information, visit texstar.org/ProgramInformation.aspx.

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, 2024	Level 1	Level 2	Level 3	Total June 30, 2023	Level 1	Level 2	Level 3
U.S. Treasury Securities	\$ 3,026.90	\$3,026.90	\$ –	\$ –	\$ 2,824.41	\$2,824.41	\$ –	\$ –
Agency Discount Notes	–	–	–	–	247.28	247.28	–	–
Govt. Agency Securities	863.75	–	863.75	–	1,272.88	–	1,272.88	–
Govt. Mortgage Backed Securities	221.44	–	221.44	–	9.98	–	–	9.98
Govt. Agency Securities (State of Israel Bd)	–	–	–	–	0.16	–	0.16	–
Municipal Securities	350.99	–	350.99	–	425.07	–	425.07	–
Commercial Paper	1,017.24	–	1,017.24	–	621.22	–	621.22	–
Total Investment by Fair Value Level	<u>\$ 5,480.32</u>	<u>\$3,026.90</u>	<u>\$2,453.42</u>	<u>\$ –</u>	<u>\$ 5,401.00</u>	<u>\$3,071.69</u>	<u>\$2,319.33</u>	<u>\$ 9.98</u>
Investments measured at net asset value (NAV)								
MMF - TexSTAR Cash Reserves	280.74				268.85			
Total investments measured at the net asset value (NAV)	<u>280.74</u>				<u>268.85</u>			
Total investments measured at fair value and NAV	<u>\$ 5,761.06</u>				<u>\$ 5,669.85</u>			

Deposits and Investments

Restricted Cash and Cash Equivalents - Miscellaneous Money Market Accounts

In addition to the Pool, 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 Fund's portion of these is as follows:

	Fair Value June 30, 2024 (\$ in millions)	Credit Quality Ratings	Fair Value June 30, 2023 (\$ in millions)	Credit Quality Ratings	FY2024 & FY2023 Weighted Average Maturity
BlackRock Federal Institutional Fund: Balances held for Consolidated Rental Car Facility operations, improvements, debt service	\$ 60.563	AAA	\$ 53.749	AAA	< 60 days
First American US Treasury Money Market Fund: Balance held for commercial paper debt service	0.021	AAA	0.010	AAA	< 60 days
TOTAL FAIR VALUE - MONEY MARKET ACCOUNTS	<u>\$ 60.584</u>		<u>\$ 53.759</u>		

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, 2024, none of the City's investments in this pool were subject to custodial credit risk.

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

Fair Value Measurements – Money Market Accounts

The money market accounts have not been classified in the fair value hierarchy table. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of net position.

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

FAIR VALUE MEASUREMENTS USING (\$ in millions)			
	Total June 30, 2024		Total June 30, 2023
Investments Measured at NAV			
BlackRock FedFund-Institutional	\$ 60.563	\$	53.749
First American US Treasury MMF	0.021		0.010
Total Investments Measured at NAV	<u>\$ 60.584</u>	<u>\$</u>	<u>53.759</u>

Capital Assets

Summaries of changes in capital assets for the years ended June 30, 2024 and June 30, 2023 are as follows (in thousands):

	Balance June 30, 2023	Additions	Retirements	Transfers	Balance June 30, 2024
Capital assets not being depreciated:					
Land	\$ 214,457	—	—	—	\$ 214,457
Rights & Intangibles - Non-Amortizable	21,670	—	—	58	21,728
Construction work in progress	869,080	391,191	—	(141,320)	1,118,951
Total capital assets not being depreciated	1,105,207	391,191	—	(141,262)	1,355,136
Depreciable capital assets:					
Buildings	3,173,385	3,274	(450)	83,518	3,259,727
Rights & Intangibles - Amortizable	22	—	—	—	22
Improvements and Equipment	2,101,278	11,871	(11,348)	51,230	2,153,031
Infrastructure	563,260	—	—	6,514	569,774
Lease right-of-use assets:					
Buildings	192	—	—	—	192
Equipment	103	—	—	—	103
Subscription right-of-use assets	5,254	108	—	—	5,362
Total depreciable capital assets	5,843,494	15,253	(11,798)	141,262	5,988,211
Less accumulated depreciation and amortization for:					
Buildings	(1,851,467)	(87,814)	443	—	(1,938,838)
Rights & Intangibles	(22)	—	—	—	(22)
Improvements and Equipment	(1,511,789)	(70,984)	11,257	—	(1,571,516)
Infrastructure	(386,361)	(10,592)	—	—	(396,953)
Lease right-of-use assets:					
Buildings	(165)	(27)	—	—	(192)
Equipment	(69)	(17)	—	—	(86)
Subscription right-of-use assets	(1,429)	(1,313)	—	—	(2,742)
Total accumulated depreciation and amortization	(3,751,302)	(170,747)	11,700	—	(3,910,349)
Depreciable capital assets, net	2,092,192	(155,494)	(98)	141,262	2,077,862
Total capital assets, net	\$ 3,197,399	\$ 235,697	\$ (98)	\$ —	\$ 3,432,998

Note 3 (concluded)

Notes to the Financial Statements

Capital Assets

	Balance June 30, 2022	Additions	Retirements	Transfers	Balance June 30, 2023
Capital assets not being depreciated:					
Land	\$ 216,039	—	(1,582)	—	\$ 214,457
Rights & Intangibles - Non-Amortizable	20,988	—	—	682	\$ 21,670
Construction work in progress	556,914	488,116	—	(175,950)	\$ 869,080
Total capital assets not being depreciated	793,941	488,116	(1,582)	(175,268)	1,105,207
Depreciable capital assets:					
Buildings	3,109,559	3,721	(1,594)	61,699	3,173,385
Rights & Intangibles - Amortizable	22	—	—	—	22
Improvements and Equipment	2,023,101	7,853	(38,663)	108,987	2,101,278
Infrastructure	558,286	392	—	4,582	563,260
Lease right-of-use assets:					—
Buildings	192	—	—	—	192
Equipment	71	32	—	—	103
Subscription right-of-use assets	3,739	1,515	—	—	5,254
Total depreciable capital assets	5,694,970	13,513	(40,257)	175,268	5,843,494
Less accumulated depreciation and amortization for:					
Buildings	(1,756,767)	(94,902)	202	—	(1,851,467)
Rights & Intangibles	(22)	—	—	—	(22)
Improvements and Equipment	(1,485,786)	(63,845)	37,842	—	(1,511,789)
Infrastructure	(375,694)	(10,667)	—	—	(386,361)
Lease right-of-use assets:					
Buildings	(110)	(55)	—	—	(165)
Equipment	(46)	(23)	—	—	(69)
Subscription right-of-use assets	—	(1,429)	—	—	(1,429)
Total accumulated depreciation and amortization	(3,618,425)	(170,921)	38,044	—	(3,751,302)
Depreciable capital assets, net	2,076,545	(157,408)	(2,213)	175,268	2,092,192
Total capital assets, net	\$ 2,870,486	\$ 330,708	\$ (3,795)	\$ —	\$ 3,197,399

Leases and Subscription-Based Information Technology Arrangements

HAS as Lessee

HAS' operating leases are primarily for equipment. The terms and conditions for these leases vary by the type of underlying asset. All leases have fixed, periodic, payments over the lease term, which ranges between 36 and 72 months, and do not contain variable payments or guaranteed residual values in the lease agreements. These operating leases are cancellable by the lessors or HAS with an advance notice or non-cancellable.

For the year ended June 30, 2024, and 2023, no variable or other payments were made by HAS other than the periodic rental payments in accordance with the lease agreements. In addition, there were no commitments under leases prior to the commencement of the lease term, and no impairment-related losses were recognized by the Fund.

Principal and interest requirements to maturity for the lease liability on June 30, 2024, are as follows (in thousands):

Year Ending June 30	Principal	Interest	Total
2025	\$ 10	\$ 1	\$ 11
2026	4	—	4
2027	4	—	4
Total	\$ 18	\$ 1	\$ 19

HAS as Lessor

HAS leases terminal space (except for regulated leases), aircraft maintenance and overhaul facilities, cargo facilities, hangars, and other structures to air carriers and other tenants under various operating leases, a majority of which is non-cancellable and terminate no later than July 2058. Certain provisions of the leases provide for fixed and variable rental payments, and all are generally designed to allow HAS to meet its debt service requirements and recover certain operating and maintenance costs. Additionally, certain of the agreements under which HAS receives revenue from the operation of concessions at IAH and HOU provides for the payment of a fee based on the greater of an aggregated percentage of gross receipts or a guaranteed minimum.

For the years ended June 30, 2024, and 2023, the Fund recognized the following balances related to the leases (in thousands):

June 30, 2024	Fixed Payments	Variable Payments
Rentals, Building, and Ground Area	\$ 20,763	\$ —
Concessions (Hotel and Auto Rental)	\$ 1,608	\$ 31,955
Interest Revenue	\$ 10,721	\$ —
June 30, 2023	Fixed Payments	Variable Payments
Rentals, Building, and Ground Area	\$ 18,643	\$ —
Concessions (Hotel and Auto Rental)	\$ 1,608	\$ 30,429
Interest Revenue	\$ 9,253	\$ —

Leases and Subscription-Based Information Technology Arrangements

Expected future payments, which are included in the measurement of the lease receivable, at June 30, 2024, are as follows (in thousands):

Year Ending June 30	Principal	Interest	Total
2025	\$ 14,747	\$ 11,682	\$ 26,429
2026	14,480	11,171	25,651
2027	14,378	10,655	25,033
2028	11,417	10,175	21,592
2029	9,846	9,826	19,672
2030 - 2034	52,494	43,505	95,999
2035 - 2039	68,509	33,214	101,723
2040 - 2044	76,596	19,909	96,505
2045 - 2049	38,138	10,401	48,539
2050 - 2054	32,885	3,343	36,228
2055 - 2059	4,420	257	4,677
Total	\$ 337,910	\$ 164,138	\$ 502,048

Regulated Leases

The City and United Airlines (“United”), Southwest Airlines (“Southwest”), Delta Air Lines, American Airlines, Spirit Airlines, and Air Canada (collectively, the “Signatory Airlines”) entered into Airport Use and Lease agreements (“Regulated Leases”), for the usage of IAH and HOU facilities to conduct business as air transportation businesses. These agreements are non-cancellable and terminate no later than 2042, with options to extend, or month-to-month and cancellable with 30 days’ notice. Under the terms of these agreements, Signatory Airlines pays HAS monthly based on the annual rental rate/fee schedule. Rate calculations are based on total estimates of costs and expenses, estimates of passengers and total landed weight and other factors. Final settlements are made each year after the audit of the Fund’s Financial Report. Other airlines operating at IAH and HOU are billed at rates established by the City ordinances.

Under the agreements with United, United has exclusive and preferential use of certain spaces and facilities of terminals A, B, C, and E at IAH and preferential use of certain apron areas. Under these agreements, all or part of the concession revenues and related costs generated from terminals B, C, and E of IAH are excluded from the Fund’s concession revenues and operating expenses on the statements of revenues, expenses, and changes in net position, as United operates, retains revenues, and pay related costs of operations for those concessions in accordance with the agreements. In addition, one of the agreements with Southwest grants Southwest preferential use of West Terminal/West Concourse, boarding gates, and other areas at HOU. Another agreement grants Southwest exclusive and preferential use of certain terminal areas of terminal A at IAH. No other airlines have exclusive or preferential use of more than ten (10) percent of terminal space or other areas of HAS as of June 30, 2024, and 2023. See Note 9 for major customers of HAS. Exclusive and preferential use of space is summarized as follows:

Notes to the Financial Statements
Note 4 (continued)
Leases and Subscription-Based Information Technology Arrangements

IAH			
	United	Southwest	Total IAH
Terminal areas - leasable airline space (in thousands)	2,380 sq. ft.	10 sq. ft.	3,824 sq. ft.
Apron - leasable airline space (in thousands)	2,728 sq. ft.	95 sq. ft.	3,878 sq. ft.
Number of gates and remote stands	96	3	134

HOU		
	Southwest	Total HOU
Terminal areas - leasable airline space (in thousands)	381 sq. ft.	468 sq. ft.
Apron - leasable airline space (in thousands)	516 sq. ft.	815 sq. ft.
Number of gates and remote stands	24	30

For the year ended June 30, 2024 and 2023, the Fund recognized the following balances related to Regulated Leases (in thousands):

June 30, 2024	Fixed Payments	Variable Payments
United	\$ 132,023	\$ 46,402
Southwest	\$ 39,137	\$ 21,915
Other Signatory Airlines	\$ 20,328	\$ 9,370

June 30, 2023	Fixed Payments	Variable Payments
United	\$ 110,514	\$ 42,582
Southwest	\$ 38,472	\$ 22,039
Other Signatory Airlines	\$ 15,441	\$ 8,528

Expected future minimum lease payments from Regulated Leases at June 30, 2024, are as follows (in thousands), projected by management of HAS using the following assumptions: 1) revenues earned from the Signatory Airlines during the year ended June 30, 2024, 2) through the expiration of the agreements with the Signatory Airlines or the next five (5) years, whichever is longer, 3) compounded at three (3) percent per annum, and 4) without considering future expansion and changes in operations by HAS or the Signatory Airlines:

Year Ending	Year Ending June 30	Total
2025		\$ 273,259
2026		281,133
2027		257,116
2028		264,830
2029		272,774
2030 - 2034		1,491,642
2035 - 2039		1,729,222
2040 - 2044		976,248
Total		\$ 5,546,224

Leases and Subscription-Based Information Technology Arrangements

HAS' senior lien and subordinate lien revenue refunding bonds are secured by net revenues earned from the airlines. See additional disclosures in Note 5, Security for Airport Debt.

Subscription-Based Information Technology Arrangements

The Fund has entered into subscription-based information technology arrangements ("SBITA") involving data centers, various desktop and server software, electronic workflows and document management software, public safety radio communication system, public safety detection software, public safety case and records management, airport operations management systems, airport passenger information and public Wi-Fi systems, and airport parking management system. As of June 30, 2024, all SBITA have fixed, periodic, payments over the subscription periods, which range from 1 to 15 years and expire no later than fiscal year 2038. In addition, certain of these agreements are cancellable with a 30 or 60-day notice. There are no commitments or outflows of resources related to SBITA that are not yet effective. See Note 3 for changes in subscription right-of-use assets for the year ended June 30, 2024.

Future subscription payments as of June 30, 2024, are as follows (in thousands):

Year Ending June 30	Principal	Interest	Total
2025	\$ 1,131	\$ 56	\$ 1,187
2026	109	40	149
2027	112	36	148
2028	116	33	149
2029	97	29	126
2030 - 2034	534	96	630
2035 - 2039	365	13	378
Total	\$ 2,464	\$ 303	\$ 2,767

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Long-Term Liabilities

Changes in long-term liabilities for the years ended June 30, 2024 and 2023 are summarized as follows (in thousands):

	Balance June 30, 2023	Additions	Reduction	Balance June 30, 2024	Due within One Year
Revenue bonds payable	\$ 2,055,965	\$ 756,050	\$ (318,695)	\$ 2,493,320	\$ 122,925
Plus: unamortized premium	177,762	60,436	(20,323)	217,875	—
Less: unamortized discount	(231)	—	231	—	—
Revenue Bonds Payable, Net	2,233,496	816,486	(338,787)	2,711,195	122,925
Special facility bonds payable	52,515	—	(8,870)	43,645	9,630
Commercial paper payable	350,000	—	(350,000)	—	—
Pension obligation bonds	2,006	—	—	2,006	—
Notes payable	14,800	—	(1,218)	13,582	1,241
Claims for workers compensation	2,954	3,309	(523)	5,740	1,279
Compensated absences	15,164	7,592	(7,021)	15,735	7,589
Lease Liabilities	63	—	(45)	18	10
Subscriptions liabilities	3,894	108	(1,538)	2,464	1,131
Net pension liability	178,211	—	(14,971)	163,240	—
Other post-employment benefits - health	53,282	8,097	—	61,379	1,929
Other post-employment benefits - LTD	1,102	30	—	1,132	101
Total Long Term Liabilities	\$ 2,907,487	\$ 835,622	\$ (722,973)	\$ 3,020,136	\$ 145,835

	Balance June 30, 2022	Additions	Reduction	Balance June 30, 2023	Due within One Year
Revenue bonds payable	\$ 2,133,665	\$ —	\$ (77,700)	\$ 2,055,965	\$ 119,710
Plus: unamortized premium	198,181	—	(20,419)	177,762	—
Less: unamortized discount	(434)	—	203	(231)	—
Revenue Bonds Payable, Net	2,331,412	—	(97,916)	2,233,496	119,710
Special facility bonds payable	60,680	—	(8,165)	52,515	8,870
Commercial paper payable	185,000	165,000	—	350,000	—
Pension obligation bonds	2,006	—	—	2,006	—
Notes payable	15,993	—	(1,193)	14,800	1,217
Claims for workers compensation	2,224	847	(117)	2,954	1,064
Compensated absences	14,280	7,562	(6,678)	15,164	6,887
Lease Liabilities	111	—	(48)	63	45
Subscriptions	3,739	1,515	(1,360)	3,894	1,303
Net pension liability	165,413	12,798	—	178,211	—
Other post-employment benefits - health	69,874	—	(16,592)	53,282	1,998
Other post-employment benefits - LTD	1,048	54	—	1,102	104
Total Long Term Liabilities	\$ 2,851,780	\$ 187,776	\$ (132,069)	\$ 2,907,487	\$ 141,198

Long-Term Liabilities

Revenue Bonds

A summary of revenue bonds outstanding as of June 30, 2024 and 2023 are as follows (in thousands):

	Maturity Year	Original Interest Rate Range	Face Value Outstanding June 30, 2024	Face Value Outstanding June 30, 2023
Airport System Subordinate Revenue Bonds				
Series 2000B, \$269,240,000 original principal	2024	5.45%-5.7% \$	16,235 \$	31,625
Series 2002A, \$200,050,000 original principal	2032	5%-5.625%	—	20,005
Series 2002B, \$274,455,000 original principal	2032	5%-5.5%	—	27,450
Airport System Subordinate Lien Revenue Refunding Bonds				
Series 2018A, \$130,550,000 original principal	2041	5 %	113,140	116,970
Series 2018B, \$285,220,000 original principal	2048	5 %	252,345	253,830
Series 2018C, \$212,820,000 original principal	2032	5 %	156,525	170,235
Series 2018D, \$356,290,000 original principal	2039	5 %	301,640	312,065
Series 2020A, \$131,620,000 original principal	2047	4%-5%	130,620	131,620
Series 2020B, \$71,565,000 original principal	2030	5 %	71,565	71,565
Series 2020C, \$660,490,000 original principal	2032	0.883%-2.485%	411,690	634,590
Series 2021A, \$286,010,000 original principal	2048	4%-5%	283,510	286,010
Series 2023A, \$647,865,000 original principal	2053	3.5% - 4.5%	647,865	—
Series 2023B, \$108,185,000 original principal,	2053	3.5% - 4.25%	108,185	—
Total Principal			2,493,320	2,055,965
Less: Total current maturities			(122,925)	(119,710)
Unamortized discount			—	(231)
Unamortized premium			217,875	177,762
Total Revenue Bonds Payable - Long Term			<u>\$ 2,588,270</u>	<u>\$ 2,113,786</u>

Senior Lien Revenue Bonds

At June 30, 2024 and 2023, there were no senior lien revenue bonds issued and outstanding.

Subordinate Lien Revenue Bonds

On October 20, 2020, HAS issued \$613.9 million in Airport System Subordinate Lien Revenue Refunding Bonds in three series: Series 2020A (AMT) in the amount of \$131.6 million, 2020B (NON-AMT) in the amount of \$71.6 million, and 2020C (Taxable) in the amount of \$634.6 million, with interest rates at 0.883% to 5.0%. The proceeds were used to generate resources for debt service payments of the refunded and defeased portions of Series: 2010 (AMT), 2000B (NON-AMT), 2011A (AMT), 2011B (AMT), 2012A (AMT), 2012B (NON-AMT); to refund \$156.1 million of Airport System Commercial Paper Notes; and to pay costs of issuance of the bonds. A deferred refunding loss of \$20.1 million was recognized for this refunding transaction. The bonds mature in varying amounts from the year 2022 to 2047. Net present value savings related to the bond refunding totaled \$94.8 million and reduced future debt service by \$98.2 million.

On June 22, 2021, HAS issued Series 2021A (AMT) Airport System Subordinate Lien Revenue Refunding Bonds in the amount of \$286.0 million with interest rates of 4.0% to 5.0%. The proceeds were used for the purpose of refunding \$345.8 million of Houston Airport System Commercial Paper Notes and to pay the costs of issuance of the bonds. No deferred gain or loss was recognized for this refunding transaction. The bonds mature in varying amounts from the year 2023 to 2048.

On July 19, 2023, the HAS issued \$756.0 million in Airport System Subordinate Lien Revenue and Refunding Bonds Series in two series: 2023A (AMT) in the amount of \$647,865,000 and 2023B (NON-AMT) in the amounts of \$108.2 million ("Series 2023 Bonds"), with interest rate of the bonds ranging from 4.25% to 5.25%. The Series 2023A Bonds mature on July 1, 2053, and the Series 2023B Bonds mature on July 1, 2053. The Series 2023 Bonds were issued for the purpose of providing funds to among other: (a) refund and redeem all the outstanding principal amount of the Refunded Notes and Bonds; and (b) pay certain costs of issuance with respect to the Series 2023 Bonds. By issuing the Series 2023 Bonds, the City obtained an estimated economic gain of approximately \$19.0 million and obtained a net present value of savings of approximately \$12.9 million.

Arbitrage Rebate

Arbitrage rebate rules, under the Internal Revenue Code Section 148 and related Treasury Regulations, require generally that a tax-exempt bond issuer forward to the federal government any profits made from investing bond proceeds at a yield above the bond yield when investing in a taxable market. Payments based on cumulative profits earned by bonds are due, in general, every five years. On June 30, 2024, and 2023, a yield restriction/arbitrage rebate of \$0 and \$0, respectively, was accrued.

Commercial Paper

During the year ended June 30, 2013, the City authorized up to \$150.0 million in Airport System Commercial Paper Notes ("Commercial Paper"). On November 20, 2013, the City re-authorized and amended the Series A and B Commercial Paper. A new direct pay letter of credit was issued on December 18, 2013, covering \$150 million in face value of Series A and B Commercial Paper, 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 ("SMBC"), which expires on December 15, 2025. Any advances made under the letter of credit and not repaid within 90 days will be converted to term loans payable in twenty quarterly installments, subject to the greater of several options for interest rates. The maximum interest rate permitted under the ordinance is 15%. On April 1, 2020, the agreement with SMBC was expanded to \$350.0 million, plus interest.

On June 30, 2024, there was no outstanding balance on Commercial Paper. The available limit for additional borrowings was \$350.0 million. At June 30, 2023, the outstanding balance of Commercial Paper was \$350.0 million, with an interest rate of 3.679%, and no availability for additional borrowings.

Pension Obligation Bonds

In 2005, the Fund was assigned the responsibility to pay principal and interest on a portion of the City's Pension Obligation Bonds, Series 2005 (Taxable), with a par value of \$2,005,656, a coupon rate of 5.31%, and final maturity on March 1, 2035. The annual interest payment for the Pension Obligation Bonds is \$106,500.

Security for Airport Debt

To the extent it legally may do so, as described in the Master Bond Ordinance, HAS may charge rates for the use of the airports in order that, for each fiscal year, the net revenues will be not less than 125% of the debt service requirements for Senior Lien Revenue Bonds and 110% of the debt service requirements for Subordinate Lien Revenue Bonds. 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%.

Long-Term Liabilities

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 Revenue Bonds and Commercial Paper. These policies have an aggregate maximum amount of \$12.4 million and terminate on October 25, 2023, and July 1, 2030.

The Fund has also purchased Subordinate Lien Debt Service Reserve Fund Surety Policies that unconditionally guarantee the payment of the current principal and interest on all outstanding subordinate lien issues. The surety policies have termination dates ranging from July 1, 2022, 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 \$102.9 million, reinsured by National Public Finance Guarantee Corporation; and (2) Assured Guarantee Municipal Corporation in the aggregate maximum amount of \$31.9 million. The Fund also has a cash reserve of \$84.0 million and \$84.0 million in the Subordinate Lien Bond Reserve Fund as of June 30, 2024 and June 30, 2023, respectively.

Pledged Revenues

The Fund has pledged its revenues, net of operation and maintenance expenses, ("Net Revenue") to pay principal and interest on outstanding Commercial Paper, Senior Lien Revenue Bonds, Subordinate Lien Revenue Bonds, and Inferior Lien Revenue Bonds.

Pledged revenues exclude any bond proceeds, replacement proceeds, investment income earned by bond proceeds, fair value adjustments, PFC, 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 properties.

For the years ended June 30, 2024, and 2023, Net Revenues totaled \$290.4 million and \$266.7 million, respectively. In addition to PFC and grants totaling \$229.1 million and \$208.2 million for the years ended June 30, 2024 and 2023, respectively, were available to pay debt service. For the years ended June 30, 2024, and 2023, the debt service coverage ratio was not calculated as the debt service was entirely funded by PFC and grants.

Special Facility Bonds

The Airport System Special Facilities Taxable Revenue Bonds, (CRCF Project), Series 2001, original par value \$130.3 million, financed the design and construction 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 at Intercontinental. The City holds legal title to the completed 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 CFC 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, 2024, and 2023, 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, which under the Bond covenants must be set to provide a debt service coverage ratio of at least 125%. The bonds are limited special obligations of the City, payable solely from and secured by pledged CFC. There is no pledge of car rental company revenues, or any general revenue of the City.

On June 30, 2024 and 2023, special facilities revenue and refunding bonds (CRCF) outstanding totaled \$43.6 million and \$52.5 million, respectively.

Forward Delivery Bond Purchase Agreement

On October 21, 2015, the City authorized up to \$450.0 million in Airport System Inferior Lien Revenue Bonds, in one or more series. On November 5, 2015, the City authorized the execution of a forward delivery purchase agreement with the Royal Bank of Canada, to expire on February 5, 2027, for the issuance of \$450.0 million in Inferior Lien Revenue Bonds. The City Council must reauthorize this liquidity arrangement annually. For the years ended June 30, 2024, and 2023, no Inferior Lien Revenue Bonds have been issued or outstanding.

Direct Borrowing Loans

During the year ended June 30, 2020, HAS began to borrow and incur interest on two loans obtained from the State Energy Conservation Office ("SECO"), a segment within the State of Texas Comptroller. The SECO program affords low-rate 2% loans for borrowers approved to build or acquire energy-efficient equipment or other assets.

HAS entered into two reimbursement loan agreements with SECO, each with a SECO-approved list of projects to be completed within approximately eighteen months, and with the initial repayment to commence shortly thereafter. After HAS has incurred the construction or acquisition costs, it submits the charges to SECO for reimbursement. Upon reimbursement by SECO, interest expense accrues at two percent.

Loan No. 1 has a maximum amount of \$8.0 million to be repaid over approximately ten years, with repayment to commence once all projects are completed. Loan #2 has a maximum amount of \$7.5 million, and similar terms to Loan No. 1. At June 30, 2024, and 2023, HAS has a total of \$14.8 million and \$16.0 million, respectively, loan balance outstanding including interest accrued during the construction period of \$0.5 million. The replacement projects continued throughout the year ended June 30, 2021, and have been completed as of June 30, 2022.

There are no unique default provisions, payment provisions, or collateral pledged to either of these loans. In the event of default, such as failing to make timely payments in accordance with the agreements, the outstanding balances, including accrued interest, may become due immediately. As of June 30, 2024, and 2023, HAS is in compliance with the terms and conditions of these loan agreements.

Long-Term Liabilities

Debt Service Requirements to Maturity

Aggregate future debt service payments to maturity as of June 30, 2024 are as follows (in thousands):

Year Ending June 30	Airport System Total Future Requirements			SECO Direct Borrowing		
	Principal	Interest	Total	Principal	Interest	Total
2025	\$ 133,796	\$ 110,540	\$ 244,336	\$ 1,241	\$ 262	\$ 1,503
2026	138,061	106,261	244,322	1,266	237	1,503
2027	154,282	101,143	255,425	1,292	212	1,504
2028	160,373	95,066	255,439	1,318	186	1,504
2029	146,578	88,267	234,845	1,345	159	1,504
2030 - 2034	738,619	331,057	1,069,676	5,395	409	5,804
2035 - 2039	342,669	216,850	559,519	1,725	53	1,778
2040 - 2044	284,865	138,452	423,317	—	—	—
2045 - 2049	279,485	76,136	355,621	—	—	—
2050 - 2054	173,825	22,521	196,346	—	—	—
Total	\$ 2,552,553	\$ 1,286,293	\$ 3,838,846	\$ 13,582	\$ 1,518	\$ 15,100

Year Ending June 30	Airport System Subordinate Lien Revenue Bonds			Airport System Commercial Paper		
	Principal	Interest	Total	Principal	Interest	Total
2025	\$ 122,925	\$ 107,168	\$ 230,093	\$ —	\$ —	\$ —
2026	126,350	103,577	229,927	—	—	—
2027	141,675	99,203	240,878	—	—	—
2028	146,800	93,930	240,730	—	—	—
2029	144,940	88,002	232,942	—	—	—
2030 - 2034	731,890	330,366	1,062,256	—	—	—
2035 - 2039	340,565	216,777	557,342	—	—	—
2040 - 2044	284,865	138,452	423,317	—	—	—
2045 - 2049	279,485	76,136	355,621	—	—	—
2050 - 2054	173,825	22,521	196,346	—	—	—
Total	\$ 2,493,320	\$ 1,276,132	\$ 3,769,452	\$ —	\$ —	\$ —

Year Ending June 30	Airport System Special Facility Bonds - Rental Car Facility			Airport System Pension Obligations		
	Principal	Interest	Total	Principal	Interest	Total
2025	\$ 9,630	\$ 3,003	\$ 12,633	\$ —	\$ 107	\$ 107
2026	10,445	2,340	12,785	—	107	107
2027	11,315	1,622	12,937	—	106	106
2028	12,255	843	13,098	—	107	107
2029	—	—	—	293	106	399
2030 - 2034	—	—	—	1,334	282	1,616
2035 - 2039	—	—	—	379	20	399
2040 - 2044	—	—	—	—	—	—
2045 - 2049	—	—	—	—	—	—
2050 - 2054	—	—	—	—	—	—
Total	\$ 43,645	\$ 7,808	\$ 51,453	\$ 2,006	\$ 835	\$ 2,841

Defined Benefit Pension Plan

As a department of the City, HAS participates in the Houston Municipal Employees' Pension System ("HMEPS" or the "Plan"), which publishes its separate financial statements and is a fiduciary component unit of the City. A complete copy of the summary plan description and the stand-alone financial reports can be obtained from HMEPS at 1201 Louisiana St., Suite 900, Houston, Texas 77002-5608 or via <http://www.hmeps.org>.

General Information**Plan Description**

HMEPS is a single employer, defined benefit pension plan, which covers all eligible municipal employees of the City, including all employees of HAS. HMEPS was created under Chapter 358, Acts of the 48th Texas Legislature, Regular Session, 1943 (Article 6243g, Vernon's Texas Civil Statutes) and reenacted and continued under HB1573, 77th Texas Legislature, Article 6243h, Vernon's Texas Civil Statutes, (the "Pension Statute") as amended. An independent Board of Trustees administers the Plan. The fiscal year of HMEPS ends June 30. In this Financial Report, the Fund reports separately from the City and is required to report as a cost-sharing plan since the Fund is allocated a proportionate share of the net pension liability ("NPL"). The schedules of Net Pension Liability, Pension Expense, Deferred Outflows, and Deferred Inflows of Resources show the Fund's proportionate share of the Plan.

Benefits Provided

HMEPS includes three contributory groups, groups A, B, and D, and provides for service-connected disability and death benefits to eligible members and surviving spouses and/or dependents, with no age or service eligibility requirements. Pension benefits are based on a participant's average monthly salary and years of credited service, as defined in the Pension Statute. Pension benefits are adjusted annually for a fixed cost of living adjustment of between 0% and 2% depending on investment returns. 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 HMEPS, employer and employee obligations to contribute, as well as employee contribution rates, are included in the Pension Statute, 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 amounts agreed to in meet and confer agreements.

All active participants are required to contribute to the Plan. Effective July 2017, group A participants contribute 7% of salary, group B participants contribute 2% of salary, and group D participants contribute 2% of salary. Effective July 2018, group A and group B participants contributed 8% and 4%, respectively. Beginning in January 2018, group D participants contributed an additional 1% of their salary.

As a result of Senate Bill 2190 of the 85th Texas Legislature ("SB 2190"), beginning in fiscal year 2018, the City is required to contribute the "Total City Contribution" to the Plan, which consists of the sum of (a) an actuarially determined percentage of payroll ("City Contribution Rate") multiplied by actual payroll and a fixed dollar amount ("City Contribution Amount") which is based on the Unfunded Actuarial Accrued Liability as of July 1, 2016 ("Legacy Liability"). The Legacy Liability payment is amortized over 30 years, beginning on July 1, 2017, and grows at 2.75% per year regardless of the actual payroll growth rate.

The City as a whole and for the years ended June 30, 2024, and 2023, the City Contribution Rate was 8.48% and 8.44% of payroll, respectively, and the City Contribution Amount was \$146.0 million and \$142.0 million, respectively.

Also, SB 2190 required a one-time payment of \$250 million to the Plan in Pension Obligation Bond proceeds during the year ended June 30, 2018.

Note 6 (continued)**Notes to the Financial Statements****Defined Benefit Pension Plan**

As of the most recent measurement date, June 30, 2024, of the net pension liability, membership data for the Plan are as follows:

Retirees and beneficiaries currently receiving benefits	11,972
Former members entitled to benefits but not yet receiving them	8,890
Active members	11,578
Total participants	32,440

Net Pension Liability

The Fund's proportionate share of NPL in the Plan was allocated and reported on the accompanying statements of net position.

NPL is the difference between the "Total Pension Liability" ("TPL") and the Plan's "Fiduciary Net Position" ("FNP"). 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. TPL includes benefits related to projected salary and service, and automatic cost of living adjustments ("COLA"). In addition, ad hoc COLAs are also included in TPL to the extent they are substantively automatic. FNP is determined on the same basis used by the Plan. NPL and certain sensitivity information are based on an actuarial valuation performed as of July 1, 2023, and 2022. TPL was rolled forward from that valuation date to the measurement date of June 30, 2024, and 2023 using generally accepted actuarial principles. A Schedule of Net Pension Liability, including multi-year trend information (beginning with the year ended June 30, 2015), is presented in the Required Supplementary Information section of this ACFR.

The City's and the Fund's net pension liability as of June 30, 2024, and 2023 are summarized as follows (in thousands):

	June 30, 2024		June 30, 2023	
	Municipal Employees' Pension	The Fund's proportionate share of NPL	Municipal Employees' Pension	The Fund's proportionate share of NPL
Total pension liability	\$ 5,812,828	\$ 653,209	\$ 5,698,777	\$ 624,425
Less: Fiduciary net position	(4,360,172)	(489,969)	(4,072,345)	(446,214)
Net pension liability	\$ 1,452,656	\$ 163,240	\$ 1,626,432	\$ 178,211

The Fund's proportionate percentage of NPL is 11.24% and 10.96% for the years ended June 30, 2024 and 2023, respectively.

Schedule of Changes in Net Pension Liability (in thousands)

	June 30, 2024			June 30, 2023		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Service cost	\$ 88,999	\$ —	\$ 88,999	\$ 85,184	\$ —	\$ 85,184
Interest on the total pension liability	389,086	—	389,086	381,016	—	381,016
Difference between expected and actual experience	(5,779)	—	(5,779)	6,279	—	6,279
Assumption Changes	—	212,959	(212,959)	—	—	—
Employer contributions	—	34,645	(34,645)	—	204,895	(204,895)
Employees contributions	—	403,867	(403,867)	—	34,600	(34,600)
Pension plan net investment income	—	—	—	—	221,364	(221,364)
Benefit payments	(356,914)	(356,914)	—	(334,859)	(334,859)	—
Refunds	(1,341)	(1,341)	—	(989)	(989)	—
Administrative expense	—	(6,046)	6,046	—	(5,636)	5,636
Other	—	657	(657)	—	619	(619)
Net change	114,051	287,827	(173,776)	136,631	119,994	16,637
Net pension liability beginning	5,698,777	4,072,345	1,626,432	5,562,146	3,952,351	1,609,795
Net pension liability ending	<u>\$ 5,812,828</u>	<u>\$ 4,360,172</u>	<u>\$ 1,452,656</u>	<u>\$ 5,698,777</u>	<u>\$ 4,072,345</u>	<u>\$ 1,626,432</u>

Schedule of Assumptions

Inflation	2.25%
Salary changes	3.25% to 5.50%
Investment rate of return	7.00%
Valuation date	July 1, 2023
Actuarial cost method	Entry Age Normal Cost
Amortization method	Level Percent of Payroll, Open
Remaining amortization period	24 Years
Asset valuation method	5 Year smoothed market, direct offset of deferred gains and losses
Mortality assumption	PUB-2010 table, amount weighted, below-median income, with a 2-year set forward. The rates are then projected on a fully generational basis by the long-term rates of improvement of scale MP-2020.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. The actuary utilized the forward-looking return expectations developed by twelve investment consulting firms that work with pension systems similar to HMEPS. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Note 6 (continued)**Notes to the Financial Statements****Defined Benefit Pension Plan**

The Plan's target asset allocation and actual allocation as of June 30, 2024 and 2023 are summarized as follows:

Asset Class	June 30, 2024		June 30, 2023	
	Target Allocation	Long-Term Expected Rate of Return	Target Allocation	Long-Term Expected Rate of Return
Cash & Short-term	— %	4.00 %	— %	3.65 %
International Equity	28.00 %	5.10 %	28.00 %	6.75 %
Fixed Income	10.00 %	5.88 %	10.00 %	5.10 %
Inflation Linked	20.00 %	7.00 %	20.00 %	7.73 %
Private Equity	17.00 %	7.45 %	17.00 %	9.60 %
Private Debt	12.50 %	8.20 %	12.50 %	8.20 %
Real Estate	12.50 %	6.00 %	12.50 %	7.95 %
	<u>100.00 %</u>		<u>100.00 %</u>	

Pension Expense

For the years ended June 30, 2024 and June 30, 2023, the City recognized pension expense as follows (in thousands):

	June 30, 2024	June 30, 2023
Service cost	\$ 88,999	\$ 85,184
Interest	389,086	381,016
Difference between expected and actual experience	3,955	(1,966)
Assumption changes	(7,827)	(7,828)
Differences between projected and actual earnings on plan investments	(110,197)	(84,487)
Member contributions	(34,645)	(34,600)
Project earnings on plan investments	(281,003)	(273,117)
Administrative expense	6,046	5,636
Other	(657)	(619)
Total pension expense	<u>\$ 53,757</u>	<u>\$ 69,219</u>

The Fund's proportionate shares of pension expense are \$5.1 million and \$7.6 million for the years ended June 30, 2024, and June 30, 2023, respectively.

Schedule of Deferred Outflows and Inflows of Resources

Deferred outflows of resources and deferred inflows of resources by source reported by the Fund at June 30, 2024, and June 30, 2023 (in thousands):

	June 30, 2024			June 30, 2023		
	Deferred Outflows of Resources	Deferred Inflows of Resources	Total Fund	Deferred Outflows of Resources	Deferred Inflows of Resources	Total Fund
Differences between expected and actual experience	\$ 923	\$ (466)	\$ 457	\$ 1,860	\$ (347)	\$ 1,513
Change of assumptions	—	(678)	(678)	—	(1,519)	(1,519)
Net difference between projected and actual earnings on pension plan investments	—	(23,980)	(23,980)	—	(21,995)	(21,995)
Change in proportion	9,662		9,662	9,728	—	9,728
Total	<u>\$ 10,585</u>	<u>\$ (25,124)</u>	<u>\$ (14,539)</u>	<u>\$ 11,588</u>	<u>\$ (23,861)</u>	<u>\$ (12,273)</u>

Defined Benefit Pension Plan

Amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2024, will be recognized in pension expense as follows (in thousands):

Year Ending Year Ending June 30

2025	\$	(14,648)
2026		3,787
2027		(917)
2028		(2,761)
Total	\$	(14,539)

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

The following presents TPL and NPL, calculated using the current discount rate, as well as what the Fund's TPL and NPL 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):

June 30, 2024	1% Decrease	Current Discount Rate	1% Increase
	6.00 %	7.00 %	8.00 %
Municipal Employees' Pension	\$ 2,032,436	\$ 1,452,656	\$ 964,646
The Fund's proportionate share of NPL	\$ 228,392	\$ 163,240	\$ 108,401

June 30, 2023	1% Decrease	Current Discount Rate	1% Increase
	6.00 %	7.00 %	8.00 %
Municipal Employees' Pension	\$ 2,202,979	\$ 1,626,432	\$ 1,141,455
The Fund's proportionate share of NPL	\$ 241,384	\$ 178,211	\$ 125,071

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Other Employee Benefits

Retiree Health Insurance Benefits

At June 30, 2024 and 2023, the Fund reports current and noncurrent Other Employee Benefits as follows:

	June 30, 2024			June 30, 2023		
	Current Liabilities	Noncurrent Liabilities	Total Fund	Current Liabilities	Noncurrent Liabilities	Total Fund
Claims for worker's compensation	\$ 1,279	\$ 4,461	\$ 5,740	\$ 1,064	\$ 1,890	\$ 2,954
OPEB - health benefits	1,929	59,450	61,379	1,998	51,284	53,282
OPEB - LTD	101	1,031	1,132	104	998	1,102
Total	\$ 3,309	\$ 64,942	\$ 68,251	\$ 3,166	\$ 54,172	\$ 57,338

Pursuant to a City Ordinance, the City provides certain Other Post-employment Benefits ("OPEB") for retired employees. Substantially all employees become eligible for these benefits if they reach normal retirement age while working for the City. The City is not required by law or contractual agreement to provide funding for OPEB other than the pay-as-you-go amounts necessary to provide current benefits to retirees, eligible dependents, and beneficiaries. The cost of retiree health care premiums incurred by the City (employer and subscriber) amounted to approximately \$63.6 million and \$56.5 million for the years ended June 30, 2024 and 2023, respectively. Retiree health care is accounted for in the Health Benefits Fund, an Internal Service Fund for the City. On June 30, 2022, there were 10,175 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.

The City's 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. As a department of the City, HAS participates in the OPEB plan of the City. A separate accounting is not done for the Fund's portion. It is allocated its share of expenses on an annual basis. For the years ended June 30, 2024, and 2023, the Fund made "pay-as-you-go" payments totaling approximately \$2.0 million and \$1.7 million, respectively, for the OPEB plan.

Membership

As of the most recent actuarial valuation of the net OPEB liability, membership data is as follows:

	City
Retirees and beneficiaries currently receiving benefits	10,175
Active members:	20,954
Total participants	31,129

Schedule of Assumptions

The total OPEB liability is based on an actuarial valuation as of June 30, 2022 using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25%
Salary Increases	2.75% to 22.75%, varies by job classification, service and age
Discount Rate	3.65% and 3.54% for June 30, 2024 and 2023 reporting, respectively
Measurement Date	June 30, 2023
Healthcare Costs Trend Rates:	
Medicare	6.75% grading down to 4.5% by 0.25% per annum
Prescription Drug	9.50% grading down to 4.5% by 0.50% per annum
Medicare Advantage	-2.8% in the first year, 26.3% in the second year, then 4.5% thereafter
Administrative Costs	2.00%
Healthy Mortality Rates	Rates that vary by job classification and employee status. The rates are consistent with the pension plans valuation assumptions for the same employees.

Net OPEB Liability

The total OPEB liability was measured as of June 30, 2023 and 2022. The total OPEB liability was determined from an actuarial valuation as of June 30, 2022. The net OPEB liability is the total OPEB liability less the plan fiduciary net position. The total OPEB liability is the present value of all future benefit payments for current retirees and active employees, considering assumptions about demographics, turnover, mortality, disability, retirement, healthcare trends, and other actuarial assumptions.

The Fund's Net OPEB Liability (in thousands)

Measurement Date: **June 30, 2023 and 2022**

Reporting Date: **June 30, 2024 and 2023**

	2024	2023
Total OPEB liability	\$ 61,379	\$ 53,282
Less: Fiduciary net position	—	—
Net OPEB liability	<u>\$ 61,379</u>	<u>\$ 53,282</u>

The Fund's proportionate share of the net OPEB liability at June 30, 2024, and 2023 was 3.14% and 3.03%, respectively. A schedule of net OPEB liability, in addition to the information above, includes multi-year trend information (beginning with fiscal year 2018) and is presented in the Required Supplementary Information section.

Note 7 (continued)**Notes to the Financial Statements****Other Employee Benefits****Schedule of Change in Net OPEB Liability (in thousands)**

	2024	2023
Service cost	\$ 89,215	\$ 124,690
Interest	64,343	52,553
Difference between expected and actual experience	10,771	23,213
Assumptions changes	91,495	(720,476)
Benefit payments	(63,607)	(56,511)
Net change	192,217	(576,531)
Net OPEB liability beginning	1,759,895	2,336,426
Net OPEB liability ending	<u>\$ 1,952,112</u>	<u>\$ 1,759,895</u>

OPEB Expense

For the years ended June 30, 2024 and 2023, the City recognized OPEB expense of \$(8.3) million and \$2.6 million, respectively. The Fund recognized OPEB expense of \$(0.3) million and \$0.1 million for the years ended June 30, 2024 and 2023, respectively. Components of OPEB expense are as follows (in thousands):

	2024	2023
Service Cost	\$ 89,215	\$ 124,690
Interest	64,343	52,553
Expensed portion of current difference in experience	1,346	3,316
Expensed Portion of current period changes of assumptions	11,437	(102,925)
Amortization of beginning of year deferred amounts	(174,617)	(75,008)
OPEB (benefit) expense	<u>\$ (8,276)</u>	<u>\$ 2,626</u>

Schedule of Deferred Outflows and Inflows of Resources

Deferred inflows and outflows of resources related to the OPEB plan reported by the Fund at June 30, 2024 and 2023 are as follows (in thousands):

	2024			2023		
	Deferred Outflows of Resources	Deferred Inflows of Resources	Total Fund	Deferred Outflows of Resources	Deferred Inflows of Resources	Total Fund
Changes of assumptions	\$ 7,770	\$ (18,668)	\$ (10,898)	\$ 6,676	\$ (24,116)	\$ (17,440)
Difference between expected and actual experience	817	(1,522)	(705)	602	(2,330)	(1,728)
Contributions made subsequent to measurement date and prior to reporting date	1,929	—	1,929	1,998	—	1,998
Total	<u>\$ 10,516</u>	<u>\$ (20,190)</u>	<u>\$ (9,674)</u>	<u>\$ 9,276</u>	<u>\$ (26,446)</u>	<u>\$ (17,170)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to net OPEB liability at June 30, 2024 will be recognized in OPEB expense as follows (in thousands):

Other Employee Benefits

Year Ending Year Ending June 30

2025	\$	(3,623)
2026		(2,171)
2027		(1,352)
2028		(2,530)
2029		(2,730)
Thereafter		804
Total	\$	(11,602)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Trend

The following presents the net OPEB liability, calculated using the discount rate, as well as what the Fund's net OPEB liability would have been if it were calculated using a discount rate that is 1 percentage point lower and 1 percentage point higher than the current rate (in thousands):

	1% Decrease	Current Discount Rate	1% Increase
June 30, 2024	2.65%	3.65%	4.65%
Net OPEB liability	\$ 72,242	\$ 61,378	\$ 52,798

	1% Decrease	Current Discount Rate	1% Increase
June 30, 2023	2.54%	3.54%	4.54%
Net OPEB liability	\$ 62,285	\$ 53,282	\$ 46,161

The following presents the net OPEB liability calculated using the current healthcare cost trend rate as of June 30, 2023 and 2022, as well as what the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower and 1 percentage point higher than the current rate (in thousands):

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
June 30, 2024			
Net OPEB liability	\$ 51,218	\$ 61,379	\$ 74,680

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
June 30, 2023			
Net OPEB liability	\$ 45,129	\$ 53,282	\$ 63,920

Other Employee Benefits

Long-Term Disability Plan (LTD)

The long-term disability plan (the "LTD"), accounted for as an internal service fund of the City, is a part of the Income Protection Plan implemented on September 1, 1985 (renamed to the Compensable Sick Leave Plan ("CSL") in October 1996) and is provided at no cost to City employees who are CSL members. The LTD plan is a single-employer plan. Coverage is effective 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 pay plus longevity when combined with income benefits available from other sources. The LTD benefits may be payable after all CSL scheduled sick leave benefits, including frozen sick leave days, have been used, however, not before six months of absence from work. The LTD is administered by Reed Group, which is reimbursed by the internal service fund as claims are paid, plus an administrative services fee. As a department of the City, HAS participates in the LTD.

Actuarially Determined Contribution and Total Claim Liability

For the years ended June 30, 2024 and 2023, there were an increase of \$641 thousand and a decrease of \$74 thousand, respectively, in the amount of disabled life reserves.

	June 30, 2024	June 30, 2023
Total claim liability at beginning of period	\$ 5,916	\$ 5,842
Changes for the year:		
Changes due to assumption changes	(34)	(137)
Increase attributable to additions	236	707
Decrease attributable to terminations	(20)	(160)
Change attributable to passage of time and adjustments	(823)	(336)
Net change	\$ (641)	\$ 74
Total Claim Liability at End of Period	\$ 5,275	\$ 5,916

Changes in Total OPEB Liability

	June 30, 2024	June 30, 2023
Beginning balance	\$ 14,071	\$ 14,170
Changes for the year:		
Service cost	1,558	1,571
Interest	628	541
Experience	(1,644)	(965)
Benefit Payments	(870)	(920)
Assumption changes	(95)	(326)
Net changes	(423)	(99)
Ending Balance	\$ 13,648	\$ 14,071

The Fund's proportionate share of the total OPEB liability for the LTD at June 30, 2024 and 2023 was \$1,132 thousand and \$1,102 thousand, respectively.

OPEB LTD Expense Components

	June 30, 2024	June 30, 2023
Service cost	\$ 1,558	\$ 1,571
Interest on total OPEB liability	628	541
Differences between expected and actual experience	(504)	(340)
Changes in assumptions	237	247
Total OPEB Expense	\$ 1,919	\$ 2,019

For the years ended June 30, 2024 and 2023, the Fund recognized expense of \$159 thousand and \$158 thousand, respectively, related to the LTD.

Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2024 and 2023, the Fund reports deferred outflows of resources and deferred inflows of resources related to the LTD from the following sources:

	June 30, 2024			June 30, 2023		
	Deferred Outflows of Resources	Deferred Inflows of Resources	Total Fund	Deferred Outflows of Resources	Deferred Inflows of Resources	Total Fund
Differences between expected and actual experience	\$ 46	\$ (383)	\$ (337)	\$ 54	\$ (283)	\$ (229)
Changes in assumptions	157	(76)	81	178	(75)	103
Total	\$ 203	\$ (459)	\$ (256)	\$ 232	\$ (358)	\$ (126)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to the LTD will be recognized in OPEB expense by the Fund as follows:

Deferred Outflows and Inflows of Resources		
Year Ending	Year Ending June 30	
2025		\$ (22)
2026		(22)
2027		(22)
2028		(21)
2029		(33)
Thereafter		(136)
Total		\$ (256)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability - LTD, calculated using the discount rate of 4.31% and 4.13%, at June 30, 2024 and 2023, respectively, as well as what the total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate (in thousands):

Note 7 (concluded)**Notes to the Financial Statements****Other Employee Benefits**

	1% Decrease	Current Discount Rate	1% Increase
June 30, 2024	3.31%	4.31%	5.31%
Net OPEB liability	\$ 1,176	\$ 1,132	\$ 1,089

	1% Decrease	Current Discount Rate	1% Increase
June 30, 2023	3.13%	4.13%	5.13%
Net OPEB liability	\$ 1,145	\$ 1,102	\$ 1,058

Deferred Compensation Plan

The City offers its employees a deferred compensation plan (the “DCP”), created in accordance with Internal Revenue Code Section 457 as a separately administered trust. The DCP, available to all City employees, permits employees to defer a portion of their salary until future years. The City does not make any matching or discretionary contributions to the DCP. The DCP is considered as an other employee benefit plan in accordance with paragraph 6 of GASBS No. 97. And the DCP is not considered a fiduciary activity of the City under the provisions of GASBS No. 84. 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 loan 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. The DCP’s assets are not subject to the City’s general creditors and are not included in the accompanying financial statements.

Workers’ Compensation Self-Insurance Plan

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

On June 30, 2024, and 2023, the City has an accumulated liability of approximately \$143.2 million and \$146.2 million, respectively, covering estimates for approved but unpaid claims and incurred but not reported claims recorded in the City’s government-wide statements of net position. The amount of liability is based on an actuarial study each year. The Fund’s share of the liability totaled approximately \$5.7 million and \$3.0 million on June 30, 2024 and 2023, respectively.

Schedule of Changes in Liability

	(in thousands)	
	June 30, 2024	June 30, 2023
Beginning actuarial estimate of claims liability, July 1	\$ 146,202	\$ 148,698
Incurred claims for fiscal year	20,726	24,704
Payments on claims	(25,889)	(19,200)
Actuarial adjustment	2,199	(8,000)
Ending actuarial estimate of claims liability, June 30	<u>\$ 143,238</u>	<u>\$ 146,202</u>

Due to and Due from the City of Houston

Amounts due to and due from other funds of the City at June 30, 2024 and 2023 are as follows (in thousands):

	June 30, 2024		June 30, 2023	
	Due to	Due from	Due to	Due from
General Fund	\$ 1,156	\$ 1,032	\$ 608	\$ 245
Nonmajor Governmental Funds	—	—	1	314
Internal Service Fund	—	2	—	—
Total	<u>\$ 1,156</u>	<u>\$ 1,034</u>	<u>\$ 609</u>	<u>\$ 559</u>

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Major Customers

For the years ended June 30, 2024, and 2023, the Fund earned 40.8% and 39.2%, respectively, of its operating revenues from two major customers, United and Southwest. No other companies or customers individually represent more than 2.0% of total operating revenues. The two major companies and their respective percentage of outstanding receivable (billed receivable) and revenue as of and for the years ended June 30, 2024 and 2023 are as follows:

Percentage of Operating Revenue		
	2024	2023
United	31.1 %	28.7 %
Southwest	9.7 %	10.5 %

Percentage of Accounts Receivable		
	2024	2023
United	35.8 %	0.4 %
Southwest	9.4 %	6.8 %

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Conduit Debt Obligations

The City has authorized various issues of Special Facilities Bonds to enable United (formerly known as Continental Airlines, Inc.), a publicly traded company, to construct facilities at the Intercontinental Airport ("Special Facilities") that were deemed to be in the public interest. 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. Collected pledged revenues are remitted directly to a trustee by United. In addition, no commitments beyond the payments from United and maintenance of the tax-exempt status of the conduit debt obligation were extended by the City. On June 30, 2024, the bonds had an aggregate outstanding principal amount payable of approximately \$1.1 billion.

Under the terms of the related lease agreements, United operates, maintains, and insures the terminals, and manages and retains revenues from all concessions operated in the Terminal B and E Special Facilities. The City operates, maintains, insures, 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 United through long-term leases, and the Airport System will enjoy no direct financial benefit from these facilities for the term of the lease agreements. Accordingly, the Airport System accounts for the 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 of the Fund.

Conduit Debt Outstanding at June 30, 2024 and 2023 (in thousands)

	June 30, 2024	June 30, 2023
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	199,355	227,370
Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Terminal Improvement Projects), Series 2015B-1 (AMT), \$176,650,000 principal, matures in 2035	176,650	176,650
Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Technical Operations Center), Series 2018 (AMT), 90,650,000 original principal, matures in 2028	90,650	90,650
Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2018C (AMT), \$46,425,000 original principal, matures in 2028	46,425	46,425
Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Terminal Improvement Projects), Series 2020A (AMT), \$34,165,000 original principal, matures in 2027	34,165	34,165
Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Terminal Improvement Projects), Series 2020B-2 (AMT), \$47,470,000 original principal, matures in 2027	47,470	47,470
Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2020C (AMT), \$66,890,000 principal, matures in 2027	66,890	66,890
Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2021A (AMT), \$70,175,000 original principal, matures in 2041	70,175	70,175
Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2021B-1 (AMT), \$219,320,000 original principal, matures in 2041	219,320	219,320
Total Conduit Debt Outstanding	\$ 1,064,405	\$ 1,092,420

Conduit Debt Obligations

On August 25, 2021, the City issued \$70.2 million and \$219.3 million in Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Terminal E Project and Terminal Improvement Projects), Series 2021A and 2021B-1, respectively, on behalf of United, for the purpose of 1) financing the costs of development, construction, and acquisition of a new multi-terminal baggage handling system and other infrastructure improvements at IAH and 2) paying related costs of issuance. Interest rate for both series is 4% per annum. Maturity dates are July 1, 2041 and July 15, 2041 for Series 2021A and 2021B-1, respectively.

On June 29, 2020, the City issued \$34.2 million in Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2020A (AMT) on behalf of United, to refund certain outstanding Special Facilities Revenue Bonds, and to pay the Series 2020A costs of issuance. The bonds were issued as a 5% Term Bond due July 1, 2027, with a yield of 4.375%.

On June 29, 2020, the City issued \$47.5 million in Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2020B-2 (AMT) on behalf of United, to refund certain outstanding Special Facilities Revenue Bonds, and to pay the Series 2020B-2 costs of issuance. The bonds were issued as a 5% Term Bond due July 15, 2027, with a yield of 4.375%.

On June 29, 2020, the City issued \$66.9 million in Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2020C (AMT) on behalf of United, to refund certain outstanding Special Facilities Revenue Bonds, and to pay the Series 2020C costs of issuance. The bonds were issued as a 5% Term Bond due July 15, 2027, with a yield of 4.625%.

On February 20, 2018, the City issued \$90.7 million in Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Technical Operations Center Project), Series 2018 (AMT) on behalf of United, to finance the construction of a technical operations center and related facilities at IAH. The bonds were issued as a 5% Term Bond due July 15, 2028, with a yield of 3.60%.

On February 20, 2018, the City issued \$46.4 million in Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2018C (AMT) on behalf of United, to finance the improvement, renovation, expansion and repair of certain special facilities at IAH, including improvements to an existing aircraft maintenance hangar facility, construction of an aircraft shops facility, and renovation of a maintenance and parts storage facility. The bonds were issued as a 5% Term Bond due July 15, 2028, with a yield of 3.60%.

On March 16, 2015, the City issued \$176.7 million in Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Terminal Improvement Projects), Series 2015B-1 (AMT) on behalf of United, 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.

On May 8, 2014, the City issued \$308.7 million in Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Terminal E Project) Series 2014 on behalf of United, 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.

On November 17, 2011, the City issued \$113.3 million in Airport System Special Facilities Revenue Bonds (Continental Airlines, Inc. Terminal Improvement Projects), Series 2011 (AMT), at coupon rates ranging from 6.50% to 6.625%, to finance the replacement of two flight stations at Terminal B, with a new South Concourse building to serve United Airlines' regional jet operations.

Environmental Liabilities

HAS has received results for supplemental site testing from an independent study that will result in environmental remediation costs associated with an IAH hangar addition project. Cost of approximately \$5.0 million has been estimated. No pollution remediation liability has been recorded in these financial statements in accordance with GASBS No. 49 as the Fund is expected to recover the full \$5.0 million from United Airlines.

Management of HAS 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 GASBS No. 49. Management has determined the costs of this additional remediation for which the Fund is ultimately liable would not be material in these financial statements.

Federal Grants

HAS has received federal grants for specific purposes under Airport Improvement Program that are subject to review and audit by the grantor agency. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. In the opinion of management of HAS, disallowed costs, if any, would not be material.

Commitments for Capital Facilities

At June 30, 2024 and 2023, the Fund had contracted for, but not spent, approximately \$1,158.8 million and \$790.8 million, respectively, for capital projects.

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 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 HAS 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.

Risk Management

The City purchases fidelity coverage to comply with City ordinance, boiler and machinery insurance with a per occurrence loss limit of \$125 million and commercial property insurance with a per occurrence loss limit of \$200 million. The commercial property insurance sub-limit for flood is \$200 million. The commercial property insurance provides deductibles as follows: \$2 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 \$20 million maximum deductible; and 3% of the damaged insured value for flood, subject to a \$2.5 million minimum and a \$20 million maximum deductible. Should a named storm event occur that involves both perils of windstorm and flood, the maximum deductible is \$20 million. The City's property insurance retention is 10% of the \$50 million primary limits, not to exceed the \$5 million retention limit.

The City has a separate terrorism policy which covers insured property value. The policy insures up to \$250 million aggregate loss limit (including \$25 million sub-limit for nuclear, chemical, biological, and biochemical coverage) with a \$500,000 deductible on all claims except a 48-hour waiting period deductible on business interruption.

Electricity Futures Contracts

On July 1, 2020, the City entered into an electricity supply agreement with Reliant Energy Retail Services, Inc. for a 5-year term with two 1-year options, with locked rates for the duration of the contract terms. The total committed price is approximately \$634 million for expected usage of the potentially 7-year contract. As of June 30, 2024, the remaining commitment is \$230 million.

On November 13, 2015, the City entered into a solar energy supply agreement with ENGIE to supply solar power to the City from a facility located in Alpine, Texas, for a 20-year term starting in April 2017. The contract value is approximately \$124.7 million. As of June 30, 2024, the remaining commitment is \$81 million.

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Management has evaluated subsequent events through the date that the financial statements were available to be issued, November 18, 2024, and there are no subsequent events that would require recognition or disclosure. No events occurring after this date have been evaluated for inclusion in these financial statements.

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**Schedule of Changes in the Fund's Net Pension Liability and Related Ratios
For Fiscal Years Ended June 30**

(in thousands)

	The Fund's proportionate percentage	Total pension liability (TPL)	Plan fiduciary net position	Net pension liability (NPL)	Covered Payroll	The Fund's proportionate share of NPL as a percentage of covered payroll	Plan fiduciary net position as a percentage of TPL
2015	10.76%	\$512,642	(264,294)	\$248,348	65,542	378.91%	51.56%
2016	10.74%	\$540,464	(257,653)	\$282,811	67,704	417.72%	47.67%
2017	10.79%	\$535,376	(280,956)	\$254,420	61,881	411.14%	52.48%
2018	10.87%	\$555,982	(324,983)	\$230,999	61,638	374.77%	58.45%
2019	10.76%	\$563,449	(333,692)	\$229,757	61,076	376.18%	59.22%
2020	10.54%	\$561,822	(303,599)	\$258,223	65,881	391.95%	54.04%
2021	10.27%	\$558,694	(397,149)	\$161,545	66,028	244.66%	71.09%
2022	10.28%	\$571,532	(406,119)	\$165,413	69,703	237.31%	71.06%
2023	10.96%	\$624,425	(446,214)	\$178,211	77,847	228.92%	71.46%
2024	11.24%	\$653,209	(489,969)	\$163,240	84,114	194.07%	75.01%

**Schedule of the Fund's Contributions for Municipal Pension Plans
For Fiscal Years Ended June 30**

(in thousands)

	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2015	\$16,306	15,226	\$1,080	67,704	25.0%
2016	\$17,148	16,908	\$240	67,704	25.0%
2017	\$18,898	18,676	\$222	61,881	30.2%
2018	\$42,738	42,493	\$245	61,638	68.9%
2019	\$17,719	17,520	\$199	61,076	28.7%
2020	\$19,283	18,596	\$687	65,881	28.2%
2021	\$19,338	18,975	\$363	66,028	28.7%
2022	\$20,067	20,278	(\$211)	69,703	29.1%
2023	\$22,141	22,456	(\$315)	77,847	28.8%
2024	\$23,540	23,937	(\$397)	84,114	28.5%

**Schedule of the Fund's Investment Returns
For Fiscal Years Ended June 30**

(in thousands)

	2024	2023	2022	2021	2020	2019	2018	2017	2016
Annual Return	9.8%	6.1%	5.0%	38.6%	(3.7)%	6.2%	8.7%	12.2%	0.9%

Schedules are intended to show information for 10 years. Additional years will be included as they become available.

Houston Municipal Pension System

Notes to Required Pension Supplementary Information

Valuation Date: July 1, 2023 and 2022

Notes: Actuarially determined contribution rates are calculated as of July 1, which is 12 months prior to the beginning of the fiscal year in which they are contributed. The assumptions shown below apply to the Actuarially Determined Employer Contribution for fiscal year 2024 and 2023 which was determined by the July 1, 2022 and 2021 actuarial valuation. These assumptions are the same as those used to determine the Net Pension Liability as of June 30, 2024 and 2023.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method: Entry Age Normal

Amortization method: Level Percentage of Payroll, Open

Remaining amortization period: 24 years

Assets valuation method: 5 year smoothed market, direct offset of deferred gains and losses

Inflation: 2.25%

Salary increases: 3.25% to 5.50% including inflation

Investment rate of return: 7.00%

Retirement age: Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2021 valuation pursuant to an experience study of the period 2015– 2020.

Mortality: PUB-2010 Mortality Table, amount weighted, Below-Median Income, with a 2-year set forward. The rates are then projected on a fully generational basis by the long-term rates of improvement of MP-2020.

Other information: 1. The actuarially determined contribution includes the Legacy Liability payment as specified by the January 1, 2016 Risk Sharing Valuation Study and a calculated employer rate equal to the normal cost and the amortization of any new unfunded liabilities over a closed 30 year period from the valuation date the liability base was created.

2. Investment rate of return was lowered from 8.50% to 8.00% as of July 1, 2015 and subsequently lowered to 7.00% as of July 1, 2017.

3. Salary increases were changed as of July 1, 2016 from 3.25% - 6.00%, including inflation, to 3.25% - 5.50%, including inflation.

Schedule of the Fund's Proportionate Share of OPEB Liability and Related Ratios

(in thousands)

		Health Benefits						
		2024	2023	2022	2021	2020	2019	2018
Total OPEB liability	\$	61,379	\$ 53,282	\$ 69,874	\$ 82,344	\$ 70,738	\$ 73,286	\$ 89,450
Plan fiduciary net position		—	—	—	—	—	—	—
Net OPEB liability	\$	61,379	\$ 53,282	\$ 69,874	\$ 82,344	\$ 70,738	\$ 73,286	\$ 73,286
Fund's proportion of TOPEBL		3.14 %	3.03 %	2.99 %	3.15 %	3.19 %	3.25 %	3.67 %
Fund's covered-employee payroll	\$	77,847	\$ 69,703	\$ 66,028	\$ 65,881	\$ 61,076	\$ 61,638	\$ 61,881
Total OPEB liability as a percentage of the Fund's covered-employee payroll		78.85 %	76.44 %	105.82 %	124.99 %	115.82 %	118.90 %	144.55 %

Schedule of the Fund's Proportionate Share of OPEB Liability and Related Ratios

(in thousands)

		Long Term Disability						
		2024	2023	2022	2021	2020	2019	2018
Total OPEB liability	\$	1,102	\$ 1,102	\$ 1,048	\$ 1,150	\$ 774	\$ 586	\$ 457
Plan fiduciary net position		—	—	—	—	—	—	—
Net OPEB liability	\$	1,102	\$ 1,102	\$ 1,048	\$ 1,150	\$ 774	\$ 586	\$ 457
Fund's proportion of TOPEBL		8.07 %	7.83 %	7.40 %	8.12 %	4.97 %	6.94 %	4.14 %
Fund's covered-employee payroll	\$	83,817	\$ 74,706	\$ 66,275	\$ 58,830	\$ 54,880	\$ 41,439	\$ 35,841
Total OPEB liability as a percentage of the Fund's covered-employee payroll		1.31 %	1.48 %	1.58 %	1.95 %	1.41 %	1.41 %	1.28 %

Other Post Employment

Notes to Required Other Post-Employment Supplementary Information

Retiree Health Insurance Benefits

Note:

There are no assets in a trust compliant with GASB codification P22.101 or P52.101 to pay related benefits.

Measurement Date:

June 30, 2023 for reporting date as of June 30, 2024.

Benefit Changes:

Reflected June 30, 2023

No changes.

Reflected June 30, 2022

- Effective July 1, 2022, the OOP maximum for all non-Medicare Advantage plans increased from \$8,150 to \$8,700. for the purposes of this valuation, the impact of this change was considered negligible.

Reflected June 30, 2021

- Texas Plus, Cigna Health Spring, and UHC Plan F plans have all been terminated as of 12/31/2020 and a new plan, Aetna PO1 PPO Basic, was added as of 1/1/2021.

Reflected June 30, 2020

No changes.

Reflected June 30, 2019

Effective May 1, 2019:

For Cigna Limited Network Plan:

- Deductible increased from \$150 / \$450 (individual / family) to \$200 / \$600.
- OOP maximum increased from \$4,500 / \$9,000 to \$7,900 / \$15,800.
- Prescription Drug deductible increased from \$100 /\$300 to \$150 /\$450.

For Cigna Open Access Plan:

- Deductible increased from \$750 / \$1,500 (individual / family) to \$850 / \$1,700
- OOP maximum increased from \$6,840 / \$13,700 to \$7,900 / \$15,800.

For Consumer Driven Plan:

- OOP maximum increased from \$6,840 / \$13,700 to \$7,900 / \$15,800.
- Retirees of Texas plan has been discontinued.

Effective May 1, 2020:

For Cigna Limited Network Plan:

- OOP Maximum increased from \$7,900 to \$15,800 to \$8,150/\$16,300.

For Cigna Open Access Plan:

- OOP Maximum increased from \$7,900 to \$15,800 to \$8,150/\$16,300.

For Consumer Driven Health Plan:

- OOP Maximum increased from \$7,900 to \$15,800 to \$8,150/\$16,300 in network and \$12,000/ \$24,000 to \$16,000/\$32,000 out of network.
- Prescription coinsurance increased from 40% to 60%.

For Kelsey Care Advantage:

- Specialist copay increased from \$15 to \$20.

For Cigna Health Spring

- Emergency Room Copay increased from \$100 to \$120.

- Non-preferred generic pharmacy copay increased from \$10 to \$45.

- Mail order prescription drugs moved to two times retail for all tiers.

Aetna PPO:

- Inpatient copay increased from \$80 to \$250 for in network and from \$80 to 20% per stay for out of network.

- Non-preferred generic pharmacy copay increased from \$20 to \$40 for out of network.

- Preferred brand name pharmacy copay increased from \$40 to \$80 for out of network.

Notes to Required Other Post-Employment Benefits Supplementary Information, continued:

Reflected June 30, 2018

- KelseyCare Advantage HMO – Specialty Drug copay increased to \$75
- Texas Plus – Inpatient copay increased to \$325, emergency room copay rates to \$100, prescription drug copays increased to \$10/\$15/\$40/\$55/\$75.
- Cigna HealthSpring – Emergency room copay increased to \$100, mail order prescription drugs move to two times retail for all tiers.

Changes of Assumptions:

Effective June 30, 2023

- The basis for the discount rate remained the same (20-year, general obligation, municipal bond index), resulting in a change in discount rate to 3.65% compared to 3.54% in prior year.
- The trend rates associated with the starting healthcare claims and contribution were updated to reflect recent experience and expected impacts due to the Inflation Reduction Act (IRA) legislation effective in 2025.

Effective June 30, 2022

- The basis for the discount rate remained the same (20-year, general obligation, municipal bond index), resulting in a change in discount rate to 3.54% compared to 2.16% in prior year.
- Medicare and prescription drug claims costs and trend rates were updated to reflect recent experience.
- The actuarial factors used to estimate individual retiree and spouse costs by age and by gender were updated. The new factors are based on a review of historical claims experience by age, gender, and status (active vs retired) from Segal's claims data warehouse.

Effective June 30, 2021

- The basis for the discount rate remained the same (20-year, general obligation, municipal bond index), resulting in a change in discount rate to 2.16% compared to 2.21% in prior year.
- The demographic assumptions (mortality, turnover, disability and retirement) for the Fire department were updated to be consistent with the Houston Firefighter's Relief and Retirement Fund Actuarial Certification as of July 1, 2020, dated September 16, 2021, completed by Buck Consulting.

Effective June 30, 2020

- Medical and prescription drug claims costs and trend rates were updated to reflect recent experience.
- The basis for the discount rate remained the same (20-year, general obligation, municipal bond index), resulting in a change in discount rate to 2.21 compared to 3.50% in prior year.
- Active participation rates upon retirement were updated to reflect recent experience.
- Life insurance to be fully retiree paid and is no longer being valued.

Effective June 30, 2019

- The excise tax regulation was repealed by Congress in December 2019.
- The basis for the discount rate remained the same (20-year, general obligation, municipal bond index), resulting in a change in the discount rate to 3.50% compared to 3.87% in the prior year.
- Post-Medicare starting costs were adjusted for the actual premiums charged. Similar adjustments were made for contribution rates.
- Prescription drug trend rates were changed to reflect future expectations by extending the number of years until the ultimate trend is reached.

Other Post Employment

**Notes to Required Other Post-Employment Benefits Supplementary Information,
continued:**

Reflected June 30, 2018

- Medical, prescription drug, Medicare Plan, and administrative expected claims and payments were changed, based on experience through June 30, 2018.
- Medical, prescription drug, Medicare Plan, and administrative trend rates were changed to reflect future expectations.
- Demographic changes included mortality changes for all participants, changes to the salary scale for
- Municipal and Police participants, and changes to the retirement rates for Police and Fire participants.
- The basis for the discount rate remained the same (20-year, general obligation, municipal bond index), resulting in a change in the discount rate to 3.87% compared to 3.58% in the prior year.

Long Term Disability

Note:

There are no assets in a trust compliant with GASB codification P22.101 or P52.101 to pay related benefits.

Measurement Date:

June 30, 2024 for reporting date as of June 30, 2024.

Changes of Assumptions:

Discount rate - FY2024: 4.31%; FY2023: 4.13%; FY2022: 3.54%; FY2021: 2.16%; FY2020: 3.50%; FY2019: 3.50%; FY2018: 3.87%.

Employees Covered:

Houston Fire Department is covered by this LTD Plan in addition to all municipal employees. Houston Police Department is not covered by this LTD Plan.

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STATISTICS

UNAUDITED





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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.

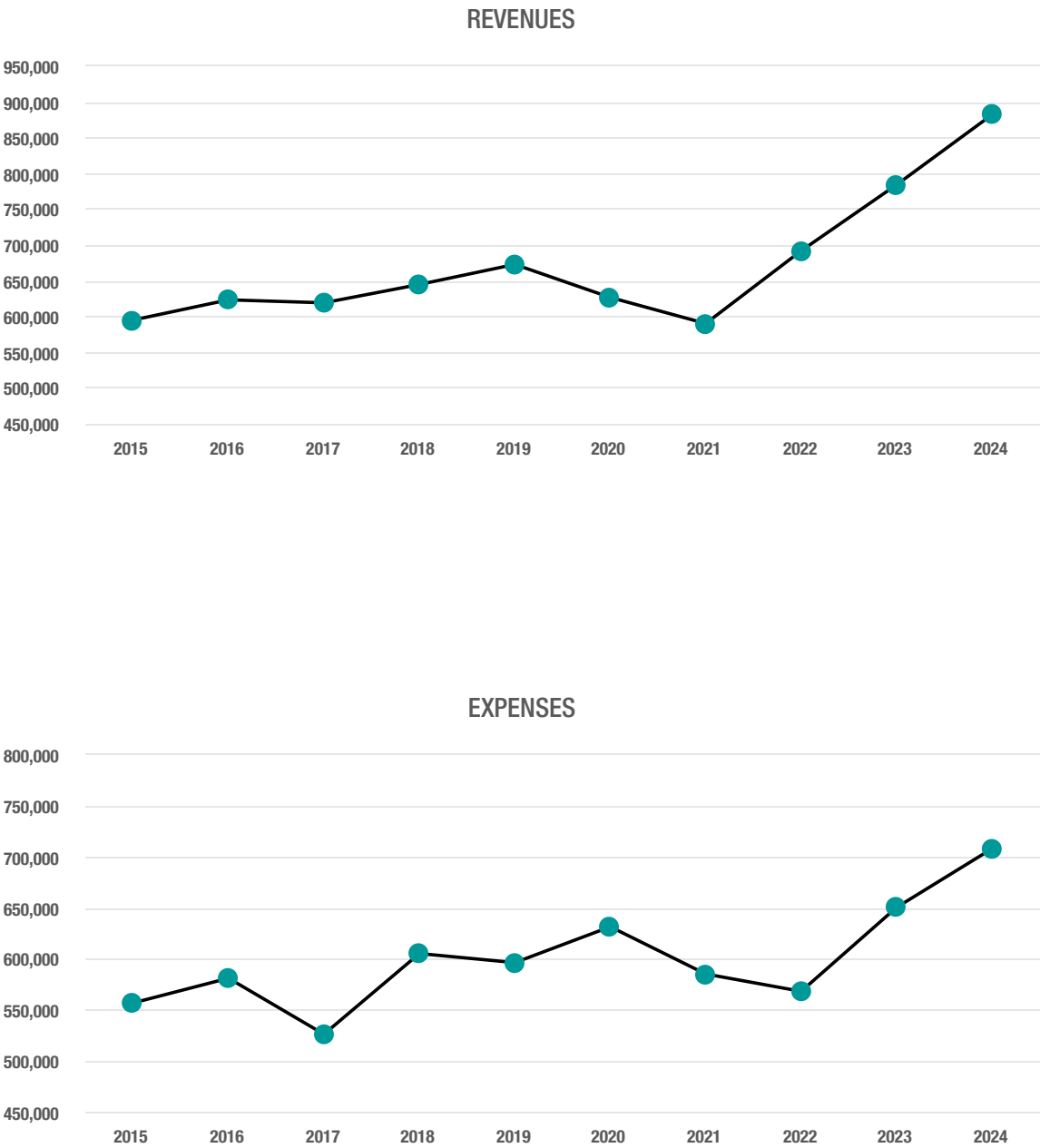
REVENUE CAPACITY – intended to assist users in understanding and assessing the factors affecting the Houston Airport System’s ability to generate its own sources of revenues.

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 EXPENSES (in thousands)



SOURCE: Houston Airport System

TOTAL ANNUAL REVENUES AND EXPENSES (in thousands)

CHANGE IN NET POSITION		2024	2023	2022
Operating Revenues				
Landing area fees	\$	98,556	\$ 92,601	\$ 94,253
Building and ground area fees		250,353	234,751	192,029
Concession, parking, and other revenues		246,654	232,895	194,892
Total Operating Revenues		595,563	560,247	481,174
Nonoperating Revenues				
Investment income (loss)		91,803	38,706	(47,109)
Passenger Facility Charges		117,407	108,754	98,446
Customer Facility Charges		17,946	16,075	13,723
Other nonoperating revenues		59,152	60,141	145,281
Total Nonoperating Revenues		286,308	223,676	210,341
TOTAL REVENUES		881,871	783,923	691,515
Operating Expenses				
Maintenance and operating				
Personnel costs		129,866	116,009	79,515
Supplies		9,279	8,236	7,089
Services		296,000	274,798	227,656
Non-capital outlay		2,033	1,913	1,741
Impairment to capital assets		—	—	—
Total M & O expenses		437,178	400,956	316,001
Depreciation expense		170,747	170,922	166,792
Total Operating Expenses		607,925	571,878	482,793
Nonoperating Expenses				
Interest expense and others		99,966	78,533	85,427
Total Nonoperating Expenses		99,966	78,533	85,427
TOTAL EXPENSES		707,891	650,411	568,220
Contributions		5,239	37,087	41,047
TOTAL CHANGE IN NET POSITION	\$	179,219	\$ 170,599	\$ 164,342

SOURCE: Houston Airport System

TOTAL ANNUAL REVENUES AND EXPENSES (in thousands), continued

2021	2020	2019	2018	2017	2016	2015
\$ 70,578	\$ 95,863	\$ 87,767	\$ 95,779	\$ 88,046	\$ 86,870	\$ 93,575
155,598	223,301	211,323	220,214	221,181	216,018	197,039
92,379	152,748	199,374	194,871	184,814	186,009	185,668
318,555	471,912	498,464	510,864	494,041	488,897	476,282
1,523	43,701	45,067	8,591	3,403	13,260	7,496
62,541	78,418	111,155	109,021	101,539	104,230	85,392
8,769	13,320	17,439	17,374	14,200	16,417	17,535
198,447	18,877	340	(1,420)	5,596	124	7,969
271,280	154,316	174,001	133,566	124,738	134,031	118,392
589,835	626,228	672,465	644,430	618,779	622,928	594,674
84,652	119,481	119,841	133,253	56,721	123,872	114,947
7,020	8,223	8,390	8,219	7,794	8,140	7,933
225,405	204,811	196,608	184,826	184,032	177,677	159,577
1,491	37,915	12,638	8,806	5,912	5,730	4,072
—	—	—	—	—	—	—
318,568	370,430	337,477	335,104	254,459	315,419	286,529
170,820	175,573	174,266	176,053	184,203	179,398	177,512
489,388	546,003	511,743	511,157	438,662	494,817	464,041
95,803	85,426	84,578	94,061	87,574	86,259	92,803
95,803	85,426	84,578	94,061	87,574	86,259	92,803
585,191	631,429	596,321	605,218	526,236	581,076	556,844
24,757	10,927	16,599	13,784	35,513	22,542	36,432
\$ 29,401	\$ 5,726	\$ 92,743	\$ 52,996	\$ 128,056	\$ 64,394	\$ 74,262

SOURCE: Houston Airport System

CHANGES IN NET POSITION (in thousands)

NET POSITION AT YEAR END

	2024	2023	2022	2021	2020
Net investment in capital assets	\$ 728,106	\$ 591,494	\$ 507,167	\$ 495,497	\$ 514,164
Restricted net position					
Restricted for debt service	492,900	472,782	412,293	384,267	464,280
Restricted for maintenance and operations	63,032	55,457	55,332	54,232	54,807
Restricted for special facility	62,152	55,143	50,953	52,362	55,105
Restricted for renewal and replacement	10,000	10,000	10,000	10,000	10,000
Restricted for capital improvement	763,782	851,491	681,093	627,464	619,884
Unrestricted surplus (deficit)	27,571	(68,043)	80,887	9,561	(114,258)
TOTAL NET POSITION	\$ 2,147,543	\$ 1,968,324	\$ 1,797,725	\$ 1,633,383	\$ 1,603,982

NET POSITION AT YEAR END

	2019	2018	2017	2016	2015
Net investment in capital assets	\$ 542,125	\$ 531,232	\$ 542,363	\$ 537,172	\$ 466,196
Restricted net position					
Restricted for debt service	428,856	357,588	287,858	333,635	303,371
Restricted for maintenance and operations	60,525	56,891	54,805	54,942	53,912
Restricted for special facility	43,442	36,049	29,369	26,944	25,732
Restricted for renewal and replacement	10,000	10,000	10,000	10,000	10,000
Restricted for capital improvement	651,664	657,050	676,360	561,071	600,159
Unrestricted surplus (deficit)	(138,356)	(143,297)	(126,938)	(178,003)	(178,003)
TOTAL NET POSITION	\$ 1,598,256	\$ 1,505,513	\$ 1,473,817	\$ 1,345,761	\$ 1,281,367

SOURCE: Houston Airport System

PASSENGER FACILITY CHARGE COLLECTIONS (in thousands)

	2024	2023	2022	2021	2020
Intercontinental	\$ 91,738	\$ 84,629	\$ 76,422	\$ 46,994	\$ 61,120
Hobby	25,669	24,125	22,024	15,547	17,298
Total	\$ 117,407	\$ 108,754	\$ 98,446	\$ 62,541	\$ 78,418
Year-over-Year Change	7.96%	10.47%	57.41%	(20.25)%	(29.45)%

	2019	2018	2017	2016	2015
Intercontinental	\$ 85,167	\$ 83,220	\$ 77,351	\$ 80,574	\$ 66,491
Hobby	25,988	25,801	24,188	23,656	18,901
Total	\$ 111,155	\$ 109,021	\$ 101,539	\$ 104,230	\$ 85,392
Year-over-Year Change	1.96%	7.37%	(2.58)%	22.06%	36.40%

SOURCE: Houston Airport System

PLEDGED REVENUES (in thousands)

OPERATING REVENUES

Landing area fees

	2024	2023	2022
Landing fees	\$ 93,726	\$ 87,329	\$ 88,757
Aviation fuel	1,535	1,593	1,705
Aircraft parking	3,295	3,679	3,791
Subtotal	98,556	92,601	94,253

Building and ground area revenues

Terminal space rentals	221,613	208,854	166,444
Cargo building rentals	2,015	2,009	2,078
Other rentals	5,230	5,901	6,332
Hangar rental	6,455	5,879	5,921
Ground rental	15,040	12,108	11,254
Subtotal	250,353	234,751	192,029

Parking, concession, and other revenues

Retail concessions	52,151	48,962	39,570
Auto parking	122,588	117,460	98,418
Auto rental concession	38,849	37,301	34,055
Ground transportation	25,332	21,428	15,192
Other operating revenues	7,734	7,744	7,657
Subtotal	246,654	232,895	194,892

TOTAL OPERATING REVENUES

\$ 595,563	\$ 560,247	\$ 481,174

Gross revenues include all operating revenue of the Airport Fund, and all nonoperating revenue except for revenue with legal spending restrictions. Maintenance and operating expenses include 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.

SOURCE: Houston Airport System

PLEDGED REVENUES (in thousands), continued

2021	2020	2019	2018	2017	2016	2015
\$ 65,550	\$ 91,271	\$ 83,318	\$ 91,258	\$ 84,036	\$ 82,703	\$ 89,426
1,302	1,249	1,554	1,679	1,350	1,527	1,521
3,726	3,343	2,895	2,842	2,660	2,640	2,628
70,578	95,863	87,767	95,779	88,046	86,870	93,575
129,527	196,844	185,943	195,198	196,162	191,321	173,392
2,164	2,378	2,391	2,390	2,448	2,484	2,506
6,256	6,574	6,454	6,460	6,453	6,808	6,252
6,339	6,821	6,530	6,691	6,813	6,577	6,355
11,312	10,684	10,005	9,475	9,305	8,828	8,534
155,598	223,301	211,323	220,214	221,181	216,018	197,039
14,584	32,265	41,521	41,245	39,999	35,215	41,855
43,815	81,172	110,136	103,961	99,752	101,650	97,515
20,596	23,400	28,949	28,767	28,735	30,737	31,991
6,913	10,072	12,645	11,062	10,402	10,083	9,323
6,471	5,839	6,123	9,836	5,926	8,324	4,984
92,379	152,748	199,374	194,871	184,814	186,009	185,668
\$ 318,555	\$ 471,912	\$ 498,464	\$ 510,864	\$ 494,041	\$ 488,897	\$ 476,282

SOURCE: Houston Airport System

PLEDGED REVENUES (in thousands)

	2024	2023	2022
NET REVENUE			
Operating revenue	\$ 595,563	\$ 560,247	\$ 481,174
Interest on investments - revenue fund	38,756	21,820	7,556
Other nonoperating revenues	424	165	77
Gross revenues	634,743	582,232	488,807
Less: Maintenance and operating expenses	(344,346)	(315,487)	(255,377)
Net pledged revenue	\$ 290,397	\$ 266,745	\$ 233,430
DEBT SERVICE			
Principal	\$ 122,925	\$ 119,710	\$ 77,700
Interest	106,160	88,441	85,803
	229,085	208,151	163,503
Less PFC revenue available for debt service	(73,926)	(68,743)	(59,819)
Less grant revenue available for debt service	(46,736)	(50,000)	(103,684)
Total debt service	\$ 108,423	\$ 89,408	\$ —
COVERAGE OF DEBT SERVICE	2.68	\$ 2.98	(l)
Net Required revenue per bond rate covenant	\$ 119,500	\$ 99,688	\$ 355
RATIO OF REQUIRED REVENUE	2.43	\$ 2.68	(l)

(1) Calculations not performed for the year ended 6/30/21 and 6/30/22 as HAS paid all debt service in fiscal year 2021 and 2022 from PFC's along with CARES, CCRSA, and ARPA Act proceeds.

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 Fiscal Year 2016, \$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.

SOURCE: Houston Airport System

PLEDGED REVENUES (in thousands), continued

2021	2020	2019	2018	2017	2016	2015
\$ 318,555	\$ 471,912	\$ 498,464	\$ 510,864	\$ 494,041	\$ 488,897	\$ 476,282
10,403	19,503	19,681	13,349	9,306	6,986	6,014
152	122	47	(1,805)	7,177	(52)	7,526
329,110	491,537	518,192	522,408	510,524	495,831	489,822
(251,830)	(314,034)	(315,153)	(326,889)	(254,506)	(314,715)	(283,557)
\$ 77,280	\$ 177,503	\$ 203,039	\$ 195,519	\$ 256,018	\$ 181,116	\$ 206,265
\$ 75,580	\$ 89,090	\$ 80,110	\$ 81,137	\$ 82,707	\$ 79,093	\$ 71,999
69,769	91,641	96,202	93,319	92,315	84,812	91,320
145,349	180,731	176,312	174,456	175,022	163,905	163,319
(56,365)	(55,040)	(60,646)	(50,642)	(54,673)	(42,320)	(38,054)
(88,984)	(14,169)	—	—	—	(13,888)	(16,399)
\$ —	\$ 111,522	\$ 115,666	\$ 123,814	\$ 120,349	\$ 107,697	\$ 108,866
(l)	1.59	1.76	1.58	2.13	1.68	1.89
\$ 310	\$ 122,935	\$ 127,430	\$ 137,474	\$ 134,348	\$ 120,125	\$ 122,822
(l)	1.44	1.59	1.42	1.91	1.51	1.68

SOURCE: Houston Airport System

Statistical Section (Unaudited)

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RECONCILIATION OF HISTORICAL FINANCIAL RESULTS (in thousands)

	2024	2023	2022	2021	2020	2019
Net Revenues under Bond Resolution						
Revenues	\$ 634,743	\$ 582,232	\$ 488,807	\$ 329,110	\$ 491,537	\$ 518,192
Operation and Maintenance Expenses	(344,346)	(315,487)	(255,377)	(251,830)	(314,034)	(315,153)
Net Revenues under Bond Resolution	\$ 290,397	\$ 266,745	\$ 233,430	\$ 77,280	\$ 177,503	\$ 203,039
Reconciliation of Change in Net Assets to Bond Resolution						
Net Revenues						
Change in Net Assets	\$ 179,219	\$ 170,599	\$ 164,342	\$ 29,401	\$ 5,726	\$ 92,743
Exclusion:						
Passenger Facility Charge Revenues Collected	117,407	108,754	98,446	62,541	78,418	111,155
Interest Income - Total	91,803	38,706	(47,109)	1,523	43,701	45,067
Interest Expenses	(94,609)	(78,655)	(76,705)	(62,107)	(74,533)	(81,575)
Gain/(Loss) on Disposal of Assets	(415)	405	(8,594)	(27,601)	(10,856)	119
Customer Facility Charges	17,946	16,075	13,723	8,769	13,320	17,439
Specialist Facility Cost	(206)	(283)	(128)	(75)	(37)	(43)
Cost of Issuance for Debt	48,005	—	—	(6,020)	—	(2,960)
Other Revenue (Expenses)	11,147	9,911	10,660	11,078	10,820	221
CARES Act/CRRSAA/ARPA	48,005	50,230	134,621	187,369	8,057	—
Capital Contributions	5,239	37,087	41,047	24,757	10,927	16,599
Total Exclusion	191,581	182,230	165,961	200,234	79,817	106,022
Inclusion:						
Net Expense Adjustment under Bond Resolution						
Operating Expenses Exc. Depreciation & Amortization in other funds						
Fund 8000 HAS Grants	—	(89)	—	12	—	994
Fund 8010 Renewal & Replacement Fund	31,041	27,962	18,877	31,697	19,310	10,189
Fund 8011 Airport Improvement Fund	58,914	53,869	9,940	5,044	56	9,437
Fund 8012 HAS-AIF Capital Outlay	(29)	(73)	(39)	(58)	425	636
Fund 8037 HAS - O&M Grants	—	—	—	—	—	—
Fund 8044 HAS Disaster Recovery O&M	—	—	—	—	—	15
Fund 8045 CARES Act	—	(49)	—	29,981	—	—
Fund 8051 HAS State Energy Conservation Loan CL311	—	—	—	—	214	—
Fund 8052 HAS State Energy Conservation Loan CL312	—	—	—	—	110	—
Fund 8059 CRRSAA grant fund	—	57	—	—	—	—
Fund 8062 ARPA grant fund	—	173	30,671	—	—	—
Fund 8064 ATP fund	1,269	—	—	—	—	—
Fund 8206 HAS-Consolidated2011 Construction	2,028	4,034	1,585	—	—	—
Fund 8207 HAS Consolidated ITRP AMT Construction	—	—	—	250	36,500	1,165
SECO loan interest and Pension bond interest expense	(391)	(415)	(410)	(297)	(110)	(107)
Miscellaneous	—	—	—	109	(109)	(5)
Total Inclusion	92,832	85,469	60,624	66,738	56,396	22,324
Changes in Net Assets less Exclusion plus Inclusion	80,470	73,838	59,005	(104,095)	(17,695)	9,045
Depreciation & Amortization	127,693	170,922	166,792	170,820	175,573	174,266
Interest on investments - Eligible per Bond Resolution	38,756	21,820	7,556	10,403	19,503	19,681
Other revenues - Eligible per Bond Resolution	424	165	77	152	122	47
Net Revenues Per Bond Resolution	\$ 290,397	\$ 266,745	\$ 233,430	\$ 77,280	\$ 177,503	\$ 203,039

Schedule is intended to show information for 10 years. Additional years will be included as they become available.

SOURCE: Houston Airport System

RECONCILIATION OF HISTORICAL FINANCIAL RESULTS (in thousands)

	2024	2023	2022	2021	2020	2019
Operations and Maintenance Expense Reconciliation						
Operations and Maintenance Expense per Financial Statement	\$ 607,925	\$ 571,878	\$ 482,793	\$ 489,388	\$ 546,003	\$ 511,743
Exclusion:						
Depreciation & Amortization	(170,747)	(170,922)	(166,792)	(170,820)	(175,573)	(174,266)
Allowable Exclusions per Bond Resolution						
Fund 8000 HAS Grants	—	89	—	(12)	—	(994)
Fund 8010 Renewal & Replacement Fund	(31,041)	(27,962)	(18,877)	(31,697)	(19,310)	(10,189)
Fund 8011 Airport Improvement Fund	(58,914)	(53,869)	(9,940)	(5,044)	(56)	(9,437)
Fund 8037 HAS - O&M Grants	—	—	39	58	(425)	(636)
Fund 8012 AIF Capital Outlay	29	73	—	—	—	—
Fund 8044 HAS Disaster Recovery O&M	—	—	—	—	—	(15)
Fund 8045 CARES Act	—	49	—	(29,981)	—	—
Fund 8051 HAS State Energy Conservation Loan CL311	—	—	—	—	(214)	—
Fund 8052 HAS State Energy Conservation Loan CL312	—	—	—	—	(110)	—
Fund 8059 CRRSAA grant fund	—	(57)	—	—	—	—
Fund 8062 ARPA grant fund	—	(173)	(30,671)	—	—	—
Fund 8064 ATP fund	(1,269)	—	—	—	—	—
Fund 8206 HAS-Consolidated2011 Construction	(2,028)	(4,034)	(1,585)	—	—	—
Fund 8207 HAS Consolidated ITRP AMT Construction	—	—	—	(250)	(36,500)	(1,165)
Miscellaneous (SECO Int, POB Interest, and Arbitrage Rebate)	391	415	410	188	219	112
Total Operation and Maintenance Expense per Bond Resolution	\$ 344,346	\$ 315,487	\$ 255,377	\$ 251,830	\$ 314,034	\$ 315,153

Schedule is intended to show information for 10 years. Additional years will be included as they become available.

The Airport System's operation and maintenance expense per our Statement of Revenues, Expenditures and Changes in Net Position (financial statement) and our Master Bond Ordinance (bond resolution) differ due to allowable exclusions in the definition of operation and maintenance expense in the Master Bond Ordinance. The Operations and Maintenance Expense Reconciliation above provides a listing of allowable exclusions by fund.

SOURCE: Houston Airport System

PLEDGED REVENUES FOR CONSOLIDATED RENTAL CAR FACILITY

(not rounded to the nearest thousand)

Resources Available for Debt Service

Customer facility charge collections
Interest income
Transfers from Facility Improvement Fund
Transfers from Coverage Account

Total Resources Available for Debt Service

Annual Debt Service

Special Facility Revenue Bonds, Series 2001:

Principal

Interest

Subtotal Series 2001

Special Facility Refunding Bonds, Series 2014:

Principal

Interest

Subtotal Series 2014

Total Annual Debt Service

DEBT SERVICE COVERAGE RATIO

For Years Ended December 31:

2023	2022	2021
\$ 16,932,707	\$ 14,634,186	\$ 11,360,307
442,445	127,345	2,139
3,000,000	6,000,000	8,500,000
3,169,143	3,169,143	3,169,143
\$ 23,544,295	\$ 23,930,674	\$ 23,031,589
\$ 8,870,000	\$ 8,165,000	\$ 7,505,000
3,613,032	4,174,784	4,691,128
12,483,032	12,339,784	12,196,128
—	—	—
—	—	—
—	—	—
\$ 12,483,032	\$ 12,339,784	\$ 12,196,128
1.89	1.94	1.89

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 BNY Mellon 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.

SOURCE: Houston Airport System

PLEDGED REVENUES FOR CONSOLIDATED RENTAL CAR FACILITY, continued

2020	2019	2018	2017	2016	2015	2014
\$ 8,761,929	\$ 17,615,108	\$ 17,311,972	\$ 15,669,757	\$ 14,822,377	\$ 17,359,920	\$ 17,451,368
36,807	167,666	131,162	56,976	29,003	3,840	\$ 785
11,250,000	—	—	—	—	—	—
3,169,143	3,169,143	3,169,143	3,169,143	3,169,143	3,169,143	3,169,143
\$ 23,217,879	\$ 20,951,917	\$ 20,612,277	\$ 18,895,876	\$ 18,020,523	\$ 20,532,903	\$ 20,621,296
\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
4,691,128	4,691,128	4,691,128	4,691,128	4,691,128	4,691,128	6,006,288
4,691,128	4,691,128	4,691,128	4,691,128	4,691,128	4,691,128	6,006,288
6,240,000	5,960,000	5,715,000	5,490,000	5,305,000	5,160,000	4,355,000
186,389	346,534	478,893	584,082	652,835	691,019	230,243
6,426,389	6,306,534	6,193,893	6,074,082	5,957,835	5,851,019	4,585,243
\$ 11,117,517	\$ 10,997,662	\$ 10,885,021	\$ 10,765,210	\$ 10,648,963	\$ 10,542,147	\$ 10,591,531
2.09	1.91	1.89	1.76	1.69	1.95	1.95

SOURCE: Houston Airport System

OUTSTANDING DEBT (in thousands)

	2024	2023	2022
OUTSTANDING DEBT BY TYPE (1)			
Senior lien revenue bonds, fixed rate	\$ —	\$ —	\$ —
Subordinate lien revenue bonds, fixed rate	2,493,320	2,055,965	2,133,665
Subordinate lien revenue bonds, periodic auction rate	—	—	—
Subordinate lien revenue bonds, variable rate	—	—	—
Subtotal, revenue bonds payable	2,493,320	2,055,965	2,133,665
Unamortized discount	—	(231)	(434)
Unamortized premium	217,875	177,762	198,181
Revenue bonds payable, net	2,711,195	2,233,496	2,331,412
Senior lien commercial paper payable	—	350,000	185,000
Inferior lien contract payable	—	—	—
Pension obligation bonds payable (2)	2,006	2,006	2,006
Note payable (3)	—	—	—
Direct borrowing loans (4)	13,582	14,800	15,993
Special facilities revenue bonds, rental car (5)	43,645	52,515	60,680
Lease liabilities	18	63	111
Subscriptions liabilities	2,464	3,894	—
TOTAL OUTSTANDING DEBT PAYABLE	\$ 2,772,910	\$ 2,656,774	\$ 2,595,202
Total enplaned passengers	31,012,570	28,945,018	26,080,016
Outstanding debt per enplaned passenger	\$ 89.41	\$ 91.79	\$ 99.51
OUTSTANDING CONDUIT DEBT			
Special facilities revenue bonds (6)	\$ 1,064,405	\$ 1,092,420	\$ 1,103,940

(1) Includes both current and long-term liabilities.

(2) A portion of the City of Houston Taxable General Obligation Pension Bonds, Series 2005 and Series 2017, have been allocated to the Airport Fund for payment. Series 2017 was paid on March 1, 2019.

(3) A Note payable to Southwest Airlines for the construction of the Hobby International Terminal project was paid with Revenue and Refunding Bond Series 2018A proceeds on March 20, 2018.

(4) Two flex loans were executed in 2019 with the Texas State Energy Conservation Office (SECO). These 2% loans are capped at \$8.2 and \$7.8 million including interest during the construction period, payable over 14.6 and 10 years with the first payments to be made on August 31, 2022.

(5) 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 5).

(6) These Special Facilities Revenue Bonds are conduit debt secured solely by lease payments from United Airlines. No revenues of the Airport System Fund are pledged to pay these bonds.

SOURCE: Houston Airport System

OUTSTANDING DEBT (in thousands), continued

2021	2020	2019	2018	2017	2016	2015
\$ —	\$ —	\$ —	\$ 420,420	\$ 430,645	\$ 440,385	\$ 449,660
2,209,245	1,763,235	1,843,145	1,331,795	1,232,585	1,284,860	1,331,765
—	—	—	242,275	254,475	266,925	276,275
—	92,105	92,305	92,505	92,705	92,905	93,105
2,209,245	1,855,340	1,935,450	2,086,995	2,010,410	2,085,075	2,150,805
(502)	(599)	(675)	(2,422)	(2,717)	(3,016)	(3,317)
213,263	162,949	179,927	112,362	61,302	68,118	75,141
2,422,006	2,017,690	2,114,702	2,196,935	2,068,995	2,150,177	2,222,629
20,000	132,973	48,473	21,473	87,000	87,000	49,500
—	—	—	—	6,240	12,155	17,760
2,006	2,006	2,006	29,616	2,006	2,006	2,006
—	—	—	—	115,421	120,439	—
14,421	324	—	—	—	—	—
68,185	74,425	80,385	86,100	91,590	96,895	102,055
239	—	—	—	—	—	—
—	—	—	—	—	—	—
\$ 2,526,857	\$ 2,227,418	\$ 2,245,566	\$ 2,334,124	\$ 2,371,252	\$ 2,468,672	\$ 2,393,950
14,969,109	21,828,780	29,807,598	27,712,789	27,390,397	27,815,031	26,903,968
\$ 168.80	\$ 102.04	\$ 75.34	\$ 84.23	\$ 86.57	\$ 88.75	\$ 88.98
850,035	850,035	848,865	848,865	711,790	711,790	711,790

SOURCE: Houston Airport System

Statistical Section (Unaudited)

SUMMARY OF CERTAIN FEES AND CHARGES

IAH	2024	2023	2022
Landing Rates (1) (3)	\$2.560	\$2.557	\$2.437
Terminal Space Rentals (2) (3)	\$20.93 - \$79.00	\$20.16 - \$76.05	\$18.19 - \$64.53
Apron Rentals (2) (3)	\$2.39 - \$2.51	\$2.08 - \$2.25	\$1.89 - \$2.05
Aircraft Parking (per day)	\$100.00 - \$400.00	\$100.00 - \$400.00	\$100.00 - \$400.00
Cargo (per day)	\$200.00 - \$600.00	\$200.00 - \$600.00	\$200.00 - \$600.00
Parking Rates (4)			
Economy (Ecopark) Uncovered (5) (11)	\$8.00	\$7.00	\$7.00
Economy (Ecopark) Covered (5) (11)	\$10.00	\$9.00	\$9.00
Economy (Ecopark2) Covered (5) (11)	\$9.00	\$8.00	\$8.00
Structured (6) (10)	\$25.00	\$25.00	\$24.00
Sure Park (7)	\$—	\$—	\$—
Valet (8) (9) (10)	\$30.00	\$30.00	\$28.00 - \$30.00
HOU	2024	2023	2022
Landing Rates (1) (3)	\$2.959	\$2.684	\$3.025
Terminal Space Rentals (2) (3)	\$72.75 - \$92.37	\$63.10 - \$80.83	\$59.04 - \$77.31
Apron Rentals (2) (3)	\$3.008	\$2.618	\$2.655
Aircraft Parking (per day)	\$100.00 - \$400.00	\$100.00 - \$400.00	\$100.00 - \$400.00
Cargo (per day)	\$200.00 - \$600.00	\$200.00 - \$600.00	\$200.00 - \$600.00
Parking Rates (4)			
Economy (Ecopark2)	\$10.00	\$10.00	\$10.00
Structured (6)	\$24.00	\$24.00	\$24.00
Valet (8)	\$28.00	\$28.00	\$28.00

(1) Per 1,000 pounds of landing weight

(2) Range per square foot

(3) 2015-2023 actual rates provided; 2024 budgeted rates provided.

(4) Maximum per day

(5) New rates effective January 15, 2022

(6) New rates of \$20.00/Day and \$24.00/Day effective on July 29, 2021 and October 1, 2021, respectively

(7) Sure Park ceased as an offered product in March 2021

(8) New rates effective February 4, 2019

(9) New rates for Terminal C effective May 1, 2022

(10) New rates for IAH Garages & Valet effective February 1, 2023

(11) New rates for Ecopark JFK & Ecopark2 effective April 1, 2024

SOURCE: Houston Airport System

SUMMARY OF CERTAIN FEES AND CHARGES, continued

2021	2020	2019	2018	2017	2016	2015
\$2.821	\$3.108	\$2.561	\$2.763	\$2.571	\$2.635	\$2.803
\$20.37 - \$41.67	\$24.63 - \$68.98	\$24.02 - \$69.27	\$24.26 - \$72.69	\$22.95 - \$72.46	\$22.88 - \$76.08	\$21.75 - \$75.45
\$2.28 - \$2.44	\$2.45 - \$2.68	\$2.70 - \$2.98	\$2.45 - \$2.78	\$2.24 - \$2.65	\$2.16 - \$2.70	\$2.11 - \$2.60
\$100.00 - \$400.00	\$100.00 - \$400.00	\$100.00 - \$400.00	\$100.00 - \$400.00	\$100.00 - \$400.00	\$100.00 - \$400.00	\$100.00 - \$400.00
\$200.00 - \$600.00	\$200.00 - \$600.00	\$200.00 - \$600.00	\$200.00 - \$600.00	\$200.00 - \$600.00	\$200.00 - \$600.00	\$200.00 - \$600.00
\$6.00	\$6.00	\$6.00	\$6.00	\$6.00	\$6.00	\$6.00
\$8.00	\$8.00	\$8.00	\$8.00	\$8.00	\$8.00	\$8.00
\$7.00	\$7.00	\$7.00	\$6.00	\$6.00	\$5.00	\$—
\$15.00	\$10.00	\$24.00	\$22.00	\$22.00	\$20.00	\$19.00
\$26.00	\$26.00	\$26.00	\$24.00	\$24.00	\$24.00	\$23.00
\$28.00	\$28.00	\$28.00	\$26.00	\$26.00	\$26.00	\$25.00
2021	2020	2019	2018	2017	2016	2015
\$2.914	\$2.722	\$2.000	\$2.013	\$1.982	\$1.835	\$2.113
\$40.94 - \$48.15	\$55.04 - \$66.46	\$54.33 - \$73.42	\$48.10 - \$68.15	\$64.79 - \$67.29	\$87.62 - \$90.12	\$92.77 - \$95.27
\$2.08 - \$2.11	\$2.14 - \$2.15	\$1.87 - \$1.92	\$1.79-\$1.85	\$1.65-\$1.85	\$1.765	\$2.209
\$100.00 - \$400.00	\$100.00 - \$400.00	\$100.00 - \$400.00	\$100.00 - \$400.00	\$100.00 - \$400.00	\$100.00 - \$400.00	\$100.00 - \$400.00
\$200.00 - \$600.00	\$200.00 - \$600.00	\$200.00 - \$600.00	\$200.00 - \$600.00	\$200.00 - \$600.00	\$200.00 - \$600.00	\$200.00 - \$600.00
\$—	\$—	\$—	\$—	\$—	\$—	\$—
\$10.00	\$10.00	\$10.00	\$10.00	\$10.00	\$10.00	\$10.00
\$15.00	\$10.00	\$24.00	\$22.00	\$22.00	\$20.00	\$19.00
\$28.00	\$28.00	\$28.00	\$26.00	\$26.00	\$26.00	\$25.00

SOURCE: Houston Airport System

PASSENGER STATISTICS (in thousands)

DOMESTIC PASSENGERS

	2024	2023	2022
IAH			
Enplanements & Deplanements	35,384	33,449	31,045
Percentage Change	5.8 %	7.7 %	75.9 %
HOU			
Enplanements & Deplanements	13,620	12,656	11,656
Percentage Change	7.6 %	8.6 %	50.6 %
DOMESTIC TOTAL			
Enplanements & Deplanements	49,004	46,106	42,702
Percentage Change	6.3 %	8.0 %	68.2 %

INTERNATIONAL PASSENGERS

	2024	2023	2022
IAH			
Enplanements & Deplanements	12,012	10,688	8,436
Percentage Change	12.4 %	26.7 %	116.8 %
HOU			
Enplanements & Deplanements	995	976	843
Percentage Change	1.9 %	15.8 %	100.2 %
INTERNATIONAL TOTAL			
Enplanements & Deplanements	13,007	11,664	9,279
Percentage Change	11.5 %	25.7 %	115.1 %

TOTAL PASSENGERS

	2024	2023	2022
HAS PASSENGERS GRAND TOTAL			
Enplanements & Deplanements	62,011	57,769	51,981
Percentage Change	7.3 %	11.1 %	75.0 %

Information presented is based on the most current statistical data available; numbers from prior years are subject to change.

SOURCE: Houston Airport System

PASSENGER STATISTICS (in thousands), continued

2021	2020	2019	2018	2017	2016	2015
17,645 (29.6)%	25,068 (26.2)%	33,972 9.2 %	31,102 1.0 %	30,809 (3.6)%	31,959 0.0 %	31,968 3.7 %
7,738 (22.6)%	9,998 (26.6)%	13,629 5.9 %	12,864 3.5 %	12,423 1.8 %	12,209 3.1 %	11,837 2.0 %
25,383 (27.6)%	35,066 (26.3)%	47,601 8.3 %	43,967 1.7 %	43,232 (2.1)%	44,168 0.8 %	43,805 3.2 %

2021	2020	2019	2018	2017	2016	2015
3,892 (51.2)%	7,969 (27.2)%	10,939 5.1 %	10,404 (2.4)%	10,662 (2.2)%	10,904 8.8 %	10,018 5.8 %
421 (28.8)%	591 (38.8)%	965 0.8 %	957 11.3 %	860 65.7 %	519 12875.0 %	4 100.0 %
4,313 (49.6)%	8,560 (28.1)%	11,904 4.8 %	11,361 (1.4)%	11,522 0.9 %	11,423 14.0 %	10,022 5.8 %

2021	2020	2019	2018	2017	2016	2015
29,696 (31.9)%	43,626 (26.7)%	59,505 7.6 %	55,327 1.0 %	54,754 (1.5)%	55,591 3.3 %	53,826 3.7 %

SOURCE: Houston Airport System

PASSENGER STATISTICS BY CARRIER

CARRIER	MAJOR AIRLINE MARKET SHARE									
	FY2024	%	FY2023	%	FY2022	%	FY2021	%	FY2020	%
United Airlines	34,152,771	55.1 %	31,959,131	55.3 %	29,357,278	56.5 %	15,894,776	53.5 %	25,081,324	57.5 %
Southwest	14,865,524	24.0 %	13,915,118	24.1 %	12,787,950	24.6 %	7,829,259	26.4 %	9,994,165	22.9 %
American Airlines	2,549,058	4.1 %	2,388,344	4.1 %	2,392,419	4.6 %	1,511,037	5.1 %	2,090,353	4.8 %
Spirit Airlines	3,027,549	4.9 %	2,948,481	5.1 %	2,477,109	4.8 %	1,869,558	6.3 %	1,948,341	4.5 %
Delta Airlines	2,334,257	3.8 %	2,196,412	3.8 %	1,993,556	3.8 %	1,050,260	3.5 %	1,567,170	3.6 %
Frontier Airlines	813,109	1.3 %	654,869	1.1 %	347,903	0.7 %	314,269	1.1 %	297,303	0.7 %
Air Canada	355,192	0.6 %	250,713	0.4 %	134,785	0.3 %	12,833	0.0 %	231,407	0.5 %
Lufthansa	189,604	0.3 %	198,582	0.3 %	150,884	0.3 %	52,200	0.2 %	186,610	0.4 %
AeroMéxico	261,855	0.4 %	233,693	0.4 %	285,925	0.6 %	160,195	0.5 %	116,243	0.3 %
Emirates	264,906	0.4 %	227,113	0.4 %	130,832	0.3 %	53,558	0.2 %	177,930	0.4 %
Other Airlines	3,196,750	5.1 %	2,796,825	5.0 %	1,922,092	3.5 %	947,648	3.2 %	1,935,494	4.4 %
	62,010,575	100.0 %	57,769,281	100.0 %	51,980,733	100.0 %	29,695,593	100.0 %	43,626,340	100.0 %

*FY2022 was adjusted

CARRIER	FY2019	%	FY2018	%	FY2017	%	FY2016	%	FY2015	%
United Airlines	34,793,301	58.5 %	32,094,388	58.0 %	32,130,930	58.7 %	33,251,479	59.8 %	33,603,263	62.4 %
Southwest	13,674,536	23.0 %	12,893,987	23.3 %	12,344,834	22.5 %	11,791,308	21.2 %	10,886,616	20.2 %
American Airlines	2,774,961	4.7 %	2,592,345	4.7 %	2,542,485	4.6 %	2,951,244	5.3 %	3,057,991	5.7 %
Spirit Airlines	2,426,727	4.1 %	2,144,740	3.9 %	1,889,818	3.5 %	1,896,577	3.4 %	1,192,125	2.2 %
Delta Airlines	2,024,867	3.4 %	1,963,878	3.5 %	1,922,778	3.5 %	1,889,715	3.4 %	1,897,776	3.5 %
Frontier Airlines	192,057	0.3 %	285,337	0.5 %	421,754	0.8 %	494,804	0.9 %	307,506	0.6 %
Air Canada	329,540	0.6 %	349,571	0.6 %	353,721	0.6 %	293,193	0.5 %	278,194	0.5 %
Lufthansa	290,560	0.5 %	279,421	0.5 %	291,713	0.5 %	278,409	0.5 %	281,261	0.5 %
AeroMéxico	142,906	0.2 %	155,258	0.3 %	255,782	0.5 %	255,215	0.5 %	274,145	0.5 %
Emirates	261,321	0.4 %	207,496	0.4 %	202,812	0.4 %	253,140	0.5 %	221,455	0.4 %
Other Airlines	2,594,317	4.3 %	2,360,909	4.3 %	2,397,371	4.4 %	2,235,912	4.0 %	1,826,121	3.5 %
	59,505,093	100.0 %	55,327,330	100.0 %	54,753,998	100.0 %	55,590,996	100.0 %	53,826,453	100.0 %

Information presented is based on the most current statistical data available; numbers from prior years are subject to change.

SOURCE: Houston Airport System

CARRIERS BY AIRPORT

AS OF JUNE 30, 2024

IAH			HOU		
Mainline Carriers	Regional Carriers	Cargo Carriers	Mainline Carriers	Regional Carriers	Cargo Carriers
AeroMéxico	Commute Air	Air Transport International	Allegiant Air	Envoy Air	
Air Canada	Envoy Air	Atlas Air	Avelo Airlines	PSA Airlines	
Air France	Jazz Air	C.A.L. Cargo/Challenge Airlines	American Airlines	SkyWest Airlines	
Air New Zealand	Mesa Airlines	Cargolux	Delta Air Lines		
Alaska Airlines	Republic Airlines	Cathay Cargo	Frontier Airlines		
All Nippon Airways	SkyWest Airlines	DHL	Southwest Airlines		
American Airlines		Emirates SkyCargo	Sun Country Airlines		
Avianca S.A.		Federal Express			
British Airways		Lufthansa Cargo			
Delta Air Lines		National Airlines			
Emirates		Qatar Airways Cargo			
EVA Air		Silk Way West Airlines			
Frontier Airlines		Turkish Cargo			
JetBlue Airways		UPS			
KLM Royal Dutch Airlines					
Lufthansa					
Qatar Airways					
Singapore Airlines					
Southwest Airlines					
Spirit Airlines					
Sun Country Airlines					
Turkish Airlines					
United Airlines					
VivaAerobus					
Volaris					
Volaris El Salvador					
WestJet					

SOURCE: Houston Airport System

ORIGINATING PASSENGER ENPLANEMENTS

IAH

	2024	2023	2022	2021	2020
Originating Enplanements	14,702,201	13,595,791	11,510,410	6,416,622	9,274,821
Connecting Enplanements	9,015,897	8,525,018	8,301,901	4,444,726	7,252,407
Total Enplaned Passengers	23,718,098	22,120,809	19,812,311	10,861,348	16,527,228
Originating Enplanement Percentage	62.0%	61.5%	58.1%	59.1%	56.1%

HOU

Originating Enplanements	4,528,428	4,246,684	3,834,198	2,579,889	3,656,831
Connecting Enplanements	2,766,044	2,577,525	2,433,507	1,527,872	1,644,721
Total Enplaned Passengers	7,294,472	6,824,209	6,267,705	4,107,761	5,301,552
Originating Enplanement Percentage	62.1%	62.2%	61.2%	62.8%	69.0%

HOUSTON AIRPORT SYSTEM

Originating Enplanements	19,230,629	17,842,475	15,344,608	8,996,511	12,931,652
Connecting Enplanements	11,781,941	11,102,543	10,735,408	5,972,598	8,897,128
Total Enplaned Passengers	31,012,570	28,945,018	26,080,016	14,969,109	21,828,780
Originating Enplanement Percentage	62.0%	61.6%	58.8%	60.1%	59.2%

IAH

	2019	2018	2017	2016	2015
Originating Enplanements	12,410,800	11,332,305	11,127,432	11,130,370	10,453,670
Connecting Enplanements	10,067,653	9,443,423	9,602,708	10,301,326	10,504,885
Total Enplaned Passengers	22,478,453	20,775,728	20,730,140	21,431,696	20,958,555
Originating Enplanement Percentage	55.2%	54.5%	53.7%	51.9%	49.9%

HOU

Originating Enplanements	4,996,510	4,829,823	4,852,811	4,695,633	4,271,166
Connecting Enplanements	2,332,635	2,107,238	1,807,446	1,687,702	1,674,247
Total Enplaned Passengers	7,329,145	6,937,061	6,660,257	6,383,335	5,945,413
Originating Enplanement Percentage	68.2%	69.6%	72.9%	73.6%	71.8%

HOUSTON AIRPORT SYSTEM

Originating Enplanements	17,407,310	16,162,128	15,980,243	15,826,003	14,724,836
Connecting Enplanements	12,400,288	11,550,661	11,410,154	11,989,028	12,179,132
Total Enplaned Passengers	29,807,598	27,712,789	27,390,397	27,815,031	26,903,968
Originating Enplanement Percentage	58.4%	58.3%	58.3%	56.9%	54.7%

Information presented is based on the most current statistical data available; numbers from prior years are subject to change.

SOURCE: Houston Airport System

AIRCRAFT OPERATIONS, LANDING WEIGHT AND CARGO ACTIVITY**AIRCRAFT OPERATIONS**

(in thousands)

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total	734	690	691	512	624	752	735	760	787	816
Increase (Decrease)	44	(1)	179	(112)	(128)	17	(25)	(27)	(29)	5
Percentage Change	6.38 %	(0.14)%	34.96 %	(17.95)%	(17.02)%	2.31 %	(3.29)%	(3.43)%	(3.55)%	0.62 %

AIRCRAFT LANDED WEIGHT

(in million pounds)

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total	38,761	35,885	33,863	23,464	30,346	37,339	34,828	34,648	35,519	34,969
Increase (Decrease)	2,876	2,022	10,399	(6,882)	(6,993)	2,511	180	(871)	550	1,088
Percentage Change	8.01 %	5.97 %	44.32 %	(22.68)%	(18.73)%	7.21 %	0.52 %	(2.45)%	1.57 %	3.21 %

CARGO ACTIVITY

(in metric tons)

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Domestic Freight	341,892	328,285	321,056	309,270	285,135	267,630	231,670	209,345	195,644	192,331
International Freight	197,790	191,233	212,883	153,552	199,241	243,594	234,384	224,226	205,361	252,876
Mail	7,896	19,445	26,760	21,197	19,857	23,413	23,790	24,983	25,713	30,026
Total Cargo	547,578	538,963	560,699	484,019	504,233	534,637	489,844	458,554	426,718	475,233
Year-over-Year Change	1.6 %	(3.9)%	15.8 %	(4.0)%	(5.7)%	9.1 %	6.8 %	7.5 %	(10.2)%	6.4 %

*FY2021 was adjusted

Information presented is based on the most current statistical data available; numbers from prior years are subject to change.

SOURCE: Houston Airport System

PERFORMANCE MEASURES

PERFORMANCE MEASURES	2024	2023	2022
Revenue per Enplaned Passenger	28.44	27.08	28.32
Maintenance and Operations Expenses per Enplaned Passenger	14.10	13.85	12.12
Debt Service per Enplaned Passenger	7.82	7.66	6.75
Outstanding Debt per Enplaned Passenger (1)	82.31	85.52	91.92
Intercontinental Budgeted Airline Cost per Est. Enplaned Passenger (2)	11.49	10.06	15.70
Intercontinental Actual Airline Cost per Enplaned Passenger (2)	10.36	10.71	10.47
Hobby Budgeted Airline Cost per Est. Enplaned Passenger (2)	8.75	8.39	10.16
Hobby Actual Airline Cost per Enplaned Passenger (2)	8.38	8.09	8.72

(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 estimate of 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.

SOURCE: Houston Airport System

PERFORMANCE MEASURES, continued

2021	2020	2019	2018	2017	2016	2015
39.40	28.69	22.56	23.25	22.59	22.40	22.10
21.28	16.97	11.32	12.09	9.29	11.34	10.65
11.31	8.83	6.33	6.77	7.06	6.69	6.54
154.58	94.60	69.32	80.26	84.43	86.41	86.31
19.28	10.48	11.57	11.38	11.31	10.94	11.28
14.50	14.19	10.48	11.39	11.08	10.62	10.56
13.92	6.44	6.52	6.22	6.48	6.76	6.99
9.58	9.21	6.64	6.40	6.15	7.15	6.43

SOURCE: Houston Airport System

CASH AVAILABLE BY DAYS FUNDED (in thousands)

	2024	2023	2022
Airport System Revenue Fund (1) (2)	\$ 194,282	\$ 107,903	\$ 105,775
CARES Act/CRRSAA/ARPA Grants	18,630	5,592	17,257
Operating & Maintenance Reserve	65,566	58,821	58,820
Renewal & Replacement Fund (3)	9,747	14,765	(601)
Airport Improvement Fund (3)	201,066	271,805	304,805
Total cash available for operations	\$ 489,291	\$ 458,886	\$ 486,056
Maintenance and operating expense (4) (5)	\$ 344,346	\$ 315,487	\$ 255,377
Days in fiscal year	366	365	365
Daily cash requirement	\$ 941	\$ 864	\$ 700
Days funded	520	531	694
TOTAL AIRPORT SYSTEM CASH AND INVESTMENTS	\$ 1,897,970	\$ 1,925,547	\$ 1,907,143

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

(4) Excludes capital asset impairments and retirements, and expense incurred on cancelled capital projects. Includes interest expense for the Series 2005 pension obligation bonds and the debt service on the note payable to Southwest Airlines.

(5) Maintenance and operating expense funded by cash available for operations decreased by \$60.2 million between Fiscal Year 2017 and Fiscal Year 2016, 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 June 30, 2017 would be 557.

* Fiscal Year 2019 maintenance and operating expenses is updated due to allowable exclusions in the definition of maintenance and operating expense in the Master Bond Ordinance

** Fiscal Year 2019 daily cash requirement and days funded are updated accordingly.

SOURCE: Houston Airport System

CASH AVAILABLE BY DAYS FUNDED (in thousands), continued

2021	2020	2019	2018	2017	2016	2015
\$ 20,070	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
54,314	—	—	—	—	—	—
55,845	55,845	55,845	52,686	51,807	51,615	50,754
15,628	(15,378)	18,770	11,483	10,514	10,001	10,011
330,419	384,169	410,795	444,464	417,930	449,768	396,631
\$ 476,276	\$ 424,636	\$ 485,410	\$ 508,633	\$ 480,251	\$ 511,384	\$ 457,396
\$ 251,830	\$ 314,034	\$ 326,889	\$ 326,889	\$ 314,715	\$ 283,557	\$ 268,745
365	366	365	365	365	365	365
\$ 690	\$ 858	\$ 896	\$ 896	\$ 862	\$ 777	\$ 736
690	495	542	568	557	658	621
\$ 1,727,514	\$ 1,454,903	\$ 1,456,679	\$ 1,362,459	\$ 1,259,622	\$ 1,248,346	\$ 1,222,307

SOURCE: Houston Airport System

AIRPORT INFORMATION

	IAH		HOU		EFD (1)	
LOCATION	15 miles N of downtown Houston		8 miles SE of downtown Houston		15 miles SE of downtown Houston	
AREA	10.11		1.50		1.94	
ELEVATION	96 MSL		46 MSL		33 MSL	
AIRPORT CODE	IAH		HOU		EFD	
RUNWAYS	8R-26L	9,402x150 ft	13L-31R	5,148x100 ft	17L-35R	4,609x75 ft
	9-27	10,000x150 ft	13R-31L	7,602x150 ft	17R-35L	9,001x150 ft
	15L-33R	12,001x150 ft	4-22	7,602x150 ft	4-22	8,001x150 ft
	15R-33L	10,000x150 ft				
	8L-26R	9,000x150 ft				
TERMINAL SPACE	Airlines	3,219,284 sf	Airlines	530,043 sf	n/a	
	Tenants	201,134 sf	Tenants	63,672 sf		
	Public/Common	676,806 sf	Public/Common	152,648 sf		
	Mechanical	305,960 sf	Mechanical	115,815 sf		
	Other	218,959 sf	Other	47,615 sf		
	Total	4,622,143 sf	Total	909,793 sf		
NUMBER OF GATES/HARDSTAND POSITIONS	127/7		30/n/a		n/a	
COMMERCIAL AIRLINES APRON	3,878,137 sf		815,239 sf		n/a	
RENTAL CAR FACILITY	11 Rental Car Agencies		12 Rental Car Agencies		1 Rental Car Agency	
PARKING SPACES	S-T Hourly	10,532	S-T Hourly	4,609		
	L-T ECO	7,396	L-T ECO	958		
	Employee	3,035	Employee	1,879		
	Total	20,963	Total	7,446		
					Employee	23
					Total	23

(1) No scheduled commercial flights

SOURCE: Houston Airport System

PRINCIPAL EMPLOYERS

PRINCIPAL EMPLOYERS

Last Ten Years (1)

(Listed alphabetically)

2024	2023	2022	2021	2020
AT&T	Amazon	CHI St. Luke's Health	ExxonMobil	ExxonMobil
Baker Hughes	CHI St. Luke's Health	ExxonMobil	HEB	HEB
CenterPoint Energy	ExxonMobil	HCA Houston Healthcare	HCA Houston Healthcare	HCA Houston Healthcare
ConocoPhillips	HCA Houston Healthcare	HEB	Houston Methodist	Houston Methodist
Enterprise Products Partners	HEB	Houston Methodist	Kroger	Kroger
EOG Resources	Houston Methodist	Kroger	Memorial Hermann Health System	Memorial Hermann Health System
ExxonMobil	Kroger	Memorial Hermann Health System	Schlumberger	Shell Oil Company
Group 1 Automotive	Memorial Hermann Health System	Schlumberger	United Airlines	United Airlines
Halliburton	Schlumberger	UT MD Anderson Cancer Center	UT MD Anderson Cancer Center	UT MD Anderson Cancer Center
Kinder Morgan	Walmart	Walmart	Walmart	Walmart
2019	2018	2017	2016	2015
HEB	Exxon Mobil	HEB	ExxonMobil	Cameron International
Houston Methodist	HEB	Houston Methodist	Houston Methodist Hospital System	Exxon Mobil
Kroger	Houston Methodist	Kroger Company	Kroger Company	HEB
McDonald's Corp	Kroger Company	McDonald's Corp	Memorial Hermann Health System	Houston Methodist
Memorial Hermann Health System	McDonald's Corp	Memorial Hermann Health System	National Oilwell Varco	Kroger Company
Schlumberger	Memorial Hermann Health System	Schlumberger Limited	Schlumberger Limited	Memorial Hermann Health System
Shell Oil Company	Texas Children Hospital	Shell Oil Company	Shell Oil Company	National Oilwell Varco
United Airlines	United Airlines	United Airlines	United Airlines	Shell Oil Company
UT MD Anderson Cancer Center	UT MD Anderson Cancer Center	UT MD Anderson Cancer Center	UT MD Anderson Cancer Center	United Airlines
Walmart	Walmart	Walmart	UTMB Health	UT MD Anderson Cancer Center

(1) Starting fiscal year 2022, information such as the number of employees or the employers' percentage of total employment is not available for disclosure. Prior year information has been modified to the format consistent with current fiscal year for presentation purposes.

SOURCE: Greater Houston Partnership

SERVICE AREA AND SERVICE AREA POPULATION/CAREER SERVICE EMPLOYEES

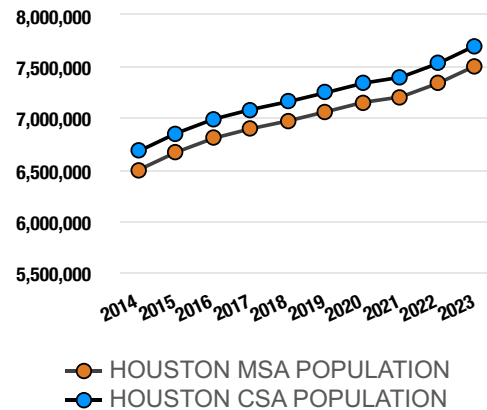
The primary service region for the Houston Airport System, the ten-county Houston-Pasadena-The Woodlands Metropolitan Statistical Area (MSA), has a diverse economic base and is recognized as a major national and international energy, financial, medical, transportation, retail, and distribution center. The MSA extends out to four additional counties of Matagorda, Walker, Washington, and Wharton for the broader Houston-Pasadena Combined Statistical Area (CSA). According to the U.S. Bureau of the Census, the population estimate was 7.5 million for the MSA and 7.7 million for the CSA as of July 1, 2023.

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

As of July 1,	Houston MSA Population	Houston CSA Population
2014	6,499,375	6,681,368
2015	6,670,803	6,854,564
2016	6,806,315	6,991,576
2017	6,898,912	7,085,197
2018	6,974,948	7,161,568
2019	7,063,400	7,249,052
2020	7,154,478	7,340,823
2021	7,206,841	7,398,774
2022	7,340,118	7,533,095
2023	7,510,253	7,706,626

HOUSTON POPULATION



In 2023, San Jacinto county was added to the Houston MSA and CSA populations. Additionally, Trinity county was removed from the Houston CSA population.

Career Service Employees Last Ten Years

Fiscal Year	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total Employees	1,299	1,197	1,127	1,147	1,110	1,091	1,113	1,141	1,191	1,234

SOURCE: Houston Airport System

DEMOGRAPHIC AND ECONOMIC

Fiscal Year	Population (1)(2)	Personal Income (in thousands) (3)	Per Capita Income (3)	Median Age (4)	Education Level in Years of Formal Schooling (4)	School Enrollment (4)	Average Unemployment Rate (percentage) (5)
2015	2,238,653	\$366,978	\$55,013	32.4	1,336,739.0	1,829,867	—
2016	2,283,616	\$351,012	\$51,572	32.6	1,384,097.0	1,849,065	10.0
2017	2,306,360	\$377,978	\$54,788	32.6	1,433,072.0	1,874,344	10.0
2018	2,313,079	\$403,674	\$57,875	32.7	1,490,351.0	1,893,312	—
2019	2,314,478	\$415,920	\$58,884	32.9	1,522,732.0	1,932,292	—
2020	2,315,720	\$428,501	\$59,893	32.9	1,508,624.0	1,915,864	10.0
2021	2,300,027	\$467,267	\$64,837	33.4	1,675,719.0	1,920,741	10.0
2022	2,288,250	\$501,653	\$68,344	35.3	1,715,458.0	1,911,456	—
2023	2,302,878	Not available	Not available	35.4	1,763,563.0	1,943,808	—
2024	2,314,157	Not available	Not available	35.7	Not available	2,005,380	—

(1) **Source:** U.S. Census Bureau - QuickFacts: Houston, TX; Population estimates, July 1, 2023

(2) **Source:** U.S. Census Bureau - Annual Estimates of the Resident Population for Incorporated Places of 20,000 or More: estimate as of July 1, 2022, and July 1, 2023, for fiscal years 2023 and 2024, respectively.

(3) **Source:** U.S. Department of Commerce, Bureau of Economic Analysis. Amounts as of year ended December 31 for the ten-county Metropolitan Statistical Area (MSA). Information for the years ended December 31, 2023

(4) **Source:** U.S. Census Bureau - American Community Survey, Houston-Pasadena-The Woodlands, TX Metro Area

(5) **Source:** U.S. Bureau of Labor Statistics. Information as of June each year for the ten-county Metropolitan Statistical Area.

Information presented is based on the most current statistical data available; numbers from prior years are subject to change.

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COMPLIANCE







**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 for Passenger Facility Charge Program

Opinion

We have audited the City of Houston, Texas' ("the City") compliance with the types of compliance requirements described in the Passenger Facility Charge Audit PFC Guide for Public Agencies (PFC Guide), issued by the Federal Aviation Administration (FAA), applicable to the Houston Airport System (HAS) Passenger Facility Charge (PFC) Program for the year ended June 30, 2024.

In our opinion, HAS complied, in all material respects, with the compliance requirements referred to above that are applicable to the HAS PFC Program for the year ended June 30, 2024.

Basis for Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the PFC Guide issued by the FAA. Our responsibilities under those standards and the PFC Guide are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the HAS and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit does not provide a legal determination of the HAS's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

The HAS's management is responsible for compliance with the requirements referred to above, and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the HAS's PFC Program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the HAS's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, Government Auditing Standards, and the PFC Guide will always detect material noncompliance when it exists.



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The risk of not detecting material noncompliance resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the HAS's compliance with the requirements of the government program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the PFC Guide, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the HAS's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the HAS's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the PFC Guide, but not for the purpose of expressing an opinion on the effectiveness of the HAS's internal. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 detect and correct, noncompliance 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 compliance requirement 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 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.



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Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 PFC Guide issued by the FAA. Accordingly, this report is not suitable for any other purpose.

Report on Passenger Facility Charge Revenues and Disbursements Schedules Required by the PFC Guide

We have audited the basic financial statements of the City, as of and for the year ended June 30, 2024, and have issued our report thereon dated November 18, 2024, 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 PFC 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 18, 2024

PASSENGER FACILITY CHARGE COMPLIANCE
**IAH Revenues and Disbursements
FOR THE YEAR ENDED JUNE 30, 2024**

	FY 2023 Program Total	Quarter 1 Jul-Sept	Quarter 2 Oct-Dec	Quarter 3 Jan-Mar	Quarter 4 Apr-Jun	FY 2024 Total	FY 2024 Program Total
REVENUES							
Collections (Note 3)	\$ 926,584,455	15,960,460	22,528,565	20,715,385	24,638,907	83,843,317	\$ 1,010,427,772
Other revenue-insurance (Note 3)	2,059,629	—	—	—	—	—	2,059,629
Interest	27,116,137	1,465,512	1,651,167	1,697,854	2,147,337	6,961,870	34,078,007
Total Revenues	955,760,221	17,425,972	24,179,732	22,413,239	26,786,244	90,805,187	1,046,565,408
DISBURSEMENTS							
1.01 Automated People Mover System	\$ 261,829,987	—	2,620,543	—	13,626,831	16,247,374	\$ 278,077,361
1.02 Terminal B Expansion & Improvements	128,886,799	—	584,516	—	1,450,241	2,034,757	130,921,556
1.03 Central FIS Facility	138,790,777	—	1,862,679	—	11,325,437	13,188,116	151,978,893
1.04 North Parallel Runway 8L/26R	43,628,995	—	527,468	—	3,483,080	4,010,548	47,639,543
1.05 Administrative Costs	112,917	—	—	—	—	—	112,917
1.06 Central Plant HVAC Upgrades	19,972,005	—	329,137	—	685,790	1,014,927	20,986,932
1.07 Terminal A/B South Taxiways	19,929,094	—	351,147	—	380,072	731,219	20,660,313
Total Disbursements	613,150,574	—	6,275,490	—	30,951,451	37,226,941	650,377,515
2.01 Mickey Leland International Terminal (MLIT), Rehabilitation and Expansion	75,432,498	20,384,359	29,606,494	15,977,072	10,401,269	76,369,194	\$ 151,801,692
2.02 Federal Inspection Services (FIS) Rehabilitation and Expansion	22,610,457	—	3,398,747	—	6,603,521	10,002,268	32,612,725
2.03 Terminal Facilities Utilities (Enabling Utilities Landside)	505,223	—	35,463	—	458,274	493,737	998,960
2.04 IAH Terminal Roadway Reconstruction	—	—	—	—	651,011	651,011	651,011
2.05 Terminal A Baggage Handling System	566,946	—	116,332	—	483,617	599,949	1,166,895
2.06 IAH Roadway Signage Replacement	14,748,802	—	1,855	—	31,247	33,102	14,781,904
2.07 Terminal A Restroom Rehabilitation	—	—	—	—	—	—	—
2.08 Terminal D Restroom Rehabilitation	—	—	—	—	—	—	—
Total Disbursements	113,863,926	20,384,359	33,158,891	15,977,072	18,628,939	88,149,261	202,013,187
Net PFC Revenues	\$ 228,745,721	(2,958,387)	(15,254,649)	6,436,167	(22,794,146)	(34,571,015)	\$ 194,174,706
PFC Account Balance	\$ 228,745,721	225,787,334	210,532,685	216,968,852	194,174,706	194,174,706	\$ 194,174,706

HOU Revenues and Disbursements
FOR THE YEAR ENDED JUNE 30, 2024

PASSENGER FACILITY CHARGE COMPLIANCE

	FY 2023 Program Total	Quarter 1 Jul-Sept	Quarter 2 Oct-Dec	Quarter 3 Jan-Mar	Quarter 4 Apr-Jun	FY 2024 Total	FY 2024 Program Total
REVENUES							
Collections (Note 3)	\$ 287,132,014	6,508,994	6,033,799	6,299,507	6,946,233	25,788,533	\$ 312,920,547
Other revenue-insurance (Note 3)	755,196	—	—	—	—	—	755,196
Interest	6,381,198	248,555	330,874	362,963	491,744	1,434,136	7,815,334
Total Revenues	294,268,408	6,757,549	6,364,673	6,662,470	7,437,977	27,222,669	321,491,077
DISBURSEMENTS							
1.01 Rehab Runways	3,966,417	—	4,843	—	65,624	70,467	4,036,884
1.02 Rehab & Modification to Taxiways	15,890,509	—	14,318	—	193,998	208,316	16,098,825
1.03 Expand Taxiway Electrical System	3,220,026	—	—	—	—	—	3,220,026
1.04 Arpt Drainage & Stormwater Improvs	5,953,585	—	58,143	—	388,617	446,760	6,400,345
1.05 Acquire Runway 17 Protection Zone	711,142	—	4,649	—	22,292	26,941	738,083
1.06 Airfield Lighting & Control	7,662,189	—	18,515	—	105,457	123,972	7,786,161
1.07 Central Terminal Expansion	33,528,778	—	109,638	—	694,755	804,393	34,333,171
1.08 Conduct Master Plan	393,948	—	—	—	—	—	393,948
1.09 Central Concourse Equipment	14,333,457	—	76,050	—	154,672	230,722	14,564,179
1.10 Apron Reconstruction	4,548,303	—	97,753	—	178,058	275,811	4,824,114
1.11 Taxiway & Taxilane Reconstruction	9,521,360	—	204,635	—	372,744	577,379	10,098,739
1.12 Overlay Runway 12R/30L	5,537,544	—	25,565	—	42,188	67,753	5,605,297
1.13 Perimeter Fencing & Obstruction	1,527,990	—	979	—	1,614	2,593	1,530,583
1.14 Access Controls & Telecom	1,032,256	—	28,807	—	47,538	76,345	1,108,601
1.15 Environmental Impact Statement	333,011	—	2,324	—	21,098	23,422	356,433
1.16 Land Acquisition RW4 RPZ	625,542	—	—	—	—	—	625,542
1.17 Drainage/Stormwater Plan	1,378,486	—	371	—	5,026	5,397	1,383,883
1.18 PFC Consulting, Admin, Audit	97,621	—	—	—	—	—	97,621
Subtotal HOU 1.00 Projects	110,262,164	—	646,590	—	2,293,681	2,940,271	113,202,435
2.01 International Terminal Expansion	33,465,154	—	1,948,344	—	4,498,875	6,447,219	39,912,373
2.02 International Terminal - Apron	5,400,396	—	314,412	—	726,000	1,040,412	6,440,808
2.03 International Terminal - Roadways	7,040,180	—	257,933	—	461,029	718,962	7,759,142
2.04 Elevated passenger walkway	1,674,413	—	84,450	—	150,491	234,941	1,909,354
2.05 Satellite utilities plant - Phase I	6,213,501	—	277,039	—	639,971	917,010	7,130,511
2.06 Passenger walkway canopy	—	—	—	—	—	—	—
2.07 Central concourse expansion	86,699,196	—	1,967,156	—	5,154,201	7,121,357	93,820,553
2.08 Explosive detection baggage equip.	5,295,282	—	—	—	—	—	5,295,282
2.09 Partial reconstruction R/W 4-22	2,478,035	—	39,890	—	200,549	240,439	2,718,474
2.10 Partial reconstruction Taxiway C	628,235	—	10,113	—	50,843	60,956	689,191
2.11 Partial reconstruct NE perimeter rd	383,923	—	6,180	—	31,071	37,251	421,174
2.12 Air units - central concourse	—	—	—	—	—	—	—
Subtotal HOU 2.00 Projects	149,278,315	—	4,905,517	—	11,913,030	16,818,547	166,096,862
Total Disbursements	259,540,479	—	5,552,107	—	14,206,711	19,758,818	279,299,297
Net PFC Revenues	\$ 34,727,929	6,757,549	812,566	6,662,470	(6,768,734)	7,463,851	\$ 42,191,780
PFC Account Balance	\$ 34,727,929	41,485,478	42,298,044	48,960,514	42,191,780	42,191,780	\$ 42,191,780

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 Annual Comprehensive 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:

FOR THE YEAR ENDED JUNE 30, 2024**Passenger Facility Charges**

	HOU	IAH	HAS Total
Amounts per Statement of Revenues, Expenses and Changes in Net Position - accrual basis	\$ 25,669,391	\$ 91,737,827	\$ 117,407,218
Add: prior year accrual	2,712,396	7,655,291	10,367,687
Less: current year accrual	(2,593,254)	(15,549,801)	(18,143,055)
Collection amounts per Passenger Facility Charge Revenue and Disbursement Schedule - cash basis	<u>\$ 25,788,533</u>	<u>\$ 83,843,317</u>	<u>\$ 109,631,850</u>

FOR THE YEAR ENDED JUNE 30, 2024

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.	<u>X</u> Yes <u> </u> No
4.	PFC Revenues and Interest are accurately reported.	<u>X</u> Yes <u> </u> No
5.	The Public Agency maintains a separate financial accounting record for each application.	<u>X</u> Yes <u> </u> 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.	<u>X</u> Yes <u> </u> No
7.	Monthly carrier receipts were reconciled with quarterly carrier reports.	<u>X</u> Yes <u> </u> No
8.	PFC revenues were maintained in a separate interest-bearing capital account or commingled only with other interest-bearing airport capital funds.	<u>X</u> Yes <u> </u> No
9.	Serving carriers were notified of PFC program actions/changes approved by the FAA.	<u>X</u> Yes <u> </u> No
10.	Quarterly Reports were transmitted (or available via website) to remitting carriers.	<u>X</u> Yes <u> </u> No
11.	The Public Agency is in compliance with Assurances 5, 6, 7 and 8.	<u>X</u> Yes <u> </u> No
12.	Project design and implementation are carried out in accordance with Assurance 9.	<u>X</u> Yes <u> </u> No
13.	Program administration is carried out in accordance with Assurance 10.	<u>X</u> Yes <u> </u> 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.	<u>X</u> Yes <u> </u> No

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 reported



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APPENDIX C-1
GLOSSARY OF TERMS AND EXCERPTS OF THE MASTER ORDINANCE

Glossary of Terms

“Act” means, collectively, Chapters 1201-1205, 1207, 1371, and 1503, Texas Government Code, as amended.

“Additional Senior Lien Bonds” means the additional senior lien revenue bonds and obligations permitted to be issued by the City pursuant to Section 5.01 of the Master Ordinance.

“Additional Senior Lien Notes” means the additional senior lien revenue notes permitted to be issued by the City pursuant to Section 5.01 of the Master Ordinance.

“Additional Senior Lien Obligations” means Additional Senior Lien Bonds and/or Additional Senior Lien Notes.

“Additional Subordinate Lien Bonds” means the additional subordinate lien revenue bonds, notes and obligations permitted to be issued by the City pursuant to Section 5.01 of the Master Ordinance.

“Airports Improvement Fund” means the fund described in Section 3.14 of the Master Ordinance.

“Airport Management Consultant” means a nationally recognized independent firm, person or corporation having a widely known and favorable reputation for special skill, knowledge and experience in methods of development, operation, financing and management of airports of approximately the same size as the properties constituting the Airport System.

“Airport Obligations” means any or all of the Bonds and Inferior Lien Bonds.

“Airport System” means all airport, heliport and aviation facilities, or any interest therein, now or from time to time hereafter owned, operated or controlled in whole or in part by the City, together with all properties, facilities and services thereof, and all additions, extensions, replacements and improvements thereto, and all services provided or to be provided by the City in connection therewith, but expressly excluding Special Facilities. The Airport System currently includes the present airports of the City, known as “George Bush Intercontinental Airport/Houston,” “William P. Hobby Airport,” and “Ellington Airport” (formerly known as “Ellington Field”).

“Authorized System Purposes” means, collectively, the purposes of establishing, improving, enlarging, extending and repairing the airports of the City or buildings, improvements, landing fields or other facilities or services which are necessary, desirable or convenient for the efficient operation and maintenance of the airports of the City, and acquiring land for the airports of the City, as further described by the Act.

“Aviation Director” means the Director of the Houston Airport System (a department of the City that operates the Airport System), or his successor or person acting in such capacity.

“Bonds” means any or all of the Senior Lien Bonds, Senior Lien Notes, and the Subordinate Lien Bonds, as the context may indicate, including Completion Bonds and Short Term/Demand Obligations.

“Business Day” means any day other than a Saturday, Sunday or other day on which the New York Stock Exchange is closed or on which banks are authorized or required to be closed in any of the City of Houston, Texas, the City of New York, New York, or any other municipality in which the principal office of the applicable Paying Agent/Registrar is located.

“City” means the City of Houston, Texas, and, where appropriate, the City Council thereof, or any successor thereto as the owner and operator of the Airport System.

“Completion Bonds” means each series of Bonds permitted to be issued by the City pursuant to Section 5.03 of the Master Ordinance.

“Credit Agreement” means any agreement between the City and a third party financial institution pursuant to which such third party financial institution issues a letter of credit, municipal bond insurance policy, line of credit, standby bond purchase agreement, surety policy, surety bond or other guarantee for the purpose of enhancing the creditworthiness or liquidity of any of the City’s obligations pursuant to any Airport Obligations or Qualified Hedge Agreements and in consideration for which the City may agree to pay, but solely from Net Revenues as provided herein, (i) periodic payments for the availability of such Credit Agreement and/or (ii) reimbursements or repayments of any amounts advanced under such Credit Agreement, together with interest and other stipulated costs and charges related to such amounts advanced. Obligations of the City pursuant to a Credit Agreement shall be deemed to be, and shall be included within, the Debt Service Requirements for the series of Airport Obligations to which the Credit Agreement relates. Further, obligations of the City to make payments under a Credit Agreement as reimbursements or repayments of amounts paid or advanced under such Credit Agreement for interest on or principal of any Airport Obligations (including interest and other stipulated costs and charges related to such amounts advanced) shall be deemed to be payments of interest on or principal of such Airport Obligations. Each Credit Agreement (and related Credit Agreement Obligations) shall be deemed to be a part of the Airport Obligations of the series to which it relates for the purpose of securing its payment or repayment by the pledge of Net Revenues as provided in Articles III, V and VI of the Master Ordinance. However, unless otherwise provided in any Supplemental Ordinance, issuers of Credit Agreements shall not be treated as Owners of Airport Obligations for purposes of any voting rights to approve amendments or to direct the exercise of any remedies under the Master Ordinance.

“Credit Agreement Obligations” means Airport Obligations held by or on behalf of the provider of a credit or liquidity facility in the form of a credit agreement loan, credit agreement note or other obligation of a provider of a Credit Agreement.

“Debt Service Requirements” means, as of any date of calculation, an amount equal to the sum of the following for any period and with respect to all or any portion of the Airport Obligations:

A. Current interest scheduled to accrue during such period on such Airport Obligations, except to the extent that provision for the payment of such interest has been made by (i) appropriating for such purpose amounts sufficient to provide for the full and timely payment of such interest either from proceeds of Airport Obligations, from interest earned or to be earned thereon, from other Airport System funds other than Net Revenues, or from any combination of such sources and (ii) depositing such amounts (except in the case of interest to be earned, which shall be deposited as received) into a fund or account for capitalized interest, the proceeds of which are required to be transferred as needed into the Senior Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Interest and Sinking Fund or the Inferior Lien Bond Interest and Sinking Fund, as the case may be;

Plus

B. That portion of the principal amount of, or compounded interest on, such Airport Obligations scheduled to be payable on or before the next July 1 (either at maturity, by reason of amortization of bank bonds, or by reason of scheduled mandatory redemptions, but after taking into account all prior optional and mandatory bond redemptions) which would accrue if such principal amount were deemed to accrue daily in equal amounts from the next preceding July 1;

Less

C. In addition to (and without duplicating) the amounts credited under paragraph A. above, any portion or all of the interest on or principal of Airport Obligations which has been irrevocably committed by the City to be paid from other Airport System funds other than Net Revenues, including but not limited to PFC Revenues or Excluded Fee and Charge Revenues;

provided, however, that the following rules shall apply to the computation of Debt Service Requirements on certain series of Short Term/Demand Obligations and on any series of Airport Obligations bearing interest at a floating or variable rate:

(i) For any series of Short Term/Demand Obligations issued pursuant to a commercial paper program or similar program, Debt Service Requirements shall be computed on the assumption that the principal amount shall continuously be refinanced under such program and remain outstanding until the first Fiscal Year for which interest

on such Short Term/Demand Obligations has not been capitalized or otherwise funded or provided for, at which time (which shall not be beyond the term of such program) it shall be assumed that the outstanding principal amount thereof shall be refinanced with a series of Airport Obligations which shall be assumed to be amortized over a period not to exceed 25 years and shall be assumed to be amortized in such a manner that the maximum Debt Service Requirements in any twelve (12) month period shall not exceed 110% of the minimum Debt Service Requirements for any other twelve (12) month period, and shall be assumed to bear interest at a fixed interest rate estimated by the City's financial advisor or underwriter to be the interest rate such series of Airport Obligations would bear if issued on such terms on the date of such estimate;

(ii) For any series of Airport Obligations bearing interest at a variable or adjustable rate or a rate to be negotiated or revised from time to time such that the actual future rate of interest thereon cannot be ascertained at the time of calculation, it shall be assumed that such Airport Obligations will bear interest at the higher of (1) a long-term interest rate estimated by the City's financial advisor or underwriter to be the average rate of interest such Airport Obligations would bear if issued as long-term bonds bearing interest at fixed interest rates to be amortized over 30 years with level debt service or (2) a short-term interest rate calculated as follows: (a) for any series of Airport Obligations then Outstanding, at the greater of (i) the average interest rate derived from the variable or adjustable interest rate formula or computation applicable to, or average interest rate borne by, such series of Airport Obligations during a twelve (12) month period ending within 30 days prior to the date of computation or (ii) the actual interest rate derived from such variable or adjustable interest rate formula or computation, or the actual interest rate payable on such series of Airport Obligations, on the date of such calculation, and (b) for any series of Airport Obligations then proposed to be issued, at an interest rate estimated by the City's financial advisor or underwriter to be the average rate of interest such series of Airport Obligations will bear during the period or periods for which the Debt Service Requirements are being calculated.

Debt Service Requirements shall be calculated on the assumption that no Airport Obligations Outstanding on the date of calculation will cease to be Outstanding except by reason of the payment of scheduled principal maturities or scheduled mandatory redemptions of such Airport Obligations, except as provided above for Short Term/Demand Obligations.

Credit Agreements shall cause Debt Service Requirements to be increased only to the extent of scheduled payments and charges for the availability of the Credit Agreement without regard to any repayment or reimbursement obligations or interest thereon or other stipulated costs or charges related thereto.

Qualified Hedge Agreements shall cause Debt Service Requirements to be (i) increased by the amount of any scheduled payments and charges for the availability of the Qualified Hedge Agreement, (ii) decreased by the amount of any scheduled interest payments on the related Airport Obligations which the City's financial advisor certifies to be substantially hedged pursuant to the Qualified Hedge Agreement, and (iii) increased by the gross payments of the City under the Qualified Hedge Agreement (without regard to netting); provided, however, that any variable or adjustable payment obligation of the City under the Qualified Hedge Agreement shall be deemed to be a fixed rate obligation based upon the provisions contained in paragraph (ii) of the definition of Debt Service Requirements, as certified by the City's financial advisor.

"Excluded Fee and Charge Revenues" means all income and revenues derived from fees and charges imposed by any City ordinance adopted after July 1, 2007 and declared in such ordinance to constitute fees and charges of the kind that will generate Excluded Fee and Charge Revenues. Such Excluded Fee and Charge Revenues may be authorized pursuant to any federal, state or local authority and may include, but not be limited to, any charge or fee relating to providing, enhancing or maintaining security for the Airport System or any fee or charge imposed on any commercial cargo activity of the Airport System.

"Federal Payments" means those funds received by the Airport System from the federal government or any agency thereof as payments for the use of any facilities or services of the Airport System.

"Fiscal Year" means the City's fiscal year as from time to time designated by the City, which is currently July 1 to June 30.

"Funds" means any fund or account established or maintained under the Master Ordinance, including but not limited to the Revenue Fund, the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund and the accounts

created therein, the Subordinate Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Reserve Fund and the accounts created therein, the Inferior Lien Bond Interest and Sinking Fund, the Inferior Lien Bond Reserve Fund and the accounts created therein, the Operation and Maintenance Reserve Fund, the Renewal and Replacement Fund and the Airports Improvement Fund.

“Gross Revenues” means all income and revenues derived directly or indirectly by the City from the operation and use of and otherwise pertaining to the Airport System, or any part thereof, whether resulting from extensions, enlargements, repairs, betterments or other improvements to the Airport System, or otherwise, and includes, except to the extent hereinafter expressly excluded, all revenues received by the City from the Airport System, including, without limitation, all rentals, rates, fees and other charges for the use of the Airport System, or for any service rendered by the City in the operation thereof, interest and other income realized from the investment or deposit of amounts credited to any fund required to be maintained pursuant to the Master Ordinance or any other ordinance authorizing the issuance of Airport Obligations. Gross Revenues expressly exclude:

- (i) proceeds of any Airport Obligations;
- (ii) interest or other investment income derived from Airport Obligation proceeds deposited to the credit of any construction fund, or applied to fund capitalized interest, or interest or investment income required to be retained in the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Reserve Fund, the Inferior Lien Bond Reserve Fund, the Operation and Maintenance Reserve Fund or any escrow fund in order to accumulate therein any amount or balance required to be accumulated or maintained therein pursuant to any ordinance authorizing any series of Airport Obligations;
- (iii) any monies received as grants, appropriations, or gifts, the use of which is limited by the grantor or donor to the construction or acquisition of Airport System facilities, except to the extent any such monies shall be received as payments for the use of the Airport System facilities;
- (iv) any revenues derived from any Special Facilities which are pledged to the payment of Special Facilities Bonds;
- (v) insurance proceeds other than loss of use or business interruption insurance proceeds;
- (vi) the proceeds of any passenger facility charge or other per-passenger charge as may be hereafter authorized under federal law, including, but not limited to, those revenues defined as PFC Revenues;
- (vii) sales and other taxes collected by the Airport System on behalf of the State of Texas and any other taxing entities;
- (viii) Federal Payments received by the Airport System unless the City first receives an opinion from nationally recognized bond counsel to the effect that such payments, if included in Gross Revenues, would not cause the interest on the Airport Obligations to be includable within the gross income of the Owners thereof for federal income tax purposes;
- (ix) the net proceeds received by the City from the disposition of any Airport System property;
- (x) any Excluded Fee and Charge Revenues; and
- (xi) any Taxable Bond Credit Revenues.

“Inferior Lien Bonds” means each series of inferior lien bonds Outstanding from time to time issued pursuant to the Prior Ordinances or any additional Inferior Lien Bonds issued pursuant to a Supplemental Ordinance payable from and secured in whole or in part by a lien on and pledge of Net Revenues junior and subordinate to the lien on Net Revenues securing payment of the Senior Lien Obligations and Subordinate Lien Bonds.

“Net Revenues” means that portion of the Gross Revenues remaining after the deduction of the Operation and Maintenance Expenses.

“Operation and Maintenance Expenses” means all reasonable and necessary current expenses of the City, paid or accrued, of operating, maintaining and repairing the Airport System, including, without limitation, those reasonably allocated City overhead expenses relating to the administration, operation and maintenance of the Airport System; insurance and fidelity bond premiums; payments to pension and other funds and to any self insurance fund not in excess of premiums which would otherwise be required for such insurance; any general and excise taxes or other governmental charges imposed by entities other than the City; costs of contractual and professional services, labor, materials and supplies for current operations, including the costs of such direct City services rendered to the Airport System as are requested from the City by the Airport System and as are reasonably necessary for the operation of the Airport System; costs of issuance of Airport Obligations for the Airport System (except to the extent paid from the proceeds thereof); fiduciary costs; costs of collecting and refunding Gross Revenues; utility costs; any lawful refunds of any Gross Revenues; and all other administrative, general and commercial expenses, but excluding:

- (a) any allowance for depreciation;
- (b) costs of capital improvements;
- (c) reserves for major capital improvements, Airport System operations, maintenance or repair;
- (d) any allowance for redemption of, or payment of interest or premium on, Airport Obligations;
- (e) any liabilities incurred in acquiring or improving properties of the Airport System;
- (f) expenses of lessees under Special Facilities Leases and operation and maintenance expenses pertaining to Special Facilities to the extent they are required to be paid by such lessees pursuant to the terms of the Special Facilities Leases;
- (g) any charges or obligations incurred in connection with any lawful Airport System purpose, including the lease, acquisition, operation or maintenance of any facility or property benefiting the Airport System, provided that the payment of such charges or obligations is expressly agreed by the payee to be payable solely from proceeds of the Airports Improvement Fund;
- (h) liabilities based upon the City’s negligence or other grounds not based on contract; and
- (i) so long as Federal Payments are excluded from Gross Revenues, an amount of expenses that would otherwise constitute Operation and Maintenance Expenses for such period equal to the Federal Payments for such period.

Operation and Maintenance Expenses shall only include those current expenses due or payable within the next 30 days.

“Outstanding” when used with reference to the Senior Lien Bonds, Senior Lien Notes, Subordinate Lien Bonds, or Inferior Lien Bonds, as the case may be, means, as of a particular date, all such bonds or notes theretofore and thereupon delivered except: (a) any such bond or note cancelled by or on behalf of the City at or before said date; (b) any such bond or note defeased pursuant to the defeasance provisions of the ordinance authorizing its issuance, or otherwise defeased as permitted by applicable law; and (c) any such bond or note in lieu of or in substitution for which another bond or note shall have been delivered pursuant to the ordinance authorizing the issuance of such bond or note.

“Owner” or “Registered Owner,” when used with respect to any Airport Obligation, means the person or entity in whose name such bond or note is registered in the register maintained by the paying agent for such series of bonds or notes. Any reference to a particular percentage or proportion of the Owners shall mean the Owners at a particular time of the specified percentage or proportion in aggregate principal amount of all Senior Lien Bonds, Senior Lien Notes, Subordinate Lien Bonds or Inferior Lien Bonds then Outstanding under the Master Ordinance and any Supplemental Ordinance authorizing their issuance.

“PFC Revenues” means, during any Fiscal Year, proceeds of any charges and fees collected by the Airport System, including passenger facility charges collected by the City, pursuant to the authority granted by the Aviation Safety and Capacity Expansion Act of 1990 and 14 CFR Part 158, as amended from time to time, in respect to any component of the Airport System, and interest earnings thereon.

“Prior Ordinances” means City Ordinance Nos: 98-904, 2000-878, 2002-656, 2007-287, 2009-600, 2010-893, 2011-484, 2012-100, 2013-1064 and 2015-1004, pursuant to which the City has previously issued certain bonds, notes and obligations secured by and payable from the Net Revenues.

“Qualified Hedge Agreement” means any agreement between the City and a qualifying financial institution (as described in the following sentence) for the purpose of providing an interest rate swap, exchange, cap, collar, floor, forward or other hedging mechanism, arrangement or security, however denominated, expressly identified pursuant to its terms as being entered into in connection with and in order to hedge interest rate fluctuations on any portion of any Airport Obligations and in consideration for which the City may agree to pay, but solely from Net Revenues as herein provided, (i) periodic payments for the availability of such Qualified Hedge Agreement and/or (ii) net amounts as a result of fluctuation in hedged interest rates or in the value of any index of payment and/or (iii) termination charges. A Qualified Hedge Agreement may only be entered into with a financial institution that has long-term credit ratings or the obligations of which are unconditionally guaranteed by a financial institution with long-term credit ratings in one of the two highest generic rating categories by two of the nationally recognized rating services then rating the Airport Obligations. Obligations of the City pursuant to a Qualified Hedge Agreement shall be included within the definition of Debt Service Requirements for the series of Airport Obligations to which the Qualified Hedge Agreement relates. Further, obligations of the City to make payments under a Qualified Hedge Agreement derived from or resulting from a fluctuation in hedged interest rates or in the value of any index of payment shall be deemed to be payments of interest on the Airport Obligations so hedged. Each Qualified Hedge Agreement shall be deemed to be a part of the Airport Obligations of the series to which it relates for the purpose of securing its payment by the pledge of Net Revenues as provided in Articles III, V and VI of the Master Ordinance. However, issuers of and counterparties to Qualified Hedge Agreements shall not be treated as Owners of Airport Obligations for purposes of any voting rights to approve amendments or direct the exercise of any remedies under the Master Ordinance.

“Renewal and Replacement Fund” means the fund described in Section 3.13 of the Master Ordinance.

“Renewal and Replacement Fund Requirement” means Ten Million Dollars (\$10,000,000) or any greater amount required by any Supplemental Ordinance.

“Reserve Fund Non-Participants” means, with respect to any Airport Obligations, any series designated as “Reserve Fund Non-Participants” and secured by a lien on an account of the applicable reserve fund that is created and held for the sole benefit of that series of Airport Obligations.

“Reserve Fund Participants” means:

(i) with respect to Senior Lien Bonds, any series of Senior Lien Bonds designated by the City as “Reserve Fund Participants” and secured by a lien on the Senior Lien Bond Reserve Fund Participant Account of the Senior Lien Bond Reserve Fund, and

(ii) with respect to Senior Lien Notes, any series of Senior Lien Notes secured by a lien on the Senior Lien Note Reserve Fund Participant Account of the Senior Lien Bond Reserve Fund, and

(iii) with respect to the Subordinate Lien Bonds, any series of Subordinate Lien Bonds designated by the City as “Reserve Fund Participants” and secured by a lien on the Subordinate Lien Bond Reserve Fund Participant Account of the Subordinate Lien Bond Reserve Fund, and

(iv) with respect to the Inferior Lien Bonds, any series of Inferior Lien Bonds designated by the City as “Reserve Fund Participants” and secured by a lien on the Inferior Lien Bond Reserve Fund Participant Account of the Inferior Lien Bond Reserve Fund.

“Reserve Fund Requirement” means the amount required to be maintained in the Senior Lien Bond Reserve Fund (and the accounts therein), the Subordinate Lien Bond Reserve Fund (and the accounts therein), or the Inferior Lien Bond Reserve Fund (and the accounts therein), as the case may be, as further set forth in the applicable Supplemental Ordinance and/or officers pricing certificate authorizing one or more series of Airport Obligations. Upon the issuance of any series of Airport Obligations, the amount of the Reserve Fund Requirement for such Airport Obligations shall be as set forth in the related Supplemental Ordinance or officers pricing certificate.

A. For Senior Lien Notes, such amount shall be computed and recomputed upon the issuance of each series of Senior Lien Notes to be the arithmetic average of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Senior Lien Notes then Outstanding, including the series of Senior Lien Notes then being issued.

B. For Senior Lien Bonds that are Reserve Fund Participants, such amount shall be computed upon the issuance of each series of Senior Lien Bonds that are Reserve Fund Participants and on each date on which Senior Lien Bonds that are Reserve Fund Participants are paid at maturity or optionally or mandatorily redeemed, to be the greatest amount of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Senior Lien Bonds then Outstanding that are Reserve Fund Participants.

C. For any series of Senior Lien Bonds that are Reserve Fund Non-Participants, such amount shall be computed upon the issuance of such series of Senior Lien Bonds and on each date on which any of such series of Senior Lien Bonds are paid at maturity or optionally or mandatorily redeemed, to be the greatest amount of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for such Senior Lien Bonds then Outstanding.

D. For Subordinate Lien Bonds that are Reserve Fund Participants, such amount shall be computed and recomputed upon the issuance of each series of Subordinate Lien Bonds that are Reserve Fund Participants and on each date on which Subordinate Lien Bonds that are Reserve Fund Participants are paid at maturity or optionally or mandatorily redeemed, to be the greatest amount of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Subordinate Lien Bonds then Outstanding that are Reserve Fund Participants, including any series of Subordinate Lien Bonds then being issued that are Reserve Fund Participants.

E. For any series of Subordinate Lien Bonds that are Reserve Fund Non-Participants, such amount shall be computed upon the issuance of such series of Subordinate Lien Bonds and on each date on which any of such series of Subordinate Lien Bonds are paid at maturity or optionally or mandatorily redeemed, to be the greatest amount of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for such series of Subordinate Lien Bonds then Outstanding.

F. For Inferior Lien Bonds that are Reserve Fund Participants, such amount shall be computed and recomputed upon the issuance of each series of Inferior Lien Bonds that are Reserve Fund Participants and on each date on which Inferior Lien Bonds that are Reserve Fund Participants are paid at maturity or optionally or mandatorily redeemed, to be the greatest amount of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Inferior Lien Bonds then Outstanding that are Reserve Fund Participants, including any series of Inferior Lien Bonds then being issued that are Reserve Fund Participants.

G. For any series of Inferior Lien Bonds that are Reserve Fund Non-Participants, such amount shall be computed upon the issuance of such series of Inferior Lien Bonds and on each date on which any of such series of Inferior Lien Bonds are paid at maturity or optionally or mandatorily redeemed, to be the greatest amount of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for such series of Inferior Lien Bonds then Outstanding.

“Senior Lien Bonds” means each series of senior lien bonds Outstanding from time to time issued pursuant to the Prior Ordinances or any Additional Senior Lien Bonds issued pursuant to a Supplemental Ordinance payable from and secured by a lien on and pledge of Net Revenues.

“Senior Lien Notes” means each series of senior lien notes Outstanding from time to time issued pursuant to the Prior Ordinances or any Additional Senior Lien Notes issued pursuant to a Supplemental Ordinance payable from and secured by a lien on and pledge of Net Revenues.

“Senior Lien Obligations” means either or both of the Senior Lien Bonds and the Senior Lien Notes, as applicable.

“Short Term/Demand Obligations” means each series of bonds, notes and other obligations issued pursuant to Section 5.02 of the Master Ordinance, (a) the payment of principal of which is either (i) payable on demand by or at the option of the holder at a time sooner than a date on which such principal is deemed to be payable for purposes of computing Debt Service Requirements, or (ii) scheduled to be payable within one year from the date of issuance and is contemplated to be refinanced for a specified period or term through the issuance of additional Short Term/Demand Obligations pursuant to a commercial paper or other similar financing program, and (b) the purchase price, payment or refinancing of which is additionally secured by a letter of credit, line of credit, standby bond purchase agreement, bond insurance, surety bond or other credit or liquidity facility which does not impose upon the City a reimbursement obligation payable over a period shorter than three years.

“Special Facilities” means structures, hangars, aircraft overhaul, maintenance or repair shops, heliports, hotels, storage facilities, garages, in-flight kitchens, training facilities, consolidated rental car facilities, terminal facilities, cargo facilities and any and all other facilities and appurtenances being a part of or related to the Airport System, the cost of the construction or other acquisition of which is financed with the proceeds of Special Facilities Bonds.

“Special Facilities Bonds” means any bonds heretofore or from time to time hereafter issued by the City pursuant to Section 5.05 of the Master Ordinance.

“Special Facilities Lease” means any lease or agreement, howsoever denominated, pursuant to which Special Facilities are leased by the City to the lessee in consideration for which the lessee agrees to pay (i) all debt service on the Special Facilities Bonds issued to finance the Special Facilities (which payments are pledged to secure the Special Facilities Bonds) and (ii) the operation and maintenance expenses of the Special Facilities.

“Subordinate Lien Bond Interest and Sinking Fund” means the fund established pursuant to the Prior Ordinances and ratified, confirmed and maintained pursuant to Sections 3.04 and 3.08 of the Master Ordinance.

“Subordinate Lien Bond Reserve Fund” means the fund, including the accounts established therein, established pursuant to the Prior Ordinances and ratified, confirmed and maintained pursuant to Sections 3.04 and 3.09 of the Master Ordinance.

“Subordinate Lien Bond Reserve Fund Participant Account” means the account within the Subordinate Lien Bond Reserve Fund established pursuant to the Prior Ordinances and ratified, confirmed and maintained pursuant to Sections 3.04 and 3.09 of the Master Ordinance.

“Subordinate Lien Bond Reserve Fund Surety Policy” means, whether heretofore or hereafter acquired, for the purpose of satisfying all or any part of the Reserve Fund Requirement for the Subordinate Lien Bonds, any one or more of a surety bond, insurance policy or letter of credit in a principal amount equal to the amount required to be funded, provided that, at the time of deposit, either the rating for the long-term unsecured debt of the issuer of such surety bond, insurance policy or letter of credit or the rating for obligations insured, secured or guaranteed by such issuer are required to be in one of the two highest letter categories by at least one major municipal securities evaluation service (or, if such entities are no longer in existence, by comparable services) and which surety bond, insurance policy or letter of credit shall be payable on demand of the City for the benefit of the Owners of the Subordinate Lien Bonds that are secured thereby.

“Subordinate Lien Bonds” means each series of subordinate lien bonds Outstanding from time to time issued pursuant to the Prior Ordinances or any Additional Subordinate Lien Bonds issued pursuant to a Supplemental Ordinance payable from and secured by a lien on and pledge of Net Revenues junior and subordinate to the lien and pledge securing the Senior Lien Obligations.

“Supplemental Ordinance” as used in the Master Ordinance, means any ordinance supplementing the Master Ordinance to provide for the issuance of Airport Obligations or any other obligations authorized by the Master Ordinance.

“Taxable Bond Credit Revenues” means payments made to the City from the federal government or any agency or department thereof with respect to the return to the City of a portion of the interest paid by the City on any taxable Bonds, including but not limited to any such payments received pursuant to the American Recovery and Reinvestment Act of 2009 or any legislation in amendment or succession thereto.

Excerpts of the Master Ordinance

ARTICLE II

ESTABLISHMENT OF THE FINANCING PROGRAM

SECTION 2.01 MASTER ORDINANCE. This Master Ordinance hereby sets forth the terms, conditions, covenants and provisions for the security of obligations to be issued hereafter by the City for Authorized System Purposes and secured by a senior, subordinate or inferior lien on Net Revenues.

SECTION 2.02 SUPPLEMENTAL ORDINANCES. Each series of Airport Obligations issued hereafter shall be issued pursuant to the terms and conditions of this Master Ordinance and a Supplemental Ordinance that shall provide the specific terms, conditions, covenants and provisions relating to each such series of Airport Obligations, including, without limitation, (i) the authorization, issuance, sale, delivery, form, title, characteristics, interest rate(s) (which may be fixed, variable, adjustable or computed by any other method), (ii) the provisions for payment, redemption, transfer and exchange and any other matters related thereto (including, without limitation, matters related to the delegation of the sale to an authorized representative of the City and the execution and delivery of a Credit Agreement or Qualified Hedge Agreement, if any), (iii) the application of proceeds, (iv) the funding of any Reserve Fund Requirement and the designation of Reserve Fund Participants, if any, and (v) covenants relating to the federal income tax status.

ARTICLE III

SECURITY AND SOURCE OF PAYMENT FOR ALL BONDS

SECTION 3.01 PLEDGE AND SOURCE OF PAYMENT.

(a) The City hereby covenants and agrees that all Gross Revenues shall be deposited and paid into the special funds established under the Prior Ordinances and incorporated and confirmed herein for all purposes, and shall be applied in the manner hereinafter set forth to provide for the payment of all Operation and Maintenance Expenses of the Airport System and all principal, interest and any redemption premiums on the Airport Obligations and all expenses of providing for their full and timely payment in accordance with their terms.

(b) The Senior Lien Obligations shall constitute special obligations of the City that shall be payable from, and shall be equally and ratably secured by a lien on, the Net Revenues. Such Net Revenues, together with certain proceeds of the Senior Lien Obligations or other lawfully available funds of the City, shall, in the manner herein provided, be set aside for and pledged to the payment of the Senior Lien Obligations in the Senior Lien Bond Interest and Sinking Fund and the Senior Lien Bond Reserve Fund as hereinafter provided. For the benefit of the Owners of the Senior Lien Obligations, the City hereby grants a lien on the Net Revenues and further grants a lien on the Senior Lien Bond Interest and Sinking Fund to secure the payment of principal of, redemption premium, if any, and interest on the Senior Lien Obligations and all expenses of providing for their full and timely payment in accordance with their terms. Additionally, to further assure the payment of principal of, redemption premium, if any, and interest on the Senior Lien Obligations:

(i) the City hereby grants a lien on the Senior Lien Note Reserve Fund Participant Account of the Senior Lien Bond Reserve Fund for the additional benefit of Owners of the Senior Lien Notes;

(ii) the City hereby grants a lien on the Senior Lien Bond Reserve Fund Participant Account of the Senior Lien Bond Reserve Fund for the additional benefit of Owners of the Senior Lien Bonds that are Reserve Fund Participants; and

(iii) the City has created a separate account and shall create one or more additional separate accounts within the Senior Lien Bond Reserve Fund and has granted and shall grant a lien on such account(s) for the additional benefit of the Owners of any one or more series of Senior Lien Bonds that are Reserve Fund Non-Participants.

Except with respect to the separate accounts of the Senior Lien Bond Reserve Fund described in this Section 3.01(b), all Senior Lien Obligations shall be in all respects on a parity with and of equal dignity with one another. The Owners of the Senior Lien Obligations shall never have the right to demand payment of either the principal of, interest on or any redemption premium on the Senior Lien Obligations out of any funds raised or to be raised by taxation.

(c) The Subordinate Lien Bonds shall constitute special obligations of the City that shall be payable from, and, subject to the prior and superior lien of the Senior Lien Obligations, shall be equally and ratably secured by a lien on, the Net Revenues. Such Net Revenues, together with certain proceeds of the Subordinate Lien Bonds or other lawfully available funds of the City, shall, in the manner herein provided, be set aside for and pledged to the payment of the Subordinate Lien Bonds in the Subordinate Lien Bond Interest and Sinking Fund and the Subordinate Lien Bond Reserve Fund as hereinafter provided. For the benefit of the Owners of the Subordinate Lien Bonds, the City hereby grants a lien on the Net Revenues (subject to the prior and superior lien of the Senior Lien Obligations) and further grants a lien on the Subordinate Lien Bond Interest and Sinking Fund to secure the payment of principal of, redemption premium, if any, and interest on the Subordinate Lien Bonds and all expenses of providing for their full and timely payment in accordance with their terms. Additionally, to further assure the payment of principal of, redemption premium, if any, and interest on the Subordinate Lien Bonds:

(i) the City hereby grants a lien on the Subordinate Lien Bond Reserve Fund Participant Account of the Subordinate Lien Bond Reserve Fund for the additional benefit of Owners of the Subordinate Lien Bonds that are Reserve Fund Participants; and

(ii) the City shall create one or more separate accounts within the Subordinate Lien Bond Reserve Fund and grant a lien on such account(s) for the additional benefit of the Owners of any one or more series of Subordinate Lien Bonds that are Reserve Fund Non-Participants.

Except with respect to the separate accounts of the Subordinate Lien Bond Reserve Fund described in this Section 3.01(c), all Subordinate Lien Bonds shall be in all respects on a parity with and of equal dignity with one another. The Owners of the Subordinate Lien Bonds shall never have the right to demand payment of either the principal of, interest on or any redemption premium on the Subordinate Lien Bonds out of any funds raised or to be raised by taxation.

(d) The Inferior Lien Bonds shall constitute special obligations of the City that shall be payable from, and, subject to the prior and superior liens of the Senior Lien Obligations and the Subordinate Lien Bonds, shall be equally and ratably secured by a lien on, the Net Revenues. Such Net Revenues, together with certain proceeds of the Inferior Lien Bonds or other lawfully available funds of the City, shall, in the manner herein provided, be set aside for and pledged to the payment of the Inferior Lien Bonds in the Inferior Lien Bond Interest and Sinking Fund and the Inferior Lien Bond Reserve Fund as hereinafter provided. For the benefit of the Owners of the Inferior Lien Bonds, the City hereby grants a lien on the Net Revenues (subject to the prior and superior liens of the Senior Lien Obligations and the Subordinate Lien Bonds) and further grants a lien on the Inferior Lien Bond Interest and Sinking Fund to secure the payment of principal of, redemption premium, if any, and interest on the Inferior Lien Bonds and all expenses of providing for their full and timely payment in accordance with their terms. Additionally, to further assure the payment of principal of, redemption premium, if any, and interest on the Inferior Lien Bonds:

(i) the City hereby grants a lien on the Inferior Lien Bond Reserve Fund Participant Account of the Inferior Lien Bond Reserve Fund for the additional benefit of Owners of the Inferior Lien Bonds that are Reserve Fund Participants; and

(ii) the City shall create one or more separate accounts within the Inferior Lien Bond Reserve Fund and grant a lien on such account(s) for the additional benefit of the Owners of any one or more series of Inferior Lien Bonds that are Reserve Fund Non-Participants.

Except with respect to the separate accounts of the Inferior Lien Bond Reserve Fund described in this Section 3.01(d), all Inferior Lien Bonds shall be in all respects on a parity with and of equal dignity with one another. The Owners of the Inferior Lien Bonds shall never have the right to demand payment of either the principal of, interest on or any redemption premium on the Inferior Lien Bonds out of any funds raised or to be raised by taxation.

(e) Pursuant to Chapter 1208, Texas Government Code, the liens on Net Revenues created hereunder are valid, effective, and perfected.

SECTION 3.02 ANNUAL BUDGET. So long as any Airport Obligations remain Outstanding, the Aviation Director shall, prior to the commencement of each Fiscal Year, prepare and deliver to the Mayor, for submission to the City Council, a recommended annual budget for the Airport System for such Fiscal Year which contains detailed estimates of Gross Revenues, Operation and Maintenance Expenses, Net Revenues and Debt Service Requirements for such Fiscal Year, classified in a manner consistent with the definitional and accounting requirements contained herein, and which contains a computation demonstrating that the estimate of Net Revenues set forth therein is in compliance with the rate covenant contained in Section 3.03 below. The City shall adopt annual budgets for the Airport System for each Fiscal Year, each of which shall contain an estimate of revenues and only such budgeted expenditures as will produce Net Revenues in an amount not less than the Net Revenues necessary to comply with the rate covenant in Section 3.03 below. After the adoption of the annual Airport System budget by the City, the total expenditures for Operation and Maintenance Expenses will not exceed the total expenditures authorized for such purposes by such budget, as it may from time to time be amended.

SECTION 3.03 RATE COVENANT.

(a) The City covenants that it will at all times fix, charge, impose and collect rentals, rates, fees and other charges for the use of the Airport System, and, to the extent it legally may do so, revise the same as may be necessary or appropriate, in order that in each Fiscal Year the Net Revenues will at all times be at least sufficient to equal the larger of either:

(i) all amounts required to be deposited in such Fiscal Year to the credit of the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Reserve Fund, the Inferior Lien Bond Interest and Sinking Fund and the Inferior Lien Bond Reserve Fund; or

(ii) an amount not less than (1) 125% of the Debt Service Requirements for the Outstanding Senior Lien Obligations for such Fiscal Year, plus (2) 110% of the Debt Service Requirements for the Outstanding Subordinate Lien Bonds for such Fiscal Year, plus (3) 100% of the Debt Service Requirements for the Outstanding Inferior Lien Bonds for such Fiscal Year.

(b) If the Net Revenues in any Fiscal Year are less than the amounts specified above, the City, promptly upon receipt of the annual audit for such Fiscal Year, must request an Airport Management Consultant to make its recommendations, if any, as to a revision of the City's rentals, rates, fees and other charges, its Operation and Maintenance Expenses or the method of operation of the Airport System in order to satisfy as quickly as practicable the foregoing requirements. Copies of such request and the recommendations of the Airport Management Consultant, if any, shall be filed with the City Secretary. So long as the City substantially complies in a timely fashion with the recommendations of the Airport Management Consultant, the City will not be deemed to have defaulted in the performance of its duties under this Master Ordinance even if the resulting Net Revenues are not sufficient to be in compliance with the covenant set forth above, so long as there is no other default hereunder.

SECTION 3.04 SPECIAL FUNDS.

(a) The following special funds have been established pursuant to the Prior Ordinances and are hereby ratified and confirmed, and shall be maintained and accounted for as hereinafter provided so long as any of the Airport Obligations remain Outstanding:

- (i) Revenue Fund;
- (ii) Senior Lien Bond Interest and Sinking Fund;
- (iii) Senior Lien Bond Reserve Fund;
- (iv) Subordinate Lien Bond Interest and Sinking Fund;
- (v) Subordinate Lien Bond Reserve Fund;
- (vi) Inferior Lien Bond Interest and Sinking Fund;
- (vii) Inferior Lien Bond Reserve Fund;
- (viii) Operation and Maintenance Reserve Fund;
- (ix) Renewal and Replacement Fund; and
- (x) Airports Improvement Fund.

(b) The Revenue Fund, the Operation and Maintenance Reserve Fund, the Renewal and Replacement Fund and the Airports Improvement Fund shall be maintained as separate funds or accounts on the books of the City, and all amounts credited to such Funds shall be maintained in an official depository bank of the City or in a trustee bank designated by the City. The Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Reserve Fund, the Inferior Lien Bond Interest and Sinking Fund and the Inferior Lien Bond Reserve Fund shall be maintained at an official depository bank of the City or in a trustee bank designated by the City separate and apart from all other funds and accounts of the City.

(c) Subordinate Lien Bond Interest and Sinking Fund. The Subordinate Lien Bond Interest and Sinking Fund shall constitute a trust fund which shall be held in trust for the Owners of the Subordinate Lien Bonds to which they are pledged and the proceeds of which (other than the interest income thereon, which may be transferred to the Revenue Fund or, if such interest income is earned on amounts that are capitalized interest financed with proceeds of Subordinate Lien Bonds, to such other Fund as permitted under federal tax law) shall be pledged to the payment of such Subordinate Lien Bonds.

(f) Subordinate Lien Bond Reserve Fund. The Subordinate Lien Bond Reserve Fund and any accounts created therein shall constitute trust funds which shall be held in trust for the Owners of the particular Subordinate Lien Bonds to which they are pledged and the proceeds of which (other than the interest income thereon, which shall be transferred to the extent provided in Section 3.09(c)) shall be pledged to the payment of the Subordinate Lien Bonds. Within the Subordinate Lien Bond Reserve Fund, there has been established and there is hereby ratified and confirmed a Subordinate Lien Bond Reserve Fund Participant Account, and there may be created other designated accounts therein.

(i) Subordinate Lien Bond Reserve Fund Participant Account. The Subordinate Lien Bond Reserve Fund Participant Account shall constitute a trust fund and shall be held in trust for Owners of the Subordinate Lien Bonds that are Reserve Fund Participants. The proceeds of the Subordinate Lien Bond Reserve Fund Participant Account (other than the interest income thereon, which shall be transferred to the extent provided in Section 3.09(c)) shall be pledged to the payment of the Subordinate Lien Bonds that are Reserve Fund Participants.

(ii) Additional Subordinate Lien Bonds May Be Participants or Non-Participants. The City may issue Additional Subordinate Lien Bonds which may be designated as Reserve Fund Participants. The City also reserves the right to issue Additional Subordinate Lien Bonds which may be designated as Reserve Fund Non-Participants and are not secured by the Subordinate Lien Bond Reserve Fund Participant Account; provided that the City shall create a separate account(s) within the Subordinate Lien Bond Reserve Fund for the benefit of any such series that is a Reserve Fund Non-Participant, the proceeds of which account (other than the interest income thereon, which shall be transferred to the extent provided in Section 3.09(c)) shall be pledged to the payment of such Reserve Fund Non-Participant.

(j) The City reserves the right to create additional funds and additional accounts within any Fund as necessary or desirable in furtherance of the intent and purpose of this Master Ordinance, including the purpose of causing the supplemental funding of any reserve fund.

SECTION 3.05 REVENUE FUND; FLOW OF FUNDS. All Gross Revenues shall be deposited as received into the Revenue Fund. In addition, the City may deposit into the Revenue Fund any Federal Payments, provided that, so long as such Federal Payments are excluded from the definition of Gross Revenues, such Federal Payments shall be applied solely to the payment of Operation and Maintenance Expenses. Moneys from time to time credited to the Revenue Fund shall be applied in the following order of priority:

(a) First, to pay and to provide by encumbrance for the payment of all current Operation and Maintenance Expenses;

(b) Second, to transfer all amounts to the Senior Lien Bond Interest and Sinking Fund required by this Master Ordinance and any Supplemental Ordinance;

(c) Third, to transfer all amounts to the Senior Lien Bond Reserve Fund required by this Master Ordinance and any Supplemental Ordinance;

(d) Fourth, to transfer all amounts to the Subordinate Lien Bond Interest and Sinking Fund required by this Master Ordinance and any Supplemental Ordinance;

(e) Fifth, to transfer all amounts to the Subordinate Lien Bond Reserve Fund required by this Master Ordinance and any Supplemental Ordinance;

(f) Sixth, to transfer all amounts to the Inferior Lien Bond Interest and Sinking Fund required by this Master Ordinance and any Supplemental Ordinance;

(g) Seventh, to transfer all amounts to the Inferior Lien Bond Reserve Fund required by this Master Ordinance and any Supplemental Ordinance;

(h) Eighth, to transfer all amounts to the Operation and Maintenance Reserve Fund required by this Master Ordinance and any Supplemental Ordinance;

(i) Ninth, to transfer all amounts to the Renewal and Replacement Fund required by this Master Ordinance and any Supplemental Ordinance; and

(j) Tenth, the balance shall be transferred to the Airports Improvement Fund.

SECTION 3.06 SENIOR LIEN BOND INTEREST AND SINKING FUND.

(a) On or before the last Business Day of each month so long as any Senior Lien Obligations remain Outstanding, after making all required payments and provision for payment of Operation and Maintenance Expenses, there shall be transferred to the Senior Lien Bond Interest and Sinking Fund from the Revenue Fund the following amounts:

(i) Such amounts as shall be necessary so that the balance in the Senior Lien Bond Interest and Sinking Fund equals the Debt Service Requirements on all Senior Lien Obligations accrued to the end of the current month; plus

(ii) Such amounts as shall be necessary to enable the City to pay when due all expenses of providing for the full and timely payment of the principal of, premium, if any, and interest on the Senior Lien Obligations in accordance with their terms, including without limitation, all fees charged or obligations incurred in connection with any Credit Agreements, Qualified Hedge Agreements and other related agreements in connection with the Senior Lien Obligations.

(b) Whenever the total amounts on deposit to the credit of the Senior Lien Bond Interest and Sinking Fund and the Senior Lien Bond Reserve Fund shall be equivalent to the sum of the aggregate principal amount of all Outstanding Senior Lien Obligations plus the aggregate amount of all interest accrued and to accrue thereon, no further transfers need be made into the Senior Lien Bond Interest and Sinking Fund or the Senior Lien Bond Reserve Fund, and such Senior Lien Obligations shall not be regarded as being Outstanding except for the purpose of being paid with the moneys credited to such Funds. Moneys credited to the Senior Lien Bond Interest and Sinking Fund shall be used solely for the purpose of paying principal (at maturity or prior redemption or to purchase Senior Lien Obligations issued as term bonds in the open market to be credited against mandatory redemption requirements), interest and redemption premiums on the Senior Lien Obligations, plus all bank charges and other costs and expenses relating to such payment, including those described in clause (a)(ii) above. On or before each principal and/or interest payment date on the Senior Lien Obligations, the City shall transfer from the Senior Lien Bond Interest and Sinking Fund to the Paying Agent/Registrar(s) for the Senior Lien Obligations an amount equal to the principal, interest and redemption premiums payable on the Senior Lien Obligations on such date, including all amounts due and payable on Credit Agreements, Qualified Hedge Agreements and other related agreements in connection with such Senior Lien Obligations.

SECTION 3.07 SENIOR LIEN BOND RESERVE FUND.

(a) Maintenance of Reserve Fund Requirement for Participants and Non-Participants. The City shall establish and maintain as hereinafter provided a balance in the Senior Lien Bond Reserve Fund Participant Account and a balance in the Senior Lien Note Reserve Fund Participant Account equal to the Reserve Fund Requirement for the Senior Lien Bonds and the Senior Lien Notes, respectively, that are secured thereby. Each Supplemental Ordinance authorizing Senior Lien Obligations shall designate such series of Senior Lien Obligations authorized thereby as "Reserve Fund Participants" or "Reserve Fund Non-Participants." With respect to any series of Senior Lien Bonds that are Reserve Fund Non-Participants, pursuant to the Supplemental Ordinance authorizing such Senior Lien Bonds, the City shall establish an account within the Senior Lien Bond Reserve Fund for the benefit of such Senior Lien Bonds and shall maintain an amount in such account equal to the Reserve Fund Requirement for each such series of Senior Lien Bonds secured thereby.

(b) Reserve Fund Requirement at Issuance. Each increase in the Reserve Fund Requirement resulting from the issuance of any Additional Senior Lien Obligations shall be satisfied at the time of issuance and delivery of such series of Additional Senior Lien Obligations. The Reserve Fund Requirement shall be satisfied by depositing to the credit of the Senior Lien Bond Reserve Fund Participant Account (in the case of Additional Senior Lien Bonds that are Reserve Fund Participants) or the Senior Lien Note Reserve Fund Participant Account (in the case of Additional Senior Lien Notes) or such other designated accounts (in the case of Additional Senior Lien Bonds that are Reserve Fund Non-Participants) of the Senior Lien Bond Reserve Fund either:

(i) proceeds of such Additional Senior Lien Obligations or other lawfully appropriated funds in not less than the amount which, together with investment earnings thereon as estimated by the City, will be sufficient to fund fully the Reserve Fund Requirement by no later than the end of the period of time for which the payment of interest on such Additional Senior Lien Obligations has been provided out of proceeds of such Additional Senior

Lien Obligations or investment earnings thereon as estimated by the City or from other lawfully available funds other than Net Revenues; or

(ii) a Senior Lien Bond Reserve Fund Surety Policy.

(c) Deficiencies and Excess in the Senior Lien Bond Reserve Fund. In any month in which any account of the Senior Lien Bond Reserve Fund contains less than the applicable Reserve Fund Requirement (or so much thereof as shall then be required to be therein if the City has elected to accumulate the Reserve Fund Requirement for any series of Additional Senior Lien Obligations as above provided), then on or before the last Business Day of such month, after making all required payments and provision for payment of Operation and Maintenance Expenses, and after making all required transfers to the Senior Lien Bond Interest and Sinking Fund, there shall be transferred on a pro rata basis into the Senior Lien Bond Reserve Fund Participant Account (in the case of Senior Lien Bonds that are Reserve Fund Participants) and the Senior Lien Note Reserve Fund Participant Account (in the case of Senior Lien Notes) and such other designated accounts (in the case of Senior Lien Bonds that are Reserve Fund Non-Participants) of the Senior Lien Bond Reserve Fund from the Revenue Fund, such amounts as shall be required to permit the City to pay all reimbursement obligations under the Senior Lien Bond Reserve Fund Surety Policies allocable to the Senior Lien Bond Reserve Fund Participant Account or Senior Lien Note Reserve Fund Participant Account or such other designated accounts, as applicable, within a twelve (12) month period and such additional amounts as shall be sufficient to enable the City within a twelve (12) month period to reestablish in the Senior Lien Bond Reserve Fund Participant Account or Senior Lien Note Reserve Fund Participant Account or such other designated accounts, as applicable, the Reserve Fund Requirement for the Senior Lien Bonds or Senior Lien Notes secured thereby; provided, however, that in the event that such monthly transfer requirements ever exceed one-twelfth (1/12th) of the maximum Debt Service Requirements scheduled to occur in any future Fiscal Year on all Senior Lien Obligations then Outstanding, any remaining required transfers shall be accomplished pursuant to Section 3.15 below. After such amounts have been accumulated in the Senior Lien Bond Reserve Fund Participant Account and Senior Lien Note Reserve Fund Participant Account and such other designated accounts (as described above), and so long thereafter as such accounts contain such amounts, no further transfers shall be required to be made into the Senior Lien Bond Reserve Fund Participant Account or Senior Lien Note Reserve Fund Participant Account or such other designated accounts, and, to the extent any excess is attributable to the portion of the Senior Lien Bond Reserve Fund allocable to any tax-exempt Senior Lien Obligations, any excess amounts in such accounts shall be transferred to the Senior Lien Bond Interest and Sinking Fund or such other Fund as may be permitted by federal tax law, and otherwise shall be transferred to the Revenue Fund. But, if and whenever the balance in the Senior Lien Bond Reserve Fund Participant Account or Senior Lien Note Reserve Fund Participant Account or such other designated accounts is reduced below such amount, monthly transfers to such accounts shall be resumed and continued in such amounts as shall be required to restore the Senior Lien Bond Reserve Fund Participant Account and the Senior Lien Note Reserve Fund Participant Account or such other designated accounts, as applicable, to the applicable Reserve Fund Requirement within a twelve (12) month period.

(d) Account for Senior Lien Bond Reserve Fund Participants. The Senior Lien Bond Reserve Fund Participant Account shall be used to pay the principal of and interest on the Senior Lien Bonds that are Reserve Fund Participants at any time when there is not sufficient money available in the Senior Lien Bond Interest and Sinking Fund for such purpose (with the requirement that all cash and investments on deposit in such account be depleted before drawing upon any Senior Lien Bond Reserve Fund Surety Policy, unless provided otherwise in each of the Senior Lien Bond Reserve Fund Surety Policies allocable to the Senior Lien Bond Reserve Fund Participant Account) and to repay amounts drawn under any Senior Lien Bond Reserve Fund Surety Policy allocable to the Senior Lien Bond Reserve Fund Participant Account for such purpose, together with interest thereon, in accordance with the terms of the City's reimbursement obligations incurred in connection with such Senior Lien Bond Reserve Fund Surety Policy. The Senior Lien Bond Reserve Fund Participant Account may also be used to make the final payments for the retirement or defeasance of all Senior Lien Bonds then Outstanding that are secured thereby.

(e) Account for Senior Lien Note Reserve Fund Participants. The Senior Lien Note Reserve Fund Participant Account shall be used to pay the principal of and interest on the Senior Lien Notes at any time when there is not sufficient money available in the Senior Lien Bond Interest and Sinking Fund for such purpose (with the requirement that all cash and investments on deposit in such account be depleted before drawing upon any Senior Lien Bond Reserve Fund Surety Policy, unless provided otherwise in each of the Senior Lien Bond Reserve Fund Surety Policies allocable to the Senior Lien Note Reserve Fund Participant Account) and to repay amounts drawn under any Senior Lien Bond Reserve Fund Surety Policy allocable to the Senior Lien Note Reserve Fund Participant Account for such purpose, together with interest thereon, in accordance with the terms of the City's reimbursement obligations incurred in connection with such Senior Lien Bond

Reserve Fund Surety Policy. The Senior Lien Note Reserve Fund Participant Account may also be used to make the final payments for the retirement or defeasance of all Senior Lien Notes then Outstanding that are secured thereby.

(f) Accounts for Senior Lien Bond Reserve Fund Non-Participants. With respect to any series of Senior Lien Bonds that are Reserve Fund Non-Participants, any account created within the Senior Lien Bond Reserve Fund for the benefit of such series of Senior Lien Bonds shall be used to pay the principal of and interest on such series of Senior Lien Bonds at any time when there is not sufficient money available if the Senior Lien Bond Interest and Sinking Fund for such purpose (with the requirement that all cash and investments on deposit in such account be depleted before drawing upon any Senior Lien Bond Reserve Fund Surety Policy, unless provided otherwise in each of the Senior Lien Bond Reserve Fund Surety Policies allocable to such account) and to repay amounts drawn under any Senior Lien Bond Reserve Fund Surety Policy allocable to such account for such purpose, together with interest thereon, in accordance with the terms of the City's reimbursement obligations incurred in connection with such Senior Lien Bond Reserve Fund Surety Policy. Any such account may also be used to make the final payments for the retirement and defeasance of the series of Senior Lien Bonds then Outstanding that are secured thereby.

(g) Draws on Senior Lien Bond Reserve Fund Surety Policies. The City directs and requires the Paying Agent/Registrar for any series of Senior Lien Obligations to ascertain the necessity for a claim or draw upon the applicable Senior Lien Bond Reserve Fund Surety Policy, and to provide notice to the issuer thereof in accordance with its terms, and to make such claims or draws thereon as may be necessary to provide for the timely payment of principal of and interest on the Senior Lien Obligations to which it pertains.

SECTION 3.08 SUBORDINATE LIEN BOND INTEREST AND SINKING FUND.

(a) On or before the last Business Day of each month so long as any Subordinate Lien Bonds remain Outstanding, after making all required payments and provision for payment of Operation and Maintenance Expenses and making all required transfers to the Senior Lien Bond Interest and Sinking Fund and the Senior Lien Bond Reserve Fund, there shall be transferred into the Subordinate Lien Bond Interest and Sinking Fund from the Revenue Fund the following amounts:

(i) Such amounts as shall be necessary so that the balance in the Subordinate Lien Bond Interest and Sinking Fund equals the Debt Service Requirements on all Subordinate Lien Bonds accrued to the end of the current month; plus

(ii) Such amounts as shall be necessary to enable the City to pay when due all expenses of providing for the full and timely payment of the principal of, premium, if any, and interest on the Subordinate Lien Bonds in accordance with their terms, including without limitation, all fees charged or obligations incurred in connection with any Credit Agreements, Qualified Hedge Agreements and other related agreements in connection with the Subordinate Lien Bonds.

(b) Whenever the total amounts on deposit to the credit of the Subordinate Lien Bond Interest and Sinking Fund and the Subordinate Lien Bond Reserve Fund shall be equivalent to the sum of the aggregate principal amount of all Outstanding Subordinate Lien Bonds plus the aggregate amount of all interest accrued and to accrue thereon, no further transfers need be made into the Subordinate Lien Bond Interest and Sinking Fund or the Subordinate Lien Bond Reserve Fund, and such Subordinate Lien Bonds shall not be regarded as being Outstanding except for the purpose of being paid with the moneys credited to such Funds. Moneys credited to the Subordinate Lien Bond Interest and Sinking Fund shall be used solely for the purpose of paying principal (at maturity or prior redemption or to purchase Subordinate Lien Bonds issued as term bonds in the open market to be credited against mandatory redemption requirements), interest and redemption premiums on the Subordinate Lien Bonds, plus all bank charges and other costs and expenses relating to such payment, including those described in clause (a)(ii) above. On or before each principal and/or interest payment date on the Subordinate Lien Bonds, the City shall transfer from the Subordinate Lien Bond Interest and Sinking Fund to the Paying Agent/Registrar(s) for the Subordinate Lien Bonds an amount equal to the principal, interest and redemption premiums payable on the Subordinate Lien Bonds on such date, including all amounts due and payable on Credit Agreements, Qualified Hedge Agreements and other related agreements in connection with such Subordinate Lien Bonds.

SECTION 3.09 SUBORDINATE LIEN BOND RESERVE FUND.

(a) Maintenance of Reserve Fund Requirement for Participants and Non-Participants. The City shall establish and maintain as hereinafter provided a balance in the Subordinate Lien Bond Reserve Fund Participant Account equal to the Reserve Fund Requirement for the Subordinate Lien Bonds that are secured thereby. Each Supplemental Ordinance authorizing Subordinate Lien Bonds shall designate such series of Subordinate Lien Bonds authorized thereby as "Reserve Fund Participants" or "Reserve Fund Non-Participants." With respect to any series of Subordinate Lien Bonds that are Reserve Fund Non-Participants, pursuant to the Supplemental Ordinance authorizing such Subordinate Lien Bonds, the City shall establish an account within the Subordinate Lien Bond Reserve Fund for the benefit of such Subordinate Lien Bonds and shall maintain an amount in such account equal to the Reserve Fund Requirement for each such series of Subordinate Lien Bonds secured thereby.

(b) Reserve Fund Requirement at Issuance. Each increase in the Reserve Fund Requirement resulting from the issuance of any Additional Subordinate Lien Bonds shall be satisfied at the time of issuance and delivery of such series of Additional Subordinate Lien Bonds. The Reserve Fund Requirement shall be satisfied by depositing to the credit of the Subordinate Lien Bond Reserve Fund Participant Account (in the case of Additional Subordinate Lien Bonds that are Reserve Fund Participants) or such other designated accounts (in the case of Additional Subordinate Lien Bonds that are Reserve Fund Non-Participants) of the Subordinate Lien Bond Reserve Fund either:

(i) proceeds of such Additional Subordinate Lien Bonds or other lawfully appropriated funds in not less than the amount which, together with investment earnings thereon as estimated by the City, will be sufficient to fund fully the Reserve Fund Requirement by no later than the end of the period of time for which the payment of interest on such Additional Subordinate Lien Bonds has been provided out of proceeds of such Additional Subordinate Lien Bonds or investment earnings thereon as estimated by the City or from other lawfully available funds other than Net Revenues; or

(ii) a Subordinate Lien Bond Reserve Fund Surety Policy.

(c) Deficiencies and Excess in the Subordinate Lien Bond Reserve Fund. In any month in which any account of the Subordinate Lien Bond Reserve Fund contains less than the applicable Reserve Fund Requirement (or so much thereof as shall then be required to be therein if the City has elected to accumulate the Reserve Fund Requirement for any series of Additional Subordinate Lien Bonds as above provided), then on or before the last Business Day of such month, after making all required payments and provision for payment of Operation and Maintenance Expenses, and after making all required transfers to the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund and the Subordinate Lien Bond Interest and Sinking Fund, there shall be transferred on a pro rata basis into the Subordinate Lien Bond Reserve Fund Participant Account (in the case of Subordinate Lien Bonds that are Reserve Fund Participants) and such other designated accounts (in the case of Subordinate Lien Bonds that are Reserve Fund Non-Participants) of the Subordinate Lien Bond Reserve Fund from the Revenue Fund, such amounts as shall be required to permit the City to pay all reimbursement obligations under the Subordinate Lien Bond Reserve Fund Surety Policies allocable to the Subordinate Lien Bond Reserve Fund Participant Account or such other designated accounts, as applicable, within a twelve (12) month period and such additional amounts as shall be sufficient to enable the City within a twelve (12) month period to reestablish in the Subordinate Lien Bond Reserve Fund Participant Account or such other designated accounts, as applicable, the Reserve Fund Requirement for the Subordinate Lien Bonds secured thereby; provided, however, that in the event that such monthly transfer requirements ever exceed one-twelfth (1/12th) of the maximum Debt Service Requirements scheduled to occur in any future Fiscal Year on all Subordinate Lien Bonds then Outstanding, any remaining required transfers shall be accomplished pursuant to Section 3.15 below. After such amounts have been accumulated in the Subordinate Lien Bond Reserve Fund Participant Account and such other designated accounts (as described above), and so long thereafter as such accounts contain such amounts, no further transfers shall be required to be made into the Subordinate Lien Bond Reserve Fund Participant Account or such other designated accounts, and, to the extent any excess is attributable to the portion of the Subordinate Lien Bond Reserve Fund allocable to any tax-exempt Subordinate Lien Bonds, any excess amounts in such accounts shall be transferred to the Subordinate Lien Bond Interest and Sinking Fund or such other Fund as may be permitted by federal tax law, and otherwise shall be transferred to the Revenue Fund. But, if and whenever the balance in the Subordinate Lien Bond Reserve Fund Participant Account or such other designated accounts is reduced below such amount, monthly transfers to such accounts shall be resumed and continued in such amounts as shall be required to restore the Subordinate Lien Bond Reserve Fund Participant Account or such other designated accounts, as applicable, to such amount within a twelve (12) month period.

(d) Account for Subordinate Lien Bond Reserve Fund Participants. The Subordinate Lien Bond Reserve Fund Participant Account shall be used to pay the principal of and interest on the Subordinate Lien Bonds that are Reserve Fund Participants at any time when there is not sufficient money available in the Subordinate Lien Bond Interest and Sinking Fund for such purpose (with the requirement that all cash and investments on deposit in such account be depleted before drawing upon any Subordinate Lien Bond Reserve Fund Surety Policy, unless provided otherwise in each of the Subordinate Lien Bond Reserve Fund Surety Policies allocable to the Subordinate Lien Bond Reserve Fund Participant Account) and to repay amounts drawn under any Subordinate Lien Bond Reserve Fund Surety Policy allocable to such Subordinate Lien Bond Reserve Fund Participant Account for such purpose, together with interest thereon, in accordance with the terms of the City's reimbursement obligations incurred in connection with such Subordinate Lien Bond Reserve Fund Surety Policy. The Subordinate Lien Bond Reserve Fund Participant Account may also be used to make the final payments for the retirement or defeasance of all Subordinate Lien Bonds then Outstanding that are secured thereby.

(e) Accounts for Subordinate Lien Bond Reserve Fund Non-Participants. With respect to any series of Subordinate Lien Bonds that are Reserve Fund Non-Participants, any account created within the Subordinate Lien Bond Reserve Fund for the benefit of such series of Subordinate Lien Bonds shall be used to pay the principal of and interest on such series of Subordinate Lien Bonds at any time when there is not sufficient money available if the Subordinate Lien Bond Interest and Sinking Fund for such purpose (with the requirement that all cash and investments on deposit in such account be depleted before drawing upon any Subordinate Lien Bond Reserve Fund Surety Policy, unless provided otherwise in each of the Subordinate Lien Bond Reserve Fund Surety Policies allocable to such account) and to repay amounts drawn under any Subordinate Lien Bond Reserve Fund Surety Policy allocable to such account for such purpose, together with interest thereon, in accordance with the terms of the City's reimbursement obligations incurred in connection with such Subordinate Lien Bond Reserve Fund Surety Policy. Any such account may also be used to make the final payments for the retirement and defeasance of the series of Subordinate Lien Bonds then Outstanding that are secured thereby.

(f) Draws on Subordinate Lien Bond Reserve Fund Surety Policies. The City directs and requires the Paying Agent/Registrar for any series of Subordinate Lien Bonds to ascertain the necessity for a claim or draw upon the applicable Subordinate Lien Bond Reserve Fund Surety Policy, and to provide notice to the issuer thereof in accordance with its terms, and to make such claims or draws thereon as may be necessary to provide for the timely payment of principal of and interest on the Subordinate Lien Bonds to which it pertains.

SECTION 3.10 INFERIOR LIEN BOND INTEREST AND SINKING FUND.

(a) On or before the last Business Day of each month so long as any Inferior Lien Bonds remain Outstanding, after making all required payments and provision for payment of Operation and Maintenance Expenses and making all required transfers to the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund and the Subordinate Lien Bond Reserve Fund, there shall be transferred into the Inferior Lien Bond Interest and Sinking Fund from the Revenue Fund the following amounts:

(i) Such amounts as shall be necessary so that the balance in the Inferior Lien Bond Interest and Sinking Fund equals the Debt Service Requirements on all Inferior Lien Bonds accrued to the end of the current month; plus

(ii) Such amounts as shall be necessary to enable the City to pay when due all expenses of providing for the full and timely payment of the principal of, premium, if any, and interest on the Inferior Lien Bonds in accordance with their terms, including without limitation, all fees charged or obligations incurred in connection with any Credit Agreements, Qualified Hedge Agreements and other related agreements in connection with the Inferior Lien Bonds.

(b) Whenever the total amounts on deposit to the credit of the Inferior Lien Bond Interest and Sinking Fund and the Inferior Lien Bond Reserve Fund shall be equivalent to the sum of the aggregate principal amount of all Outstanding Inferior Lien Bonds plus the aggregate amount of all interest accrued and to accrue thereon, no further transfers need be made into the Inferior Lien Bond Interest and Sinking Fund or the Inferior Lien Bond Reserve Fund, and such Inferior Lien Bonds shall not be regarded as being Outstanding except for the purpose of being paid with the moneys credited to such Funds. Moneys credited to the Inferior Lien Bond Interest and Sinking Fund shall be used solely for the purpose of paying principal (at maturity or prior redemption or to purchase Inferior Lien Bonds issued as term bonds in the open market to be credited against mandatory redemption requirements), interest and redemption premiums on the Inferior Lien Bonds, plus all bank

charges and other costs and expenses relating to such payment, including those described in clause (a)(ii) above. On or before each principal and/or interest payment date on the Inferior Lien Bonds, the City shall transfer from the Inferior Lien Bond Interest and Sinking Fund to the Paying Agent/Registrar(s) for the Inferior Lien Bonds an amount equal to the principal, interest and redemption premiums payable on the Inferior Lien Bonds on such date including all amounts due and payable on Credit Agreements, Qualified Hedge Agreements and other related agreements in connection with such Inferior Lien Bonds.

SECTION 3.11 INFERIOR LIEN BOND RESERVE FUND.

(a) Maintenance of Reserve Fund Requirement for Participants and Non-Participants. The City shall establish and maintain as hereinafter provided a balance in the Inferior Lien Bond Reserve Fund Participant Account equal to the Reserve Fund Requirement for the Inferior Lien Bonds that are secured thereby. Each Supplemental Ordinance authorizing Inferior Lien Bonds shall designate such series of Inferior Lien Bonds authorized thereby as “Reserve Fund Participants” or “Reserve Fund Non-Participants.” With respect to any series of Inferior Lien Bonds that are Reserve Fund Non-Participants, pursuant to the Supplemental Ordinance authorizing such Inferior Lien Bonds, the City shall establish an account within the Inferior Lien Bond Reserve Fund for the benefit of such Inferior Lien Bonds and shall maintain an amount in such account equal to the Reserve Fund Requirement for each such series of Inferior Lien Bonds secured thereby.

(b) Reserve Fund Requirement at Issuance. Each increase in the Reserve Fund Requirement resulting from the issuance of any additional Inferior Lien Bonds shall be satisfied at the time of issuance and delivery of such series of additional Inferior Lien Bonds. The Reserve Fund Requirement shall be satisfied by depositing to the credit of the Inferior Lien Bond Reserve Fund Participant Account (in the case of additional Inferior Lien Bonds that are Reserve Fund Participants) or such other designated accounts (in the case of additional Inferior Lien Bonds that are Reserve Fund Non-Participants) of the Inferior Lien Bond Reserve Fund either:

(i) proceeds of such additional Inferior Lien Bonds or other lawfully appropriated funds in not less than the amount which, together with investment earnings thereon as estimated by the City, will be sufficient to fund fully the Reserve Fund Requirement by no later than the end of the period of time for which the payment of interest on such additional Inferior Lien Bonds has been provided out of proceeds of such additional Inferior Lien Bonds or investment earnings thereon as estimated by the City or from other lawfully available funds other than Net Revenues; or

(ii) an Inferior Lien Bond Reserve Fund Surety Policy.

(c) Deficiencies and Excess in the Inferior Lien Bond Reserve Fund. In any month in which any account of the Inferior Lien Bond Reserve Fund contains less than the applicable Reserve Fund Requirement (or so much thereof as shall then be required to be therein if the City has elected to accumulate the Reserve Fund Requirement for any series of additional Inferior Lien Bonds as above provided), then on or before the last Business Day of such month, after making all required payments and provision for payment of Operation and Maintenance Expenses, and after making all required transfers to the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Reserve Fund and the Inferior Lien Bond Interest and Sinking Fund, there shall be transferred on a pro rata basis into the Inferior Lien Bond Reserve Fund Participant Account (in the case of Inferior Lien Bonds that are Reserve Fund Participants) and such other designated accounts (in the case of Inferior Lien Bonds that are Reserve Fund Non-Participants) of the Inferior Lien Bond Reserve Fund from the Revenue Fund, such amounts as shall be required to permit the City to pay all reimbursement obligations under the Inferior Lien Bond Reserve Fund Surety Policies allocable to the Inferior Lien Bond Reserve Fund Participant Account or such other designated accounts, as applicable, within a twelve (12) month period and such additional amounts as shall be sufficient to enable the City within a twelve (12) month period to reestablish in the Inferior Lien Bond Reserve Fund Participant Account or such other designated accounts, as applicable, the Reserve Fund Requirement for the Inferior Lien Bonds secured thereby. After such amounts have been accumulated in the Inferior Lien Bond Reserve Fund Participant Account and such other designated accounts (as described above), and so long thereafter as such accounts contain such amounts, no further transfers shall be required to be made into the Inferior Lien Bond Reserve Fund Participant Account or such other designated accounts, and, to the extent any excess is attributable to the portion of the Inferior Lien Bond Reserve Fund allocable to any tax-exempt Inferior Lien Bonds, any excess amounts in such accounts shall be transferred to the Inferior Lien Bond Interest and Sinking Fund or such other Funds as may be permitted by federal tax law, and otherwise shall be transferred to the Revenue Fund. But, if and whenever the balance in the Inferior Lien Bond Reserve Fund Participant Account or such other designated accounts is reduced below such amount,

monthly transfers to such accounts shall be resumed and continued in such amounts as shall be required to restore the Inferior Lien Bond Reserve Fund Participant Account or such other designated accounts, as applicable, to such amount within a twelve (12) month period.

(d) Account for Inferior Lien Bond Reserve Fund Participants. The Inferior Lien Bond Reserve Fund Participant Account shall be used to pay the principal of and interest on the Inferior Lien Bonds that are Reserve Fund Participants at any time when there is not sufficient money available in the Inferior Lien Bond Interest and Sinking Fund for such purpose (with the requirement that all cash and investments on deposit in such account be depleted before drawing upon any Inferior Lien Bond Reserve Fund Surety Policies, unless provided otherwise in each of the Inferior Lien Bond Reserve Fund Surety Policies allocable to the Inferior Lien Bond Reserve Fund Participant Account) and to repay amounts drawn under any Inferior Lien Bond Reserve Fund Surety Policy allocable to such Inferior Lien Bond Reserve Fund Participant Account for such purpose, together with interest thereon, in accordance with the terms of the City's reimbursement obligations incurred in connection with such Inferior Lien Bond Reserve Fund Surety Policy. The Inferior Lien Bond Reserve Fund Participant Account may also be used to make the final payments for the retirement or defeasance of all Inferior Lien Bonds then Outstanding that are secured thereby.

(e) Accounts for Inferior Lien Bond Reserve Fund Non-Participants. With respect to any series of Inferior Lien Bonds that are Reserve Fund Non-Participants, any account created within the Inferior Lien Bond Reserve Fund for the benefit of such series of Inferior Lien Bonds shall be used to pay the principal of and interest on such series of Inferior Lien Bonds at any time when there is not sufficient money available if the Inferior Lien Bond Interest and Sinking Fund for such purpose (with the requirement that all cash and investments on deposit in such account be depleted before drawing upon any Inferior Lien Bond Reserve Fund Surety Policy, unless provided otherwise in each of the Inferior Lien Bond Reserve Fund Surety Policies allocable to such account) and to repay amounts drawn under any Inferior Lien Bond Reserve Fund Surety Policy allocable to such account for such purpose, together with interest thereon, in accordance with the terms of the City's reimbursement obligations incurred in connection with such Inferior Lien Bond Reserve Fund Surety Policy. Any such account may also be used to make the final payments for the retirement and defeasance of the series of Inferior Lien Bonds then Outstanding that are secured thereby.

(f) Draws on Inferior Lien Bond Reserve Fund Surety Policies. The City directs and requires the Paying Agent/Registrar for any series of Inferior Lien Bonds to ascertain the necessity for a claim or draw upon the applicable Inferior Lien Bond Reserve Fund Surety Policy, and to provide notice to the issuer thereof in accordance with its terms, and to make such claims or draws thereon as may be necessary to provide for the timely payment of principal of and interest on the Inferior Lien Bonds to which it pertains.

SECTION 3.12 OPERATION AND MAINTENANCE RESERVE FUND. The City shall fund and maintain as hereinafter provided a balance of money and investments in the Operation and Maintenance Reserve Fund at least equal to two (2) months' current Operation and Maintenance Expenses, which amount shall annually be redetermined by the Aviation Director at the time the department submits its recommended budget for the Airport System pursuant to Section 3.02 based upon either such official's recommended budget for Operation and Maintenance Expenses or such official's estimate of actual Operation and Maintenance Expenses for the then current Fiscal Year.

On or before the last Business Day of each month, after making all required payments and provision for payment of Operation and Maintenance Expenses and all required transfers to the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Reserve Fund, the Inferior Lien Bond Interest and Sinking Fund, and the Inferior Lien Bond Reserve Fund, there shall be transferred from the Revenue Fund, to the extent amounts are available therein, to the Operation and Maintenance Reserve Fund the amount required to reestablish the required balance in the Operation and Maintenance Reserve Fund. Amounts from time to time credited to the Operation and Maintenance Reserve Fund may be used at any time first, to pay for any Operation and Maintenance Expenses for which amounts are not otherwise available in the Revenue Fund; second, to pay any costs or expenses payable from the Renewal and Replacement Fund for which there are insufficient amounts in the Renewal and Replacement Fund; and third, to the extent any amounts are remaining, to be transferred to the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Reserve Fund, the Inferior Lien Bond Interest and Sinking Fund or the Inferior Lien Bond Reserve Fund, to the extent of any deficiency therein.

SECTION 3.13 RENEWAL AND REPLACEMENT FUND. The City shall fund and maintain as hereinafter provided a balance of money and investments in the Renewal and Replacement Fund at least equal to the Renewal and Replacement Fund Requirement. On or before the last Business Day of each month, if the Renewal and Replacement Fund contains less than the Renewal and Replacement Fund Requirement, then after making all required payments and provision for payment of Operation and Maintenance Expenses and all required transfers to the Senior Lien Bond Interest and Sinking Fund, to the Senior Lien Bond Reserve Fund, to the Subordinate Lien Bond Interest and Sinking Fund, to the Subordinate Lien Bond Reserve Fund, to the Inferior Lien Bond Interest and Sinking Fund, to the Inferior Lien Bond Reserve Fund, and to the Operation and Maintenance Reserve Fund, there shall be transferred from the Revenue Fund, to the extent funds are available therein, an amount equal to one-twelfth (1/12th) of the deficiency (being the amount by which the Renewal and Replacement Fund Requirement exceeded the unappropriated balance therein) as of the last day of the previous Fiscal Year, to the Renewal and Replacement Fund and, at the discretion of the City, to pay directly from the Revenue Fund any other costs that could be paid from amounts on deposit in the Renewal and Replacement Fund. Such transfers shall be required to be made into the Renewal and Replacement Fund until such time as the Renewal and Replacement Fund Requirement has again been accumulated in the Renewal and Replacement Fund.

Amounts from time to time credited to the Renewal and Replacement Fund may be used at any time:

- (a) First, to pay for any costs of replacing depreciable property and equipment of the Airport System and making repairs, replacements or renovations of the Airport System;
- (b) Second, to pay any Operation and Maintenance Expenses for which insufficient amounts are available in the Revenue Fund and the Operation and Maintenance Reserve Fund; and
- (c) Third, to the extent any amounts are remaining, to be transferred to the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Reserve Fund, the Inferior Lien Bond Interest and Sinking Fund, or the Inferior Lien Bond Reserve Fund, to the extent of any deficiency therein.

SECTION 3.14 AIRPORTS IMPROVEMENT FUND.

(a) After making all payments and transfers hereinabove required, all amounts remaining in the Revenue Fund shall be transferred to the Airports Improvement Fund. Amounts credited to the Airports Improvement Fund may be used only for lawful Airport System purposes, including without limitation, to pay for any capital expenditures, to pay costs of replacing any depreciable property or equipment of the Airport System, to make any major or extraordinary repairs, replacements or renewals of the Airport System, to acquire land or any interest therein, to pay any lease or contractual obligations not paid as Operation and Maintenance Expenses, and to make any transfers required to cure any deficiencies in the Renewal and Replacement Fund; provided, however, that any unappropriated, unbudgeted, unreserved or otherwise unencumbered amounts in the Airports Improvement Fund in excess of (i) the unfunded portion of the Airport System's capital improvement program for the next 24 months as approved by the City Council or as proposed by the Aviation Director or (ii) \$50,000,000, whichever is greater, may be used by the City for any lawful purpose permitted by the laws of the United States of America and the State of Texas and not inconsistent with the terms and provisions of any federal grants or aid or any contracts to which the City is a party.

(b) The Airport System may create, within the Airports Improvement Fund, additional sub-accounts and funds, including a Capital Outlay Fund. All such sub-accounts and funds may be established and used for the purposes of the Airports Improvement Fund as above provided in subsection (a).

SECTION 3.15 DEFICIENCIES IN FUNDS. If in any month there shall not be transferred into any Fund maintained pursuant to this Article the full amounts required herein, amounts equivalent to such deficiency shall be set apart and transferred to such Fund or Funds from the first available and unallocated moneys in the Revenue Fund, and such transfer shall be in addition to the amounts otherwise required to be transferred to such Funds during any succeeding month or months.

SECTION 3.16 INVESTMENT OF FUNDS; TRANSFER OF INVESTMENT INCOME.

(a) Money in the Revenue Fund, the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Reserve Fund, the Inferior Lien Bond Interest and Sinking Fund, the Inferior Lien Bond Reserve Fund, the Operation and Maintenance Reserve Fund, the Renewal and Replacement Fund and the Airports Improvement Fund shall, at the option of the City, be invested in time deposits or certificates of deposit secured in the manner required by law for public funds, or be invested in direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, in obligations of any agencies or instrumentalities of the United States of America or in any other investments authorized by Texas law; provided that all such deposits and investments shall be made in such manner that the money required to be expended from any Fund will be available at the proper time or times. All such investments shall be valued no less frequently than the last Business Day of the City's Fiscal Year at their market value, except that any direct obligations of the United States of America - State and Local Government Series shall be continuously valued at their par value or principal face amount. For purposes of maximizing investment returns, money in such Funds may be invested, together with money in other Funds or with other money of the City, in common investments of the kind described above, or in a common pool of such investments maintained by the City which shall be kept and held at an official depository of the City, which shall not be deemed to be a loss of the segregation of such money or Funds provided that safekeeping receipts, certificates of participation or other documents clearly evidencing the investment or investment pool in which such money is invested and the share thereof purchased with such money or owned by such Fund are held by or on behalf of each such Fund. If and to the extent necessary, such investments or participations therein shall be promptly sold to prevent any default.

(b) All interest and income derived from deposits and investments credited to the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Reserve Fund, the Inferior Lien Bond Reserve Fund and the Operation and Maintenance Reserve Fund shall remain in such funds to the extent necessary to accumulate the Reserve Fund Requirements or other required balance therein.

(c) All interest and income derived from deposits and investments of any amounts held in any construction fund, including amounts held therein as capitalized interest, created by any Supplemental Ordinance authorizing the issuance of Airport Obligations, shall remain in such construction fund for application in the manner provided in such Supplemental Ordinance.

(d) To the extent not otherwise provided for above in this Article III (including Section 3.04) or specifically excluded from the definition of Gross Revenues, all interest and income derived from deposits and investments credited to the Revenue Fund, the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Reserve Fund, the Inferior Lien Bond Interest and Sinking Fund, the Inferior Lien Bond Reserve Fund, the Operation and Maintenance Reserve Fund, the Renewal and Replacement Fund and the Airports Improvement Fund, shall be transferred or credited monthly to the Revenue Fund or to such other Funds as may be required under federal tax law.

(e) Notwithstanding anything to the contrary contained herein, any interest and income derived from deposits and investments of any amounts credited to any fund or account may be paid to the federal government if, in the opinion of nationally recognized bond counsel, such payment is required in order to prevent interest on any Airport Obligations from being includable within the gross income of the owners thereof for federal income tax purposes, if such Airport Obligations were issued on a tax-exempt basis.

SECTION 3.17 SECURITY FOR UNINVESTED FUNDS. So long as any Airport Obligations remain Outstanding, all uninvested moneys on deposit in, or credited to, the Revenue Fund, the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Reserve Fund, the Inferior Lien Bond Interest and Sinking Fund and the Inferior Lien Bond Reserve Fund shall be secured by the pledge of security, as provided by law for cities in the State of Texas.

SECTION 3.18 DETERMINATION OF RESERVE FUND PARTICIPANTS. The determination of whether any series of Airport Obligations issued pursuant to the terms of this Master Ordinance shall be Reserve Fund Participants shall be made in the related Supplemental Ordinance or, as the case may be, the applicable officers pricing certificate.

ARTICLE IV

PFC REVENUES

SECTION 4.01 PURPOSE. The City hereby reserves the right to commit, pledge, encumber or otherwise use all or any portion of PFC Revenues solely for the purposes of the Airport System, including, but not limited to: (a) committing all or any portion of PFC Revenues to the payment of debt service for any Airport Obligations; (b) pledging all or any portion of PFC Revenues to the payment of certain obligations secured by a pledge of all or a designated portion of PFC Revenues; or (c) using all or any portion of PFC Revenues for payment of certain projects of the Airport System or other purposes that benefit the Airport System.

SECTION 4.02 PFC ORDINANCE; COMMITTING OR PLEDGING PFC REVENUES. Prior to committing or pledging PFC Revenues under subparagraphs 4.01(a) and (b) above, the City shall adopt one or more ordinances (which may be in the form of a Supplemental Ordinance to the Master Ordinance, a separate ordinance or a combination of both) to determine, as appropriate, (i) the eligible PFC Revenues available for such purpose and the manner by which such available PFC Revenues may be committed or pledged for the purposes described in such subparagraphs; (ii) the disposition of available PFC Revenues during a given Fiscal Year(s); (iii) the flow of funds of such PFC Revenues for the purposes described such subparagraphs; and (iv) any determinations, findings, appropriations, reservations, and covenants that are appropriate and necessary to give effect to such ordinance. Any such ordinances shall be accompanied by an opinion of bond counsel to the Airport System to the effect that the ordinance is not in conflict with any provisions or covenants of this Master Ordinance or any other ordinance authorizing the issuance of Airport Obligations.

ARTICLE V

ADDITIONAL BONDS

SECTION 5.01 SENIOR LIEN OBLIGATIONS AND SUBORDINATE LIEN BONDS.

(a) The City reserves the right to issue, for any lawful Airport System purpose, one or more installments of Additional Senior Lien Obligations and Additional Subordinate Lien Bonds; provided, however, that no such Additional Senior Lien Obligations or Additional Subordinate Lien Bonds shall be issued unless:

(i) No Default. The Mayor and the Aviation Director certify that, upon the issuance of such series of Bonds, the City will not be in default under any term or provision of any Bonds then Outstanding or any ordinance pursuant to which any of such Bonds were issued;

(ii) Proper Fund Balances. The City Controller shall certify that, upon the issuance of such series of Bonds, the Senior Lien Bond Interest and Sinking Fund and the Subordinate Lien Bond Interest and Sinking Fund will have the required amounts on deposit therein and that the Senior Lien Bond Reserve Fund and the Subordinate Lien Bond Reserve Fund will contain the applicable Reserve Fund Requirement or so much thereof as is required to be funded at such time;

(iii) Historical Coverage on Outstanding Bonds. The City Controller shall certify that, for either the City's most recent complete Fiscal Year or for any consecutive 12 out of the most recent 18 months, the Net Revenues were equal to at least:

(A) 125% of the Debt Service Requirements on all Senior Lien Obligations for such period,
plus

(B) 110% of the Debt Service Requirements on all Subordinate Lien Bonds for such period;

(iv) Projected Coverage for Additional Bonds. An Airport Management Consultant provides a written report setting forth projections which indicate that the estimated Net Revenues for each of the three consecutive Fiscal Years beginning in the earlier of:

(A) the first Fiscal Year following the estimated date of completion and initial use of all revenue-producing facilities to be financed with such series of Bonds, based upon a certified written estimated completion date by the consulting engineer for such facility or facilities, or

(B) the first Fiscal Year in which the City will have scheduled payments of interest on or principal of the series of Bonds to be issued for the payment of which provision has not been made as indicated in the report of such Airport Management Consultant from proceeds of such series of Bonds, investment income thereon or from other appropriated sources (other than Net Revenues),

are equal to at least:

(1) 125% of the Debt Service Requirements on all Senior Lien Obligations, plus

(2) 110% of the Debt Service Requirements on all Subordinate Lien Bonds,

scheduled to occur during each such respective Fiscal Year after taking into consideration the additional Debt Service Requirements for the additional series of Bonds to be issued;

(v) Alternate Coverage for Additional Bonds. In lieu of the certification described in (iv) above, the City Controller may provide a certificate showing that, for either the City's most recent complete Fiscal Year or for any consecutive 12 out of the most recent 18 months, the Net Revenues were equal to at least:

(A) 125% of the maximum Debt Service Requirements on all Senior Lien Obligations, plus

(B) 110% of the maximum Debt Service Requirements on all Subordinate Lien Bonds

scheduled to occur in the then current or any future Fiscal Year after taking into consideration the issuance of the series of Bonds proposed to be issued;

(vi) Refunding Bonds. If Bonds are being issued for the purpose of refunding less than all previously issued Bonds which are then Outstanding, none of the certifications described in (iii), (iv) or (v) above are required (except in the event Senior Lien Obligations are issued to refund Subordinate Lien Bonds) so long as the Debt Service Requirements in any Fiscal Year after the issuance of such Bonds will not exceed the scheduled Debt Service Requirements in the same Fiscal Year prior to the issuance of such Bonds; and

(vii) Supplemental Ordinance Requirements. Provision is made in the Supplemental Ordinance authorizing the series of Bonds proposed to be issued for:

(A) additional payments into the Senior Lien Bond Interest and Sinking Fund or the Subordinate Lien Bond Interest and Sinking Fund (as the case may be) sufficient to provide for any principal and interest requirements resulting from the issuance of the Bonds including, in the event that interest on the additional series of Bonds is capitalized and/or to be paid from investment earnings, a requirement for the transfer from the capitalized interest fund or account and/or from the construction fund to the Senior Lien Bond Interest and Sinking Fund or the Subordinate Lien Bond Interest and Sinking Fund (as the case may be) of amounts fully sufficient to pay interest on such series of Bonds during the period specified in the ordinance; and

(B) satisfaction of the Reserve Fund Requirement by not later than the date required by this Master Ordinance or any Supplemental Ordinance authorizing any Additional Senior Lien Obligations or Additional Subordinate Lien Bonds, as applicable.

(b) Special Provisions for Refunding Short Term/Demand Obligations. The provisions of paragraphs (iv), (v) and (vi) above shall not apply to the issuance of Additional Senior Lien Obligations or Additional Subordinate Lien Bonds for the purpose of refunding Short Term/Demand Obligations.

(c) Special Provisions for Completion Bonds. The provisions of paragraphs (iii), (iv) and (v) above shall not apply to the issuance of Completion Bonds in accordance with Section 5.03 hereof.

(d) Special Provisions for Credit Agreements. The City may enter into Credit Agreements with respect to any Bonds or Qualified Hedge Agreements if:

(i) prior to entering into such Credit Agreement, the City, to the extent required by law, shall cause the proceedings authorizing the Credit Agreement and any contracts or reimbursement agreements relating thereto to be submitted to and approved by the Attorney General of Texas;

(ii) for any Credit Agreement that obligates the City to make any future payments for the availability of such Credit Agreement, the City's financial advisor must certify that the inclusion of such payments within the Debt Service Requirements on the Bonds or Qualified Hedge Agreement to which the Credit Agreement relates will not cause such Bonds or Qualified Hedge Agreement to fail to comply with the applicable coverage requirements for their issuance or incurrence; and

(iii) to the extent that Bonds are issued with a credit facility or a liquidity facility, the City authorizes the inclusion of additional provisions in a Supplemental Ordinance, as needed, to provide security for the payment of the principal and interest when due on Credit Agreement Obligations.

The issuer of any Credit Agreement shall be entitled to be subrogated to the rights of the Owners of the Bonds or the counterparty to the Qualified Hedge Agreement secured by such Credit Agreement, and the City's reimbursement and repayment obligations to the issuer of the Credit Agreement shall be secured by Net Revenues as herein provided.

(e) Special Provisions for Qualified Hedge Agreements. The City may enter into Qualified Hedge Agreements contemporaneously with or following the issuance of any Bonds or in conjunction with the payment, sale, resale or exchange of any Bonds for any purpose authorized by law if the following requirements are satisfied:

(i) the proceedings authorizing the Qualified Hedge Agreement and any contracts or reimbursement agreements relating thereto shall, to the extent required by law, be submitted to and approved by the Attorney General of Texas;

(ii) the City shall have received written confirmations from each rating agency then rating the Bonds that entering into such Qualified Hedge Agreement will not, in and of itself, result in a withdrawal or reduction of any rating assigned to the Bonds; and

(iii) the City's financial advisor shall certify that the Bonds to which the Qualified Hedge Agreement relates could have been issued in satisfaction of all of the coverage requirements of this Article V if the Debt Service Requirements with respect to such Bonds are recalculated (as provided in the definition of Debt Service Requirements) to take into account payments due under the Qualified Hedge Agreement.

SECTION 5.02 SHORT TERM/DEMAND OBLIGATIONS. The City reserves the right to issue, from time to time, one or more series of Additional Senior Lien Obligations and/or Additional Subordinate Lien Bonds as "Short Term/Demand Obligations" provided that the aggregate principal amount of Short Term/Demand Obligations Outstanding at any time may not exceed the greater of \$150,000,000 or 30% of the aggregate principal amount of Bonds Outstanding at the time of issuance of the last series of Short Term/Demand Obligations; provided, however, that no such Short Term/Demand Obligations may be issued without satisfying the applicable provisions of Section 5.01 above; provided further, however, that no Short Term/Demand Obligation shall be subject to the limitations as to maximum principal amount as set forth above during any period of time that the City's financial advisor certifies that the City's variable or adjustable interest rate exposure under such Short Term/Demand Obligation is substantially hedged pursuant to an interest rate swap, interest rate cap or other interest rate hedging mechanism with a counterparty having a rating in one of the two highest credit rating categories by at least two major rating agencies (or with a counterparty whose payment obligations under such interest rate swap, interest rate cap or other interest rate hedging mechanism are insured or guaranteed by an entity having such rating) pursuant to which the maximum net rate of interest that the City is obligated to pay (after taking into account all payments to be made by such

counterparty) does not exceed the interest rate certified with respect to such Short Term/Demand Obligation by such financial advisor pursuant to paragraph (ii) clause (2) of the definition of Debt Service Requirements.

SECTION 5.03 COMPLETION BONDS.

(a) The City reserves the right to issue one or more series of either: (i) Additional Senior Lien Obligations to pay the cost of completing any Airport Project (as defined in this Section below) for which Senior Lien Obligations have previously been issued or (ii) Additional Subordinate Lien Bonds to pay the cost of completing any Airport Project for which Subordinate Lien Bonds have previously been issued.

(b) Prior to the issuance of any series of Completion Bonds the City must provide, in addition to all of the applicable certificates required by Section 5.01, the following documents:

(i) a certificate of the consulting engineer engaged by the City to design the Airport Project for which the Completion Bonds are to be issued stating that such Airport Project has not materially changed in scope since the issuance of the most recent series of Bonds for such purpose (except as permitted in the applicable ordinance authorizing such Bonds) and setting forth the aggregate cost of the Airport Project which, in the opinion of such consulting engineer, has been or will be incurred; and

(ii) a certificate of the Aviation Director (i) stating that all amounts allocated to pay costs of the Airport Project from the proceeds of the most recent series of Bonds issued in connection with the Airport Project for which the Completion Bonds are being issued were used or are still available to be used to pay costs of such Airport Project; (ii) containing a calculation of the amount by which the aggregate cost of that Airport Project (furnished in the consulting engineer's certificate described above) exceeds the sum of the costs of the Airport Project paid to such date plus the moneys available at such date within any construction fund established therefor or other like account applicable to the Airport Project plus any other moneys which the Aviation Director, in his discretion, has determined are available to pay such costs in any other fund; and

(iii) certifying that, in the opinion of the Aviation Director, the issuance of the Completion Bonds is necessary to provide funds for the completion of the Airport Project.

(c) For purposes of this Section, the term "Airport Project" shall mean any Airport System facility or project which shall be defined as an Airport Project in any Supplemental Ordinance authorizing the issuance of Additional Senior Lien Obligations or Additional Subordinate Lien Bonds for the purpose of financing such Airport Project. Any such Supplemental Ordinance may contain such further provisions as the City shall deem appropriate with regard to the use, completion, modification or abandonment of such Airport Project.

SECTION 5.04 INFERIOR LIEN OBLIGATIONS. The City reserves the right to issue or incur, for any lawful Airport System purpose, bonds, notes or other obligations secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the lien on Net Revenues securing payment of the Senior Lien Obligations and Subordinate Lien Bonds. Such Inferior Lien Bonds may be further secured by any other source of payment lawfully available for such purposes.

SECTION 5.05 SPECIAL FACILITIES BONDS. The City reserves the right to issue, from time to time, in one or more series, Special Facilities Bonds as herein provided to finance and refinance the cost of any Special Facilities, including all reserves required therefor, all related costs of issuance and other amounts reasonably relating thereto, provided that such Special Facilities Bonds shall be payable solely from payments by Special Facilities lessees and/or other security not provided by the City. In no event shall any Gross Revenues or any other amounts held in any other fund or account maintained by the City as security for the Bonds or for the construction, operation, maintenance or repair of the Airport System be pledged to the payment of Special Facilities Bonds or to the payment of any expenses of maintenance and operation of Special Facilities.

SECTION 5.06 PFC OBLIGATIONS. The City reserves the right to issue or incur, for any lawful Airport System purpose, bonds, notes or other obligations secured in whole or in part by a lien on all or any designated portion of the PFC Revenues. Such PFC obligations may be further secured by any other source of payment lawfully available for such purposes.

SECTION 5.07 EXCLUDED FEE AND CHARGE REVENUES OBLIGATIONS. The City reserves the right to issue or incur, for any lawful Airport System purpose, bonds, notes or other obligations secured in whole or in part by a lien on all or any designated portion of Excluded Fee and Charge Revenues. Such obligations may be further secured by any other source of payment lawfully available for such purposes.

ARTICLE VI

COVENANTS AND PROVISIONS RELATING TO ALL BONDS

SECTION 6.01 PUNCTUAL PAYMENT OF OBLIGATIONS. The City will punctually pay or cause to be paid the interest on and principal of all Airport Obligations according to the terms thereof and will faithfully do and perform, and at all times fully observe, any and all covenants, undertakings, stipulations and provisions contained in this Master Ordinance and in any Supplemental Ordinance.

SECTION 6.02 MAINTENANCE OF AIRPORT SYSTEM. The City covenants that it will at all times maintain and operate the Airport System, or, within the limits of its authority, cause the same to be maintained and operated, in good and serviceable condition.

SECTION 6.03 LIMITATION ON CITY CHARGES FOR OPERATION AND MAINTENANCE EXPENSES. The City covenants that it will not charge the Airport System any amounts for overhead expenses relating to the administration, operation and maintenance of the Airport System except to the extent that such amounts are reasonably allocable to the Airport System based upon a stated policy of allocation, reasonably applied to the Airport System and all other departments of the City and further covenants that the City will not charge the Airport System for any property provided or services rendered by the City unless such services are reasonably necessary and required for the Airport System and are not otherwise provided to the Airport System. All such charges imposed by the City upon the Airport System shall be reasonable, fair and consistent with similar charges imposed upon other departments of the City and shall be consistent with all applicable federal laws, regulations and other requirements applicable to the Airport System or imposed upon the Airport System in connection with the acceptance by the Airport System of any federal grants or aid.

SECTION 6.04 SALE OR ENCUMBRANCE OF AIRPORT SYSTEM.

(a) Except for the use of the Airport System or services pertaining thereto in the normal course of business, neither all nor a substantial part of the Airport System shall be sold, leased, mortgaged, pledged, encumbered, alienated, or otherwise disposed of until all Airport Obligations have been paid in full, or unless provision has been made therefor, and the City shall not dispose of its title to the Airport System or to any useful part thereof, including, without limitation, any property necessary to the operation and use of the Airport System, (i) except for the execution of leases, licenses, easements, or other agreements in connection with the operation of the Airport System by the City, or in connection with any Special Facilities, (ii) except for any pledges of and liens on revenues derived from the operation and use of the Airport System, or any part thereof, or any Special Facilities pertaining thereto, for the payment of Airport Obligations, Special Facilities Bonds and any other obligations pertaining to the Airport System, and (iii) except as otherwise provided in the next two paragraphs.

(b) The City may sell, exchange, lease, or otherwise dispose of, or exclude from the Airport System, any property constituting a part of the Airport System which the Aviation Director certifies (i) to be no longer useful in the construction or operation of the Airport System, or (ii) to be no longer necessary for the efficient operation of the Airport System, or (iii) to have been replaced by other property of at least equal value. The net proceeds of the sale or disposition of any Airport System property (or the fair market value of any property so excluded) pursuant to this paragraph shall be used for the purpose of replacing properties at the Airport System, or shall be paid into the Airports Improvement Fund for the purposes thereof.

(c) Nothing herein shall prevent any transfer of all or a substantial part of the Airport System to another body corporate or politic (including, but not necessarily limited to a joint action agency or an airport authority) which assumes the City's obligations under this Master Ordinance and any Supplemental Ordinance, wholly or in part, if, in the written opinion of the Airport Management Consultant, the ability to meet the rate covenant and other covenants under this Master Ordinance and any Supplemental Ordinance are not materially and adversely affected. In the event of any such transfer and assumption, nothing herein shall prevent the retention by the City of any facility of the Airport System if, in the written opinion of the

Airport Management Consultant, such retention will not materially and adversely affect nor unreasonably restrict such other body's ability to comply with the requirements of the rate covenant and the other covenants of this Master Ordinance and any Supplemental Ordinance.

SECTION 6.05 INSURANCE. The City further covenants and agrees that it will keep the Airport System insured with insurers of good standing against risks, accidents or casualties against which and to the extent customarily insured against by political subdivisions of the State of Texas operating similar properties, to the extent that such insurance is available. All net proceeds of such insurance shall be applied to repair or replace the insured property that is damaged or destroyed or to make other capital improvements to the Airport System or to redeem Airport Obligations except for proceeds of business interruption insurance, which shall be credited to the Revenue Fund.

SECTION 6.06 ACCOUNTS, RECORDS, AND AUDITS. The City covenants and agrees that it will maintain a proper and complete system of records and accounts pertaining to the Gross Revenues and the operation of the Airport System in which full, true and proper entries will be made of all dealings, transactions, business and affairs that in any way affect or pertain to the Gross Revenues and the Airport System. The City shall, within 120 days after the close of each of its Fiscal Years or as soon thereafter as practicable, cause an audit report of such records and accounts to be prepared by an independent certified public accountant or independent firm of certified public accountants, which shall calculate the Gross Revenues, Net Revenues and Debt Service Requirements for such Fiscal Year and shall set forth a calculation to demonstrate whether the City has satisfied the rate covenant contained in Section 3.03 hereof. In addition, the City shall each year, as a part of its annual audit, cause an independent certified public accountant or independent firm of certified public accountants to prepare a report containing an analysis of any overhead and direct charges imposed on the Airport System by the City to determine whether such charges were imposed in conformity with the covenant contained in Section 6.03 hereof. Each year promptly after such reports are prepared, the City shall furnish copies thereof to any Owners of Airport Obligations who shall request the same. All expenses of obtaining such reports shall constitute Operation and Maintenance Expenses of the Airport System.

SECTION 6.07 PLEDGE AND ENCUMBRANCE OF REVENUES. The City covenants and represents that it has the lawful power to create a lien on and to pledge the Net Revenues to secure the payment of the Airport Obligations and has lawfully exercised such power under the Constitution and laws of the State of Texas. The City further covenants and represents that, other than to the payment of Operation and Maintenance Expenses and the Airport Obligations, the Gross Revenues are not and will not be made subject to any other lien, pledge or encumbrance to secure the payment of any debt or obligation of the City, unless such lien, pledge or encumbrance is junior and subordinate to the lien and pledge securing payment of the Airport Obligations.

SECTION 6.08 BONDHOLDERS REMEDIES. This Master Ordinance and all Supplemental Ordinances shall constitute a contract between the City and the Owners of the Airport Obligations from time to time Outstanding and this Master Ordinance and all Supplemental Ordinances shall be and remain irrevocable until the Airport Obligations authorized thereby and the interest thereon shall be fully paid or discharged or provision therefor shall have been made as provided herein. In the event of a default in the payment of the principal of or interest on any of the Airport Obligations or a default in the performance of any duty or covenant provided by law or in this Master Ordinance or any Supplemental Ordinance, the Owner or Owners of any of the Airport Obligations authorized thereby may pursue all legal remedies afforded by the Constitution and laws of the State of Texas to compel the City to remedy such default and to prevent further default or defaults. Without in any way limiting the generality of the foregoing, it is expressly provided that any Owner of any of the Airport Obligations may at law or in equity, by suit, action, mandamus, or other proceedings, enforce and compel performance of all duties required to be performed by the City under this Master Ordinance and any Supplemental Ordinance, including the making and setting of reasonably required rates and charges for the use and services of the Airport System, the deposit of the Gross Revenues thereof into the special Funds herein provided, and the application of such Gross Revenues in the manner required in this Master Ordinance and any Supplemental Ordinance.

SECTION 6.09 LEGAL HOLIDAYS. In any case where the date of maturity of interest on or principal of any series of Airport Obligations or the date fixed for redemption of any series of Airport Obligations shall be in the City a legal holiday or a day on which a Paying Agent/Registrar for such Airport Obligations is authorized by law to close, then payment of interest or principal need not be made on such date but may be made on the next succeeding day not in the City a legal holiday or a day on which such Paying Agent/Registrar is authorized by law to close with the same force and effect as if made on the date of maturity or the date fixed for redemption and no interest shall accrue for the period from the date of maturity or redemption to the date of actual payment.

ARTICLE VII

ALTERATION OF RIGHTS AND DUTIES; AMENDMENT OF ORDINANCE

SECTION 7.01 ALTERATION OF RIGHTS AND DUTIES. The rights, duties, and obligations of the City and the Owners of the Airport Obligations are subject in all respects to all applicable federal and state laws including, without limitation, the provisions of federal law regarding the composition of indebtedness of political subdivisions, as the same now exist or may hereafter be amended. Inconsistencies among the provisions of the ordinances authorizing the issuance of Airport Obligations shall be resolved by the City in any manner or by any action to conform such provisions as it deems necessary or advisable in accordance with applicable law. The City may consult with and rely on the opinion of nationally recognized bond counsel with regard to any or all matters in this Article VII.

SECTION 7.02 AMENDMENT WITHOUT CONSENT. The City may, without the consent of or notice to any of the Owners of the Airport Obligations, amend this Master Ordinance or any Supplemental Ordinance for any one or more of the following purposes:

(a) To cure any ambiguity, defect, omission or inconsistent provision in this Master Ordinance, any Supplemental Ordinance, or in the Airport Obligations; or to comply with any applicable provision of state or federal law or regulation of federal agencies; provided, however, that such action shall not adversely affect the interests of the Owners of the Airport Obligations;

(b) To change the terms or provisions of this Master Ordinance or any Supplemental Ordinance to the extent necessary to prevent the interest on the Airport Obligations from being includable within the gross income of the Owners thereof for federal income tax purposes;

(c) To grant to or confer upon the Owners of the Airport Obligations any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Owners of the Airport Obligations;

(d) To add to the covenants and agreements of the City contained in this Master Ordinance or any Supplemental Ordinance other covenants and agreements of, or conditions or restrictions upon, the City, or to surrender or eliminate any right or power reserved to or conferred upon the City in this Master Ordinance or any Supplemental Ordinance;

(e) To subject to the lien and pledge of this Master Ordinance or any Supplemental Ordinance additional Net Revenues which may include revenues, properties or other collateral;

(f) To add requirements or incorporate modifications the compliance with which is required by a rating agency in connection with issuing or confirming a rating with respect to any series of Airport Obligations;

(g) To authorize any series of Additional Senior Lien Bonds, Additional Senior Lien Notes, Additional Subordinate Lien Bonds or additional Inferior Lien Bonds, and, in connection therewith: (i) to specify and determine the terms, forms and details thereof and (ii) to create such additional funds and accounts and to effect such amendments of this Master Ordinance which may be necessary for such issuance, provided in each case that no such amendment or supplement shall be contrary to or inconsistent with the limitations set forth in this Master Ordinance;

(h) To evidence any sale, transfer or encumbrance of the Airport System in accordance with the provisions of Section 6.04;

(i) To make any other modification, amendment or supplement that shall not materially adversely affect the interests of the Owners of the Airport Obligations;

(j) To cure or correct any technical defect in connection with the terms, conditions or procedures relating to the variable rate provisions contained in any Supplemental Ordinance; provided, however, that such action shall not adversely affect the interests of the owners of the Airport Obligations; and

(k) Prior to the conversion of any variable rate Airport Obligations to a different interest rate mode, to change the terms, conditions or procedures relating to the new interest rate mode.

SECTION 7.03 AMENDMENTS REQUIRING CONSENT. The City may at any time adopt one or more ordinances (which may be in the form of a Supplemental Ordinance) amending, modifying, adding to or eliminating any of the provisions of this Master Ordinance or any Supplemental Ordinance, but, if such amendment is not of the character described in Section 7.02 hereof, only with the consent given in accordance with Section 7.04 hereof of the Owner or Owners of not less than a majority in aggregate unpaid principal amount of the Airport Obligations then Outstanding and affected by such amendment, modification, addition, or elimination; provided, however, that nothing in this Section 7.03 shall permit (a) an extension of the maturity of the principal of or interest on any Airport Obligation issued hereunder, or (b) a reduction in the principal amount of any Airport Obligation or the rate of interest on any Airport Obligation, or (c) a privilege or priority of (i) any Senior Lien Obligation(s) over any other Senior Lien Obligation(s), (ii) any Subordinate Lien Bond(s) over any other Subordinate Lien Bond(s), or (iii) any Inferior Lien Bond(s) over any other Inferior Lien Bond(s), or (d) a reduction in the aggregate principal amount of the Airport Obligations required for consent to such amendment, unless the Owner or Owners of 100% in aggregate principal amount of the Airport Obligations shall consent to any of said changes. Before the City shall adopt one or more of such ordinances pursuant to this Section 7.03, the City must receive an opinion from nationally recognized bond counsel to the effect that such ordinance or ordinances does not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Airport Obligations.

SECTION 7.04 CONSENT OF OWNERS.

(a) Any consent required by Section 7.03 hereof by any Owner of Airport Obligations shall be in writing, may be in any number of concurrent writings of similar tenor, and may be signed by such Owner or his duly authorized attorney. Proof of the execution of any such consent or of the writing appointing any such attorney and of the ownership Airport Obligations, if made in the following manner, shall be sufficient for any of the purposes of this Master Ordinance, and shall be conclusive in favor of the City with regard to any action taken, suffered or omitted to be taken by the City under such instrument, namely:

(i) The fact and date of the execution by any person of any such writing may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments within such jurisdiction that the person signing such writing acknowledged before him the execution thereof, or by affidavit of any witness to such execution; and

(ii) The fact of the ownership by any person of any Airport Obligations and the date of the ownership of same may be proved by a certificate executed by an appropriate officer of the Paying Agent/Registrar for such Airport Obligations, stating that at the date thereof such Airport Obligations were registered in the name of such party in the register for such Airport Obligations.

In lieu of the foregoing the City may accept such other proofs of the foregoing as it shall deem appropriate.

(b) Consents required pursuant to Section 7.03 shall be valid only if given following the giving of notice by or on behalf of the City requesting such consent and setting forth the substance of the proposed amendment of this Master Ordinance or any Supplemental Ordinance in respect of which such consent is sought and stating that copies thereof are available at the office of the City Secretary for inspection. Such notice shall be given by certified mail, postage prepaid, to each Registered Owner of the Airport Obligations affected at the address shown on the register for such Airport Obligations.

SECTION 7.05 REVOCATION OF CONSENT. Any consent by any Owner of an Airport Obligation pursuant to the provisions of this Article shall be irrevocable for a period of six months from the date of mailing of the notice provided for in this Article, and shall be conclusive and binding upon all future Owners of the same Airport Obligation and any Airport Obligation delivered in transfer thereof or in exchange for or replacement thereof during such period. Such consent may be revoked at any time after six months from the date of the first mailing of such notice by the Owner who gave such consent or by a successor in title, by filing notice thereof with the Paying Agent/Registrar for such Airport Obligation, but such revocation shall not be effective if the Owners of a majority in aggregate principal amount of the Airport Obligations then Outstanding and affected thereby have, prior to the attempted revocation, consented to and approved the amendment.

SECTION 7.06 BOND INSURER MAY BE DEEMED OWNER. For purposes of giving any consent under this Article VII, the bond insurer of any series of Airport Obligations may be deemed by the City to be the Owner of such series of Airport Obligations, as provided in the related Supplemental Ordinance or officers pricing certificate.

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APPENDIX C-2 PROPOSED AMENDMENTS TO THE MASTER ORDINANCE

The following amendments described in this Appendix C-2 are described in the Official Statement as the “Proposed 2016 Amendments.”

Amendment Effective Date

The Proposed 2016 Amendments to the Master Ordinance have been incorporated into the Series 2025 Bonds and all of the Outstanding obligations of the Houston Airport System, but will not become effective until the Proposed 2016 Amendments (or portions thereof) have become incorporated or deemed incorporated into every ordinance pursuant to which Airport Obligations are then Outstanding, subject to satisfaction of the required conditions (the “Amendment Effective Date”). The City may not exercise its rights under any portion of the Proposed 2016 Amendments until the Amendment Effective Date.

Proposed 2016 Amendments

Short Term/Demand Obligations. On the Amendment Effective Date, Section 5.02 of the Master Ordinance shall read:

SECTION 5.02 SHORT TERM/DEMAND OBLIGATIONS. The City reserves the right to issue, from time to time, one or more series of Additional Senior Lien Obligations and/or Additional Subordinate Lien Bonds as “Short Term/Demand Obligations”; provided, however, that no such Short Term/Demand Obligations may be issued without satisfying the applicable provisions of Section 5.01 above.

On the Amendment Effective Date, the definition of “Short Term/Demand Obligations” shall read:

“Short Term/Demand Obligations” means each series of bonds, notes and other obligations, the payment of principal of which is either (i) payable on demand by or at the option of the holder at a time sooner than a date on which such principal is deemed to be payable for purposes of computing Debt Service Requirements, or (ii) scheduled to be payable within one year from the date of issuance and is contemplated to be refinanced for a specified period or term through the issuance of additional Short Term/Demand Obligations pursuant to a commercial paper or other similar financing program. The purchase price, payment or refinancing of such principal may be additionally secured by a letter of credit, line of credit, standby bond purchase agreement, bond insurance, surety bond or other credit or liquidity facility.

Released Revenues. On the Amendment Effective Date, the definition of “Gross Revenues” shall read as follows, and the definition of “Released Revenues” set forth below shall be added to the Master Ordinance.

“Gross Revenues” means all income and revenues derived directly or indirectly by the City from the operation and use of and otherwise pertaining to the Airport System, or any part thereof, whether resulting from extensions, enlargements, repairs, betterments or other improvements to the Airport System, or otherwise, and includes, except to the extent hereinafter expressly excluded, all revenues received by the City from the Airport System, including, without limitation, all rentals, rates, fees and other charges for the use of the Airport System, or for any service rendered by the City in the operation thereof, interest and other income realized from the investment or deposit of amounts credited to any fund required to be maintained pursuant to this Master Ordinance or any other ordinance authorizing the issuance of Airport Obligations. Gross Revenues expressly exclude:

- (i) proceeds of any Airport Obligations;
- (ii) interest or other investment income derived from Airport Obligation proceeds deposited to the credit of any construction fund, or applied to fund capitalized interest, or interest or investment income required to be retained in the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Reserve

Fund, the Inferior Lien Bond Reserve Fund, the Operation and Maintenance Reserve Fund or any escrow fund in order to accumulate therein any amount or balance required to be accumulated or maintained therein pursuant to any ordinance authorizing any series of Airport Obligations;

(iii) any monies received as grants, appropriations, or gifts, the use of which is limited by the grantor or donor to the construction or acquisition of Airport System facilities, except to the extent any such monies shall be received as payments for the use of the Airport System facilities;

(iv) any revenues derived from any Special Facilities which are pledged to the payment of Special Facilities Bonds;

(v) insurance proceeds other than loss of use or business interruption insurance proceeds;

(vi) the proceeds of any passenger facility charge or other per-passenger charge as may be hereafter authorized under federal law, including, but not limited to, those revenues defined as PFC Revenues;

(vii) sales and other taxes collected by the Airport System on behalf of the State of Texas and any other taxing entities;

(viii) Federal Payments received by the Airport System unless the City first receives an opinion from nationally recognized bond counsel to the effect that such payments, if included in Gross Revenues, would not cause the interest on the Airport Obligations to be includable within the gross income of the Owners thereof for federal income tax purposes;

(ix) the net proceeds received by the City from the disposition of any Airport System property;

(x) any Excluded Fee and Charge Revenues;

(xi) any Taxable Bond Credit Revenues; and

(xii) any Released Revenues

“Released Revenues” means a specific, identifiable portion of the income and revenues otherwise constituting Gross Revenues (the “Identified Revenues”) with respect to which the City has adopted a Supplemental Ordinance authorizing the Identified Revenues to be excluded from the definition of Gross Revenues and finding and determining that the following conditions have been met:

(i) either (x) the City Controller of the City has certified that, after the Identified Revenues were excluded from Gross Revenues, Net Revenues for each of the two most recent completed Fiscal Years were sufficient to satisfy the rate covenant set forth in Section 3.03(a) of this Master Ordinance in each of those Fiscal Years or (y) an Airport Management Consultant has certified, based upon reasonable assumptions, that after the Identified Revenues are excluded from Gross Revenues, Net Revenues for each of the following three (3) full Fiscal Years will be sufficient to enable the City to satisfy the rate covenant set forth in Section 3.03(a) of this Master Ordinance in each of those five Fiscal Years;

(ii) the City has received an opinion of nationally recognized bond counsel to the effect that the exclusion of the Identified Revenues from the definition of Gross Revenues and from the pledge and lien of this Master Ordinance will not, in and of itself, cause the interest on any Outstanding Airport Obligations to be included in gross income for purposes of federal income tax; and

(iii) the City has received written confirmation from each rating agency then rating the Outstanding Airport Obligations to the effect that the exclusion of the Identified Revenues from the

definition of Gross Revenues and from the pledge and lien of this Master Ordinance will not cause a withdrawal or reduction in any unenhanced rating then assigned to any Outstanding Airport Obligation.

Beginning the first full Fiscal Year following the adoption of the Supplemental Ordinance that meets the requirements set forth above, the Identified Revenues shall become "Released Revenues" and shall be excluded from the pledge and lien of this Master Ordinance. The City shall file a notice with the MSRB describing the Released Revenues and the effective date of the exclusion of the Released Revenues from the pledge and lien of this Master Ordinance.

Reserve Fund Requirement for Non-Participant Accounts. On the Amendment Effective Date, the definition of "Reserve Fund Requirement" shall read:

"Reserve Fund Requirement" means the amount required to be maintained in the Senior Lien Bond Reserve Fund (and the accounts therein), the Subordinate Lien Bond Reserve Fund (and the accounts therein), or the Inferior Lien Bond Reserve Fund (and the accounts therein), as the case may be, as further set forth in the applicable Supplemental Ordinance and/or officers pricing certificate authorizing one or more series of Airport Obligations. Upon the issuance of any series of Airport Obligations, the amount of the Reserve Fund Requirement for such Airport Obligations shall be as set forth in the related Supplemental Ordinance or officers pricing certificate.

A. For Senior Lien Notes, such amount shall be computed and recomputed upon the issuance of each series of Senior Lien Notes to be the arithmetic average of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Senior Lien Notes then Outstanding, including the series of Senior Lien Notes then being issued.

B. For Senior Lien Bonds that are Reserve Fund Participants, such amount shall be computed upon the issuance of each series of Senior Lien Bonds that are Reserve Fund Participants and on each date on which Senior Lien Bonds that are Reserve Fund Participants are paid at maturity or optionally or mandatorily redeemed, to be the greatest amount of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Senior Lien Bonds then Outstanding that are Reserve Fund Participants.

C. For any series of Senior Lien Bonds that are Reserve Fund Non-Participants, such amount shall be computed upon the issuance of such series of Senior Lien Bonds and on each date on which any of such series of Senior Lien Bonds are paid at maturity or optionally or mandatorily redeemed, to be an amount, if any, as set forth and determined in the related Supplemental Ordinance.

D. For Subordinate Lien Bonds that are Reserve Fund Participants, such amount shall be computed and recomputed upon the issuance of each series of Subordinate Lien Bonds that are Reserve Fund Participants and on each date on which Subordinate Lien Bonds that are Reserve Fund Participants are paid at maturity or optionally or mandatorily redeemed, to be the greatest amount of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Subordinate Lien Bonds then Outstanding that are Reserve Fund Participants, including any series of Subordinate Lien Bonds then being issued that are Reserve Fund Participants.

E. For any series of Subordinate Lien Bonds that are Reserve Fund Non-Participants, such amount shall be computed upon the issuance of such series of Subordinate Lien Bonds and on each date on which any of such series of Subordinate Lien Bonds are paid at maturity or optionally or mandatorily redeemed, to be an amount, if any, as set forth and determined in the related Supplemental Ordinance.

F. For Inferior Lien Bonds that are Reserve Fund Participants, such amount shall be computed and recomputed upon the issuance of each series of Inferior Lien Bonds that are Reserve Fund Participants and on each date on which Inferior Lien Bonds that are Reserve Fund Participants are paid at maturity or optionally or mandatorily redeemed, to be the greatest amount of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Inferior Lien Bonds

then Outstanding that are Reserve Fund Participants, including any series of Inferior Lien Bonds then being issued that are Reserve Fund Participants.

G. For any series of Inferior Lien Bonds that are Reserve Fund Non-Participants, such amount shall be computed upon the issuance of such series of Inferior Lien Bonds and on each date on which any of such series of Inferior Lien Bonds are paid at maturity or optionally or mandatorily redeemed, to be an amount, if any, as set forth and determined in the related Supplemental Ordinance.

Definition of Qualified Hedge Agreement. On the Amendment Effective Date, the definition of “Qualified Hedge Agreement” shall read:

“Qualified Hedge Agreement” means any agreement between the City and a qualifying financial institution (as described in the following sentence) for the purpose of providing an interest rate swap, exchange, cap, collar, floor, forward or other hedging mechanism, arrangement or security, however denominated, expressly identified pursuant to its terms as being entered into in connection with and in order to hedge interest rate fluctuations on any portion of any Airport Obligations and in consideration for which the City may agree to pay, but solely from Net Revenues as herein provided, (i) periodic payments for the availability of such Qualified Hedge Agreement and/or (ii) net amounts as a result of fluctuation in hedged interest rates or in the value of any index of payment and/or (iii) termination charges. A Qualified Hedge Agreement may only be entered into with a financial institution that has long-term credit ratings or the obligations of which are unconditionally guaranteed by a financial institution with long-term credit ratings in one of the two highest generic rating categories by one nationally recognized rating service. Obligations of the City pursuant to a Qualified Hedge Agreement shall be included within the definition of Debt Service Requirements for the series of Airport Obligations to which the Qualified Hedge Agreement relates. Further, obligations of the City to make payments under a Qualified Hedge Agreement derived from or resulting from a fluctuation in hedged interest rates or in the value of any index of payment shall be deemed to be payments of interest on the Airport Obligations so hedged. Each Qualified Hedge Agreement shall be deemed to be a part of the Airport Obligations of the series to which it relates for the purpose of securing its payment by the pledge of Net Revenues as provided in Articles III, V and VI of this Master Ordinance. However, issuers of and counterparties to Qualified Hedge Agreements shall not be treated as Owners of Airport Obligations for purposes of any voting rights to approve amendments or direct the exercise of any remedies under this Master Ordinance.

APPENDIX D
FORMS OF OPINIONS OF CO-BOND COUNSEL AND TAX COUNSEL

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BRACEWELL LLP
711 Louisiana Street, Suite 2300
Houston, Texas 77002

WEST & ASSOCIATES, L.L.P.
440 Louisiana Street, Suite 1880
Houston, Texas 77002

[Closing Date]

We have acted as co-bond counsel for the City of Houston, Texas (the “City”) in connection with the issuance of the bonds described as follows:

CITY OF HOUSTON, TEXAS AIRPORT SYSTEM SUBORDINATE LIEN REVENUE AND REFUNDING BONDS, SERIES 2025A (AMT) in the original aggregate principal amount of \$677,820,000 (the “Series 2025A Bonds”); and

CITY OF HOUSTON, TEXAS AIRPORT SYSTEM SUBORDINATE LIEN REVENUE BONDS, SERIES 2025B (NON-AMT) in the original aggregate principal amount of \$22,035,000 (the “Series 2025B Bonds,” and together with the Series 2025A Bonds, the “Series 2025 Bonds”).

The Series 2025 Bonds mature, bear interest and may be transferred and exchanged as set forth in the Series 2025 Bonds, City of Houston Ordinance No. 2025-0545 (the “Twelfth Supplemental Ordinance”) and the officers pricing certificate executed pursuant thereto (the “Officers Pricing Certificate”). The Series 2025 Bonds are also authorized pursuant to City of Houston Ordinance No. 2016-0846 (the “Master Ordinance”). The Master Ordinance, the Twelfth Supplemental Ordinance and the Officers Pricing Certificate are referred to collectively herein as the “Ordinance.” Capitalized terms used herein but not otherwise defined have the meanings assigned in the Ordinance.

We have acted as co-bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Series 2025 Bonds under the Constitution and laws of the State of Texas. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of certified proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the City, including the Airport System, or the reporting or disclosure thereof in connection with the offer and sale of the Series 2025 Bonds. Our role in connection with the Preliminary Official Statement, dated as of July 17, 2025, and the Official Statement, dated as of July 24, 2025, prepared for use in connection with the offer and sale of the Series 2025 Bonds, has been limited as described therein.

In our capacity as co-bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the authorization and issuance of the Series 2025 Bonds, the commercial paper notes being refunded with a portion of the proceeds of the Series 2025A Bonds (the “Refunded Notes”), on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the City Council of the City; a sufficiency certificate of the issuing and paying agent for the Refunded Notes (the “Refunded Notes Paying Agent”), with calculations from the City’s co-financial advisors (the “Sufficiency Certificate”); customary certificates of officials, agents and representatives of the City, the Refunded Notes Paying Agent, and certain other persons; and other certified showings relating to the authorization and issuance of the Series 2025 Bonds and firm banking

and financial arrangements for the discharge and final payment of the Refunded Notes. We have also examined a specimen of the form of registered bond of each series of the Series 2025 Bonds.

Based on such examination, and in reliance on such representations, certifications and assumptions, it is our opinion that:

1. The transcript of certified proceedings referenced above evidence complete legal authority for the issuance of the Series 2025 Bonds in full compliance with the Constitution and the laws of the State of Texas presently effective and that therefore the Series 2025 Bonds constitute legal, valid and binding special obligations of the City.

2. The Series 2025 Bonds, together with all outstanding Subordinate Lien Bonds and any additional Subordinate Lien Bonds hereafter issued, are payable from and equally and ratably secured by a lien on Net Revenues (subject to the prior and superior lien on Net Revenues securing the outstanding Senior Lien Obligations and any additional Senior Lien Obligations hereafter issued) and the Subordinate Lien Bond Interest and Sinking Fund, as provided in the Ordinance. The Series 2025 Bonds are Reserve Fund Participants and are also secured by a lien on the Subordinate Lien Bond Reserve Fund Participant Account, as provided in the Ordinance.

3. Firm banking and financial arrangements have been made for the discharge and final payment of the Refunded Notes pursuant to the terms of the Ordinance and the deposit to the Refunded Notes Paying Agent, as described and certified in the Sufficiency Certificate, and therefore the Refunded Notes are deemed to be fully paid and no longer outstanding.

The rights of the Owners of the Series 2025 Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions, and may be limited by general principles of equity that permit the exercise of judicial discretion. The Series 2025 Bonds are secured solely by a lien on and pledge of Net Revenues and certain funds as described above and as provided in the Ordinance and do not constitute an indebtedness or general obligation of the City. Owners of the Series 2025 Bonds shall never have the right to demand payment of principal or interest out of any funds raised or to be raised by taxation.

The City has reserved the right to issue additional Senior Lien Obligations, additional Subordinate Lien Bonds and Inferior Lien Bonds, subject to the restrictions contained in the Ordinance, secured by liens on the Net Revenues that are prior and superior to, on a parity with, or junior and inferior to, respectively, the lien on Net Revenues securing the Series 2025 Bonds.

Our opinions are based on existing law and our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions, and this opinion letter may not be relied upon in connection with any changes to the law or facts, or actions taken or omitted, after the date hereof.

BRACEWELL

[Closing Date]

We have acted as tax counsel for the City of Houston, Texas (the “City”) in connection with the issuance of the bonds described as follows:

CITY OF HOUSTON, TEXAS AIRPORT SYSTEM SUBORDINATE LIEN REVENUE AND REFUNDING BONDS, SERIES 2025A (AMT) in the original aggregate principal amount of \$677,820,000 (the “Series 2025A Bonds”); and

CITY OF HOUSTON, TEXAS AIRPORT SYSTEM SUBORDINATE LIEN REVENUE BONDS, SERIES 2025B (NON-AMT) in the original aggregate principal amount of \$22,035,000 (the “Series 2025B Bonds” and, collectively with the Series 2025A Bonds, the “Series 2025 Bonds”).

The Series 2025 Bonds mature, bear interest and may be transferred and exchanged as set forth in the Series 2025 Bonds, City Ordinance No. 2025-0545 (the “Twelfth Supplemental Ordinance”) and the officers pricing certificate executed pursuant thereto (the “Officers Pricing Certificate”). The Series 2025 Bonds are also authorized pursuant to City Ordinance No. 2016-0846 (the “Master Ordinance”). The Master Ordinance, the Twelfth Supplemental Ordinance and the Officers Pricing Certificate are referred to collectively herein as the “Ordinance.” Capitalized terms used herein but not otherwise defined have the meanings assigned in the Ordinance.

We have acted as tax counsel for the sole purpose of rendering an opinion with respect to the excludability of interest on the Series 2025 Bonds from gross income for federal income tax purposes. In our capacity as tax counsel, we have assumed no responsibility with respect to the financial condition or capabilities of the City, including the Airport System, or the reporting or disclosure thereof in connection with the offer and sale of the Series 2025 Bonds. Our role in connection with the Preliminary Official Statement, dated as of July 17, 2025, and the Official Statement, dated as of July 24, 2025, prepared for use in connection with the offer and sale of the Series 2025 Bonds, has been limited as described therein.

We acknowledge that West & Associates L.L.P., with whom our firm serves as co-bond counsel (“Co-Bond Counsel”) with respect to the Series 2025 Bonds, is not responsible for our opinion as tax counsel. The two firms are not part of a partnership, and each firm is an independent entity.

In our capacity as tax counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the authorization and issuance of the Series 2025 Bonds, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the City Council of the City; customary certificates of officials, agents and representatives of the City and certain other persons; and other certified showings relating to the authorization and issuance of the Series 2025 Bonds. We also have analyzed such laws, regulations, guidance, documents and other materials as we have deemed necessary to render the opinions herein.

In providing the opinions set forth herein, we have relied on representations and certifications of the City and other parties involved with the issuance of the Series 2025 Bonds with respect to matters solely within the knowledge of the City and such parties, which we have not independently verified. In addition, we have assumed for purposes of this opinion continuing compliance with the covenants in the Ordinance, including, but not limited to, covenants relating to the tax-exempt status of the Series 2025 Bonds. Further, we have relied on the legal opinion of Co-Bond Counsel of even date herewith regarding the legality and validity of the Series 2025 Bonds under the Constitution and laws of the State of Texas.

Based on such examination, and in reliance on such representations, certifications and assumptions, it is our opinion that:

1. Interest on the Series 2025A Bonds is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), except with respect to interest on any Series 2025A Bond for any period during which such Series 2025A Bond is held by a person who is a "substantial user" of the facilities financed or refinanced with the proceeds of the Series 2025A Bonds or a "related person" to such a "substantial user," each within the meaning of section 147(a) of the Code;

2. Interest on the Series 2025A Bonds is an item of tax preference that is includable in alternative minimum taxable income for purposes of determining the alternative minimum tax on individuals;

3. Interest on the Series 2025B Bonds is excludable from gross income for federal income tax purposes under section 103 of the Code; and

4. Interest on the Series 2025B Bonds is not an item of tax preference for purposes of the alternative minimum tax on individuals.

We observe that interest on the Series 2025 Bonds is taken into account in computing the alternative minimum tax imposed on certain corporations.

We express no opinion as to the amount or timing of interest on the Series 2025 Bonds or, except as stated above, any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or the acquisition, ownership or disposition of, the Series 2025 Bonds. This opinion is specifically limited to the laws of the United States of America. Further, in the event that the representations of the City or other parties upon which we have relied are determined to be inaccurate or incomplete or the City fails to comply with the covenants of the Ordinance, interest on the Series 2025 Bonds could become includable in gross income for federal income tax purposes from the date of the original delivery of the Series 2025 Bonds, regardless of the date on which the event causing such inclusion occurs.

Our opinions are based on existing law and our knowledge of facts as of the date hereof and may be affected by certain actions that may be taken or omitted on a later date. We assume no duty to update

[Closing Date]

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or supplement our opinions, and this opinion letter may not be relied upon in connection with any changes to the law or facts, or actions taken or omitted, after the date hereof.

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APPENDIX E
SUMMARY OF SCHEDULES RELATED TO
CONTINUING DISCLOSURE OF INFORMATION

Schedule A	PFC Collections
Schedule 1	Passenger Statistics (including Schedule 1-A – Total Enplaned Passengers for the Houston Airport System)
Schedule 2	Airline Market Shares
Schedule 3	Total Aircraft Operations and Aircraft Landed Weight
Schedule 4	Total System Cargo Activity
Schedule 5	Selected Financial Information
Schedule 6	Summary of Certain Fees and Charges
Schedule 7	Houston Airport System Debt Service Requirements Schedule
Schedule 8	Houston Airport System Outstanding Debt
Schedule 8A	Cash and Liquidity
Schedule 9:*	Actuarially Determined Contribution Amounts and Changes in Pension Plan Assets
Schedule 9A:*	Municipal System Pension Plan Assets, Liabilities and Unfunded Actuarial Accrued Liability
Schedule 9B:*	Police System Pension Plan Assets, Liabilities and Unfunded Actuarial Accrued Liability
Schedule 9C:*	Firefighter Fund Pension Plan Assets, Liabilities and Unfunded Actuarial Accrued Liability

* The City agrees to update Schedules 9, 9A, 9B, and 9C only to the extent that the City receives updated actuarial reports from the boards of the pension systems. While required by State law, the City is not empowered to require the boards of the pension systems to obtain updated actuarial reports. The pension systems will periodically receive additional actuarial reports with regard to the City's pension plans, to the extent required under State law or requested by the boards of the pension systems. Accordingly, updated Schedules 9, 9A, 9B and 9C may not be available in every annual continuing disclosure filing.

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APPENDIX F

DEPOSITORY TRUST COMPANY

The information in this APPENDIX describes the securities clearance procedures of The Depository Trust Company (“DTC”) in the United States. The information in this APPENDIX concerning DTC has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy of such information.

The Depository Trust Company

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Series 2025 Bonds. The Series 2025 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for the Series 2025 Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2025 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2025 Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2025 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2025 Bonds, except in the event that use of the book-entry system for the Series 2025 Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2025 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2025 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2025 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2025 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2025 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the financing

documents. For example, Beneficial Owners of the Series 2025 Bonds may wish to ascertain that the nominee holding the Series 2025 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2025 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2025 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2025 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2025 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the City or paying agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the paying agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest on the Series 2025 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the paying agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Remarketing Agent, and shall effect delivery of such Series 2025 Bonds by causing the Direct Participant to transfer the Participant's interest in the Series 2025 Bonds, on DTC's records, to the Remarketing Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 2025 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Remarketing Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the Series 2025 Bonds at any time by giving reasonable notice to the City or the paying agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

Each person for whom a Participant acquires an interest in the Series 2025 Bonds, as nominee, may desire to make arrangements with such Participant to receive a credit balance in the records of such Participant, and may desire to make arrangements with such Participant to have all notices of redemption or other communications to DTC, which may affect such persons, to be forwarded in writing by such Participant and to have notification made of all interest payments.

NONE OF THE CITY, THE UNDERWRITERS OR THE PAYING AGENT/REGISTRAR WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE SERIES 2025 BONDS.

So long as Cede & Co. is the registered owner of the Series 2025 Bonds, as nominee for DTC, references herein to Bondholders or registered owners of the Series 2025 Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the Series 2025 Bonds.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent by the Paying Agent/Registrar to DTC only.

For every transfer and exchange of Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

The City, in its sole discretion and without the consent of any other person, may terminate the services of DTC with respect to the Series 2025 Bonds if the City determines that (i) DTC is unable to discharge its responsibilities with respect to the Series 2025 Bonds, or (ii) a continuation of the requirement that all of the outstanding Bonds be registered in the registration books kept by the Paying Agent/Registrar in the name of Cede & Co., as nominee of DTC, is not in the best interests of the Beneficial Owners.

NONE OF THE CITY, THE UNDERWRITER OR THE PAYING AGENT/REGISTRAR WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO: (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2025 BONDS UNDER THE ORDINANCE; (III) THE SELECTION BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2025 BONDS; (IV) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL, REDEMPTION PRICE OR INTEREST DUE WITH RESPECT TO THE SERIES 2025 BONDS; (V) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE SERIES 2025 BONDS; OR (VI) ANY OTHER MATTER.

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