NEW ISSUE — BOOK-ENTRY ONLY **RATINGS: (See "RATINGS" herein)**

Interest on the Series 2001 Bonds is subject to U.S. federal income taxation. See "TAX MATTERS" for a more detailed discussion.

$130,250,000
CITY OF HOUSTON, TEXAS
Airport System Special Facilities Taxable Revenue Bonds (Consolidated Rental Car Facility Project), Series 2001

Dated: March 1, 2001 **Due: January 1, as shown on inside cover**

The City of Houston, Texas Airport System Special Facilities Taxable Revenue Bonds (Consolidated Rental Car Facility Project), Series 2001 (the "Series 2001 Bonds") will be issued pursuant to a Trust Indenture (the "Indenture") dated as of March 1, 2001 by and between the City of Houston, Texas, a municipal corporation and home rule city, duly incorporated under the laws of the State of Texas (the "Issuer" or the "City"), and The Chase Manhattan Bank, as trustee (the "Trustee"). Interest on the Series 2001 Bonds is payable on July 1, 2001 and on each January 1 and July 1 thereafter until maturity or earlier redemption. Interest will accrue on the Series 2001 Bonds from March 1, 2001 at the rate or rates per annum set forth on the inside cover page hereof, calculated on the basis of a 360 day year composed of twelve 30-day months. The Series 2001 Bonds will be issued in fully registered form and in denominations of $5,000 or integral multiples thereof.

The Series 2001 Bonds, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York to which payments of principal of and interest on the Series 2001 Bonds will be made. Individual purchases will be made in book entry form only. Purchasers of the Series 2001 Bonds will not receive physical delivery of bond certificates.

Payment, when due, of the principal of and interest on the Series 2001 Bonds will be guaranteed under a financial guaranty insurance policy to be issued by Financial Guaranty Insurance Company simultaneously with the delivery of the Series 2001 Bonds.

FGIC.
A GE Capital Company

The principal of and interest on the Series 2001 Bonds are payable from and secured by a lien on and pledge of the Pledged Revenues and Pledged Funds, which includes revenues derived from certain daily usage fees ("Customer Facility Charges") to be collected and remitted by the rental car companies (the "Operators") using the Project (defined below) pursuant to the Master Special Facilities Lease Agreement by and between the Issuer and each of the Operators (the "Master Lease") and an Ordinance adopted by the City Council of the City, and the funds and accounts established under the Indenture including a Debt Service Reserve Fund and a Coverage Fund. Payment of the principal of and interest on the Series 2001 Bonds is not guaranteed by any of the Operators and no revenues, profits or property of the Operators are pledged as security for the Series 2001 Bonds.

Beginning on the date which is the first day of the month following issuance of the Series 2001 Bonds, the Customer Facility Charges shall be collected by each Operator from certain persons entering into a motor vehicle rental agreement with respect to the Project (defined below). See "SECURITY FOR THE SERIES 2001 BONDS."

None of the Series 2001 Bonds shall constitute an indebtedness of the City within the meaning of any provisions of the Constitution or laws of the State of Texas or the City's Home Rule Charter and shall not be general obligations of the City. No holder of any Series 2001 Bond shall have the right to demand payment thereof out of any funds raised or to be raised by taxation, or any other revenues generally available to the City or the Airport System, other than the Pledged Revenues and Pledged Funds.

The project to be financed with a portion of the proceeds of the Series 2001 Bonds and other funds (the "Project") is located on the premises of the George Bush Intercontinental Airport/Houston (the "Airport") and includes (i) a common rental car customer service building and a parking structure for ready/return parking spaces, (ii) maintenance/storage facilities for each of the Operators providing areas for rental car servicing, maintenance and storage and individual Operator administrative offices, (iii) a common bus fleet and bus maintenance facility, and (iv) site development and infrastructure for such facilities, including roadway improvements, landscaping and signage. See "THE PROJECT."

The Series 2001 Bonds are subject to optional and mandatory redemption prior to maturity as described herein. See "THE SERIES 2001 BONDS — Redemption Prior to Maturity."

AN INVESTMENT IN THE SERIES 2001 BONDS INVOLVES CERTAIN RISKS. A PROSPECTIVE BONDHOLDER IS ADVISED TO READ THIS ENTIRE OFFICIAL STATEMENT PRIOR TO MAKING AN INVESTMENT IN THE SERIES 2001 BONDS, PARTICULARLY THE SECTION HEREOF ENTITLED "INVESTMENT CONSIDERATIONS."

The Series 2001 Bonds are offered when, as and if issued by the Issuer and received by the Underwriters, subject to prior sale, withdrawal or modification of the offer without notice, and subject to the approval of legality by the Attorney General of the State of Texas, and the delivery of the legal opinion of Vinson & Elkins, L.L.P. and Burney & Foreman, Houston, Texas, as Co-Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the City by the City Attorney. In addition, certain legal matters will be passed upon by Snell & Wilmer L.L.P., Denver, Colorado, as Disclosure Counsel and by Fulbright & Jaworski L.L.P., as Counsel to the Underwriters. It is expected that delivery of the Series 2001 Bonds in definitive form will take place through the facilities of DTC in New York, New York, on or about March 22, 2001.

SALOMON SMITH BARNEY

DAIN RAUSCHER INCORPORATED **RAMIREZ & CO., INC.**

APEX PRYOR SECURITIES
(a Division of Rice Financial Products) **J.P. MORGAN & CO.**

LEHMAN BROTHERS **MORGAN STANLEY DEAN WITTER**
Morgan Stanley & Co. Incorporated

Dated: March 1, 2001

MATURITY SCHEDULE

SERIES 2001 BONDS

$28,765,000 Serial Bonds

Maturity (January 1)	Principal Amount	Interest Rate
2004	$1,185,000	5.44%
2005	$1,355,000	5.54
2006	$1,535,000	5.59
2007	$1,730,000	5.84
2008	$1,945,000	5.94
2009	$2,170,000	6.04
2010	$2,415,000	6.09
2011	$2,675,000	6.14
2012	$2,960,000	6.24
2013	$3,260,000	6.34
2014	$3,590,000	6.44
2015	$3,945,000	6.49

$33,300,000 7.13% Term Bonds due January 1, 2021

$68,185,000 6.88% Term Bonds due January 1, 2028

All Series 2001 Bonds are priced at 100%

The Series 2001 Bonds are subject to optional and mandatory redemption prior to maturity as described herein. See "THE SERIES 2001 BONDS — Redemption Prior to Maturity."

No broker, dealer, salesperson, or other person has been authorized by the Issuer or by the Underwriters of the Series 2001 Bonds as shown on the cover page of this Official Statement (the ''Underwriters''), to give any information or to make any representations in connection with the offering of the Series 2001 Bonds other than those contained in this Official Statement and the Appendices hereto, and, if given or made, such information or representation must not be relied upon as having been authorized by the Issuer or by the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any securities other than those described on the cover page hereof, nor shall there be any offer to sell, solicitation of an offer to buy or sale of such securities by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been obtained from the Feasibility Consultant, the Issuer and other sources believed by the Issuer to be reliable. While the Underwriters have performed a review sufficient to form a reasonable basis for their belief in the accuracy and completeness of the key representations of the Issuer contained in this Official Statement, the Underwriters do not guarantee the accuracy or completeness of the Official Statement. This Official Statement contains, in part, estimates and matters of opinion which, whether or not expressly stated as such, are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions or that they will be realized. The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made after any such delivery shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer, the Project or in the information or opinions set forth herein, since the date of this Official Statement.

The summaries of various resolutions, statutes, contracts and other documents contained herein are intended as summaries only and are qualified in their entirety by reference to the originals thereof, copies of which are available from the Underwriters during the period of the original offering of the Series 2001 Bonds, upon reasonable request and payment of the reasonable costs of copying the same.

The Series 2001 Bonds have not been registered with the Securities and Exchange Commission under the Securities Act of 1933, as amended.

THE PRICES AT WHICH THE SERIES 2001 BONDS ARE OFFERED TO THE PUBLIC BY THE UNDERWRITERS MAY VARY FROM THE INITIAL PUBLIC OFFERING PRICES AND YIELDS APPEARING ON THE COVER PAGE HEREOF. IN ADDITION, THE UNDERWRITERS MAY ALLOW CONCESSIONS OR DISCOUNTS FROM SUCH INITIAL PUBLIC OFFERING PRICES TO DEALERS AND OTHERS. FURTHERMORE, THE UNDERWRITERS MAY ENGAGE IN TRANSACTIONS INTENDED TO STABILIZE THE PRICES OF THE SERIES 2001 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET IN ORDER TO FACILITATE THEIR DISTRIBUTION. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

[This page intentionally left blank.]

TABLE OF CONTENTS

[This page intentionally left blank.]

OFFICIAL STATEMENT

Relating to

$130,250,000
CITY OF HOUSTON, TEXAS
AIRPORT SYSTEM SPECIAL FACILITIES TAXABLE REVENUE BONDS
(CONSOLIDATED RENTAL CAR FACILITY PROJECT), SERIES 2001

INTRODUCTION

This Official Statement, which includes the cover page, table of contents and Appendices, furnishes information concerning the sale of the $130,250,000 City of Houston, Texas Airport System Special Facilities Taxable Revenue Bonds (Consolidated Rental Car Facility Project), Series 2001 (the "Series 2001 Bonds"), the security for the Series 2001 Bonds, the George Bush Intercontinental Airport/Houston (the "Airport"), the rental car project being financed with the Series 2001 Bond proceeds, the Feasibility Report prepared in connection with the Series 2001 Bonds, and certain other matters in connection therewith. Unless otherwise defined herein, capitalized terms used herein are defined in APPENDIX C - GLOSSARY OF TERMS.

The Series 2001 Bonds

The Series 2001 Bonds are being issued by the City of Houston, Texas, a municipal corporation and home rule city, duly incorporated under the laws of the State of Texas (the "Issuer") under the Trust Indenture dated as of March 1, 2001 (the "Indenture") by and between the Issuer and The Chase Manhattan Bank (the "Trustee") to finance the Project (defined below) and are payable solely from and secured by a pledge of the revenues derived from a uniform daily usage fee (the "Customer Facility Charge") to be collected and remitted by the rental car companies (the "Operators") and certain funds and accounts held under the Indenture, all as more fully described herein. The Project is not subject to any mortgage or other lien for the benefit of the owners of the Series 2001 Bonds.

The Series 2001 Bonds will bear interest from their dated date at the interest rates set forth herein, and will mature on the dates set forth on the inside cover page hereof and as described herein under the section entitled "DEBT SERVICE SCHEDULE." The Series 2001 Bonds will be subject to optional and mandatory redemption prior to maturity as described herein under "THE SERIES 2001 BONDS - Redemption Prior to Maturity". Interest on the Series 2001 Bonds will be initially payable on July 1, 2001 and semi-annually on each January 1 and July 1 thereafter, and will be computed on the basis of a 360-day year of twelve 30 day months. The Series 2001 Bonds will be issued only in book-entry form in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). See "THE SERIES 2001 BONDS - Registration, Payment, Transfer and Exchange - Book Entry Form".

The proceeds of the Series 2001 Bonds (and other funds as described herein) are to be used to pay for the costs of the design, acquisition, development, construction and equipping of the new consolidated rental car facility at the Airport (the "Consolidated Facility") and the acquisition of 26 buses (the "Buses") to be used in the consolidated busing operation for the transport of customers from the Airport terminals to the customer service building located at the Consolidated Facility (collectively, the "Project"), and to pay for the costs of certain other items in connection with the Project. The Project includes (i) a common rental car customer service building and an attached parking structure for rental car ready/return spaces, (ii) individual maintenance/storage facilities for each of the Operators, providing rental car servicing, maintenance and storage areas, as well as Operator administrative offices, (iii) the Buses and a bus maintenance facility, and (iv) site development and infrastructure improvements for such facilities, which include new roadway improvements, landscaping and signage. See "THE PROJECT".

The nine Operators have each executed Automobile Rental Concession Agreements authorizing them to carry out their vehicle rental activities at the Airport, and Operator Agreements evidencing their mutual agreement to the Master Lease (defined below). See "THE RENTAL CAR OPERATORS". The Project has been designed to accommodate additional rental car companies in the future.

Bond proceeds are also to be used to pay for costs of issuance of the Series 2001 Bonds, including the financial guaranty insurance policy premium, the reserve fund surety bond premium, capitalized interest on the Series 2001 Bonds through July 1, 2001 and funding of the Coverage Fund, as defined and described below.

Security for the Series 2001 Bonds

Principal of and interest on the Series 2001 Bonds are payable from and secured by a pledge of the Pledged Revenues and Pledged Funds, including the Customer Facility Charge revenues remitted by the Operators to the Trustee in accordance with the Master Special Facilities Lease Agreement by and between the Issuer and each of the Operators (the "Master Lease") pursuant to the Indenture. Under the Master Lease, each Operator is required to collect the Customer Facility Charge from certain customers that rent vehicles from, or otherwise enter into motor vehicle rental agreements with the Operator, beginning on the first day of the month following the date of issuance of the Series 2001 Bonds. For a description of the projected amounts of the Customer Facility Charge from the date of collection thereof through the Airport's 2010 calendar year, see the Feasibility Report attached hereto as APPENDIX A. The Customer Facility Charge is to be set in accordance with the Indenture and the Master Lease, in order for it to be maintained at a level estimated to generate Pledged Revenues in each calendar year equal to not less than 125% of the debt service requirements on the Series 2001 Bonds for such calendar year and the amounts necessary to fund in such calendar year all transfers from the Revenue Fund as required by the Indenture. See "SECURITY FOR THE SERIES 2001 BONDS – Rate Covenant." Pursuant to the Master Lease, the Operators are required to collect the Customer Facility Charge and make monthly remittances thereof to the Trustee.

THE OPERATORS HAVE NOT GUARANTEED THE PAYMENT OF PRINCIPAL OF OR INTEREST ON THE SERIES 2001 BONDS, AND NO PROPERTIES OR REVENUES OF THE OPERATORS ARE PLEDGED AS SECURITY THEREFOR. IN ADDITION, THE OPERATORS HAVE NOT GUARANTEED THE COLLECTION OR PAYMENT OF THE CUSTOMER FACILITY CHARGE FROM PERSONS TO WHOM IT IS CHARGED.

The Bonds are also secured by the funds and accounts established and maintained under the Indenture, including a Debt Service Reserve Fund to be maintained in an amount equal to the Debt Service Reserve Fund Requirement which is expected to be initially satisfied by the issuance by the Bond Insurer of a debt service reserve fund surety policy in connection with the Series 2001 Bonds and a Coverage Fund in an amount equal to the Coverage Fund Requirement. See "SECURITY FOR THE SERIES 2001 BONDS."

THE SERIES 2001 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE ISSUER WITHIN THE MEANING OF ANY PROVISIONS OF THE CONSTITUTION OR LAWS OF THE STATE OF TEXAS OR THE CITY'S HOME RULE CHARTER. THE SERIES 2001 BONDS ARE NOT GENERAL OBLIGATIONS OF THE ISSUER AND THE COVENANTS AND REPRESENTATIONS CONTAINED IN THE INDENTURE DO NOT CONSTITUTE A PERSONAL OR PECUNIARY LIABILITY OR CHARGE AGAINST THE GENERAL CREDIT OF THE ISSUER. THE CITY OF HOUSTON, TEXAS, THE CITY COUNCIL OF THE CITY OF HOUSTON, TEXAS, THE STATE OF TEXAS (THE "STATE") AND ANY OTHER POLITICAL SUBDIVISION OF THE STATE AND THEIR RESPECTIVE OFFICERS, AGENTS AND EMPLOYEES SHALL NEVER BE LIABLE IN ANY MANNER FOR THE PAYMENT OF THE SERIES 2001 BONDS. NO HOLDER OF ANY BOND SHALL HAVE THE RIGHT TO DEMAND PAYMENT THEREOF OUT OF ANY FUNDS RAISED OR TO BE RAISED BY TAXATION, AND MAY NOT BE REPAID IN ANY CIRCUMSTANCES FROM TAX REVENUES. IN ADDITION, THE SERIES 2001 BONDS SHALL NOT CONSTITUTE OBLIGATIONS OF THE CITY'S AIRPORT SYSTEM AND NO REVENUES OF THE CITY'S AIRPORT SYSTEM ARE PLEDGED OR WILL BE MADE AVAILABLE TO REPAY ANY OF THE SERIES 2001 BONDS.

Bond Insurance Policy

Payment, when due, of the principal of and interest on the Series 2001 Bonds, will be guaranteed by a Municipal Bond New Issue Insurance Policy (the "Bond Insurance Policy" or "Policy") to be issued by Financial Guaranty Insurance Company (the "Bond Insurer" or "Financial Guaranty") simultaneously with the delivery of the Series 2001 Bonds. See "BOND INSURANCE POLICY AND INSURER" and APPENDIX B - SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY AND SPECIMEN SURETY POLICY.

Debt Service Reserve Fund Surety Policy

The Bond Insurer has committed to issue its Municipal Bond Debt Service Reserve Fund Policy (the "Surety Policy") that will provide for payment to the Trustee of amounts necessary to pay principal of and interest on the Series 2001 Bonds (up to the maximum available amount under the Surety Policy) in the event there are insufficient amounts on deposit in the Debt Service Fund to make such payments. The Surety Policy is to be issued by the Bond Insurer at the time of delivery of the Series 2001 Bonds, and will be held by the Trustee in the Debt Service Reserve Fund in lieu of depositing funds therein equal to the Debt Service Reserve Fund Requirement. The face amount of the Surety Policy shall be an amount equal to the Debt Service Reserve Fund Requirement. See "SECURITY FOR THE SERIES 2001 BONDS - Surety Policy."

The Airport

The Airport, which opened in 1969, is the principal commercial airport serving the Houston metropolitan area. The Airport's principal facilities include four terminal buildings, four air carrier runways and 86 gates. The Airport is owned by the City and managed and operated by the City's Department of Aviation under the administrative control of the Mayor. For a more detailed description of the Airport, see the section herein entitled "THE AIRPORT."

Financial Feasibility Report

Unison-Maximus, Inc. (the "Feasibility Consultant") has been retained to provide a financial feasibility report with respect to the Series 2001 Bonds and the Project. The Feasibility Consultant's Financial Feasibility Report dated February 12, 2001 (the "Feasibility Report") is set out in full in APPENDIX A hereto and should be read in its entirety for an understanding of the assumptions and rationale underlying the financial forecasts contained therein. The Feasibility Report is based upon the assumptions stated therein.

As set forth in the Feasibility Report and as summarized in the following table, revenues from Customer Facility Charges are forecast to be sufficient to meet the rate covenant of the Indenture, as described herein under "SECURITY FOR THE SERIES 2001 BONDS - Rate Covenant." The forecasted Customer Facility Charges and forecasted debt service coverage for the years ending December 31 calculated by the Feasibility Consultant and set forth in the following table are based on preliminary estimated amounts for the Series 2001 Bonds. See Tables V1-3 and V1-4 in the Feasibility Report included herein as APPENDIX A.

Debt Service Coverage Summary
Years Ending December 31

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Pledged Revenues [1]	$10,135,141	$13,926,399	$14,272,649	$14,586,423	$14,918,592	$14,361,642	$14,599,426	$14,900,520	$15,166,536	$15,438,167
Debt Service	$4,691,258	$9,382,516	$10,382,516	$10,487,416	$10,601,817	$10,714,332	$10,828,598	$10,942,966	$11,061,228	$11,186,820
Debt Service Coverage Ratio [2]	n/a	1.48x	1.37x	1.39x	1.41x	1.34x	1.35x	1.36x	1.37x	1.38x
Required CFC Rate [3]	$1.83	$2.64	$2.84	$2.79	$2.73	$2.68	$2.64	$2.59	$2.56	$2.53

(1) Includes Customer Facility Charge revenues (based on a proposed Customer Facility Charge rate of $3.00 for years 2001 through 2005 and $2.75 for years 2006 through 2010), investment income and fund transfers.
(2) The ratio obtained when applying a level Customer Facility Charge of $3.00 for years 2001 through 2005 and $2.75 for years 2006 through 2010.
(3) The amount necessary to obtain the required coverage ratio of 1.25x.

Investment Considerations

The purchase and ownership of the Series 2001 Bonds involves certain investment considerations. Prospective purchasers of the Series 2001 Bonds are urged to read this Official Statement in its entirety. For a discussion of certain investment considerations relating to the Series 2001 Bonds, see "INVESTMENT CONSIDERATIONS."

Additional Information

The descriptions of documents included herein do not purport to be comprehensive or definitive. Prospective purchasers of the Series 2001 Bonds are referred to the Indenture and Master Lease for the complete terms thereof. During the offering period of the Series 2001 Bonds, copies of the Indenture and Master Lease may be obtained from, and inquiries regarding information contained in this Official Statement may be directed to Salomon Smith Barney, the Underwriters' representative, at 390 Greenwich Street, 2nd Floor, New York, New York 10013 and thereafter may be obtained from the City's Department of Aviation, at 16930 J. F. Kennedy Boulevard, Houston, Texas 77032.

Changes to Official Statement

This Official Statement contains certain changes and information which was not available for inclusion in the Preliminary Official Statement dated February 14, 2001, and which has been included in order to make this Official Statement complete as of its date. The purchasers of the Series 2001 Bonds should read this Official Statement in its entirety.

THE ISSUER

The Issuer is a municipal corporation and home rule city, duly incorporated under the laws of the State of Texas. The Issuer is authorized by Chapter 1503, Texas Government Code, as amended (the "Act") and by an ordinance adopted by the City of Houston, Texas City Council (the "Ordinance"), to issue the Series 2001 Bonds for the purposes described herein and to secure the Series 2001 Bonds by a pledge of the Pledged Revenues and Pledged Funds.

The Issuer assumes no responsibility for and makes no representations or warranties as to the matters contained in this Official Statement under the captions "INTRODUCTION - Financial Feasibility Report," "SECURITY FOR THE SERIES 2001 BONDS - Surety Policy," "BOND INSURANCE POLICY AND INSURER," "THE SERIES 2001 BONDS - Registration, Payment, Transfer and Exchange - Book Entry Form - Book Entry Form," "THE RENTAL CAR OPERATORS," "FEASIBILITY REPORT" and "TAX MATTERS" and with respect to any person or entity under the caption "LITIGATION," other than that information set forth therein concerning the Issuer.

THE SERIES 2001 BONDS

The following is a summary of certain provisions of the Series 2001 Bonds, including terms relating to redemption of the Series 2001 Bonds. Reference is hereby made to the Indenture in its entirety for the detailed provisions pertaining to the Series 2001 Bonds. See APPENDIX E – SELECTED PROVISIONS OF THE INDENTURE.

General

The Series 2001 Bonds will be issued in the aggregate principal amounts and at the interest rates, and will mature in the amounts and on the dates all as set forth on the inside cover page hereof. The Series 2001 Bonds are dated as of March 1, 2001, and are issuable in denominations of $5,000 or any integral multiple thereof. Interest on the Series 2001 Bonds is payable on each January 1 and July 1 (each such date is referred to herein as an "Interest Payment Date"), commencing July 1, 2001, and accrues from the later of the dated date or the most recent Interest Payment Date to which interest has been paid or provided for.

Interest on the Series 2001 Bonds is payable by check mailed first-class, postage prepaid by the Trustee to the registered owner of record at its address as it appears on the bond register maintained by the Trustee as of the close of business on the last day of the calendar month immediately preceding the applicable Interest Payment Date, or by such other customary banking arrangements reasonably acceptable to the Trustee and such Owner, including wire transfer; provided, however, that such Owner shall bear all risk and expense of payment by such other customary banking arrangements.

If interest on any Series 2001 Bond is not paid on any Interest Payment Date and continues unpaid for thirty (30) days thereafter, the Trustee shall establish a new record date for the payment of such interest, to be known as a Special Record Date. The Trustee shall establish a Special Record Date when funds to make such interest payment are received from or on behalf of the Issuer. Such Special Record Date shall be fifteen (15) days prior to the date fixed for payment of such past due interest, and notice of the date of payment and the Special Record Date shall be sent by United States mail, first class, postage prepaid, not later than five (5) days prior to the Special Record Date, to each affected registered owner as of the close of business on the day prior to mailing of such notice.

The Series 2001 Bonds are initially to be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC") as securities depository for the Series 2001 Bonds. Purchases by beneficial owners of the Series 2001 Bonds (the "Beneficial Owners") are to be made in book entry form. See "Registration, Payment, Transfer and Exchange - Book Entry Form" below.

As long as the Bond Insurance Policy is in effect and the Bond Insurer is not in default with respect thereto, the Bond Insurer is considered the sole owner of the Series 2001 Bonds with respect to certain actions taken under the Indenture.

Redemption Prior to Maturity

Redemption of the Series 2001 Bonds may be made in the manner described below.

Optional Redemption. Series 2001 Bonds maturing on and before January 1, 2011 are not subject to optional redemption prior to their maturity date. The Series 2001 Bonds maturing on January 1, 2012 through and including January 1, 2021, are subject to redemption prior to maturity at the option of the Issuer, in whole, or in part, at any time on and after January 1, 2011, at a redemption price (expressed as a percentage of the principal amount of the Series 2001 Bonds to be redeemed), plus accrued interest to the date of redemption as follows:

Redemption Period (Dates Inclusive)	Redemption Price
January 1, 2011 through December 31, 2011	101.0%
January 1, 2012 through December 31, 2012	100.5%
January 1, 2013 through December 31, 2021	100.0%

The Series 2001 Bonds maturing on January 1, 2028 are subject to redemption prior to maturity at the option of the Issuer at anytime, in whole or in part, at a redemption price equal to: (i) the unpaid principal amount of such Series 2001 Bonds to be redeemed, plus (ii) the interest on such principal amount accrued and unpaid through the date fixed for redemption, plus (iii) a Make-Whole Premium on such Series 2001 Bonds, if any. In any case, the call price is the greater of (x) par or (y) par plus the Make-Whole Premium.

"Make-Whole Premium" means a prepayment premium with respect to Called Principal equal to the excess, if any, of the Discounted Value amount of such Called Principal. The Make-Whole Premium will in no event be less than zero. For purposes of this definition, the following terms are defined as follows:

(a) "Called Principal" means the principal amount of the Series 2001 Bonds being redeemed with respect to which a Make-Whole Premium is required to be paid;

(b) "Discounted Value" means the amount obtained by discounting all Remaining Scheduled Payments with respect to Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on a semi-annual basis) equal to the Reinvestment Yield with respect to such Called Principal;

(c) "Reinvestment Yield" means the rate equal to the mean of the bid and ask quotations, based upon a semiannual, 30/360 year, of the Swap Rate calculated using the United States Dollar Denominated Fixed Rate to the LIBOR floating rate as reported at 1:00 EST as of the Business Day next preceding the Settlement Date on Telerate Page 19901 (or any comparable successor page number or publication) for a term equal to the Remaining Average Life. Such implied yield will be determined, if necessary, by interpolating linearly between (i) the reported Swap Rate with the term closest to and greater than the remaining average life of the Bonds and (ii) the reported Swap Rate with the term closest to and less than the remaining average life of the Bonds. If Telerate Page 19901 or a comparable successor page does not exist, then the City shall use the average of the quotes from among five (5) leading dealers if available;

(d) "Remaining Average Life" means with respect to Called Principal the number of years (calculated to the nearest one-twelfth (1/12) year) obtained by dividing (i) the sum of the products obtained by multiplying (A) each Remaining Scheduled Payment of such Called Principal (but not of interest thereon) by (B) the number of years (calculated to the nearest one-twelfth (1/12) year) which will elapse between the Settlement Date with respect to such Called

Principal and the scheduled due date of such Remaining Scheduled Payment (taking into consideration mandatory redemption(s)) by (ii) such Called Principal;

(e) "Remaining Scheduled Payments" means, with respected to Called Principal, all payments of such Called Principal and interest thereon which would be due on or after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date; and

(f) "Settlement Date" means the date on which the Called Principal is prepaid.

Mandatory Redemption. The Series 2001 Bonds maturing on January 1, 2021 (the "2021 Term Bonds") are subject to mandatory redemption, at a redemption price equal to 100% of the principal amount of the 2021 Term Bonds to be redeemed plus accrued interest to the date of redemption, on the dates, in the amounts and subject to the provisions set forth below:

Mandatory Redemption Date (January 1)	Principal Amounts
2016	$4,340,000
2017	$4,775,000
2018	$5,245,000
2019	$5,755,000
2020	$6,300,000
2021 (maturity)	$6,885,000

The Series 2001 Bonds maturing on January 1, 2028 (the "2028 Term Bonds," and together with the 2021 Term Bonds, the "Term Bonds") are subject to mandatory redemption, at a redemption price equal to 100% of the principal amount of the 2028 Term Bonds to be redeemed plus accrued interest to the date of redemption, on the dates, in the amounts and subject to the provisions set forth below:

Mandatory Redemption Date (January 1)	Principal Amounts
2022	$ 7,505,000
2023	$ 8,165,000
2024	$ 8,870,000
2025	$ 9,630,000
2026	$10,445,000
2027	$11,315,000
2028 (maturity)	$12,255,000

Notice of Redemption. The Trustee shall give notice of any redemption of Series 2001 Bonds, identifying the Series 2001 Bonds to be redeemed, by sending written notice by first-class mail, postage prepaid to the Registered Owners of all Series 2001 Bonds to be so redeemed, not less than 30 days before the date fixed for redemption, and, in the case of optional redemption or required redemption, shall be given in writing by the City to the Trustee not less than forty-five (45) days before the date fixed for redemption, to the Beneficial Owner of each Bond (or part thereof) to be redeemed, at the address shown on the Trustee's bond register at the close of business on the business day next preceding the date of mailing such notice. Notice of redemption shall also be sent by certified mail, return receipt requested, to at least two national information services, and any securities depository institutions registered under the Securities Exchange Act of 1934, as amended, acting as securities depository. Each redemption notice shall contain the redemption date, the redemption price, the place at which the Series 2001 Bonds are to be surrendered for payment, the complete official name of the Series 2001 Bonds, CUSIP numbers, certificate numbers, the redemption agent's name and address with a contact person's name and telephone, the date of issuance, the maturity date, and any other information appropriate to identify the Series 2001 Bonds to be redeemed.

So long as a book entry system is used for determining beneficial ownership of the Series 2001 Bonds, the Trustee is to send such notice to DTC or to Cede & Co., as nominee for DTC. Such notice to DTC is to be sent by certified mail, registered mail or by overnight delivery service return receipt requested. DTC was organized to hold securities of its participants ("Participants"). Any failure of DTC to advise any Participant, or of any Participant or indirect participant to notify the Beneficial Owner, of any such notice and its content or effect does not affect the validity of the redemption of the Series 2001 Bonds called for redemption or any other action premised on that notice.

By the date fixed for redemption, due provision shall be made by the Issuer with Trustee for the payment of the applicable redemption price of the Series 2001 Bonds to be redeemed. If proper written notice of redemption is given, and if due provision for payment is made, the Series 2001 Bonds which are to be so redeemed thereby automatically shall be redeemed prior to their scheduled maturity, they shall not bear interest after the date fixed for redemption, and they shall not be regarded as being outstanding except for the purposes of being paid by the Trustee with the funds so provided for such payment.

Notice of redemption is contingent upon a deposit of funds sufficient to pay the Bonds scheduled to be redeemed prior to maturity; if due provision for such payment is not made, by the date fixed for redemption, the Bonds shall continue to bear interest and remain outstanding and such redemption notice shall have no effect.

If less than all of the Series 2001 Bonds outstanding within a particular maturity shall be called for redemption prior to maturity, the Series 2001 Bonds to be called and redeemed shall be selected by lot or other customary random method by the Trustee; provided, however, that the portion of the Series 2001 Bonds to be redeemed shall be in authorized denominations.

In the event of a call for optional redemption, the Trustee's notification to DTC initiates DTC's standard call; and if a partial call, DTC's practice is to determine by lot the amount of the interest of each Participant in the Series 2001 Bonds to be redeemed, and each such Participant then selects by lot the ownership interest in such Series 2001 Bonds to be redeemed. When DTC and Participants allocate the call, the Beneficial Owners of the book entry interests called are to be notified by the broker or other organization responsible for maintaining the records of those interests and subsequently credited by that organization with the proceeds once the Series 2001 Bonds are redeemed.

Registration, Payment, Transfer and Exchange - Book Entry Form

General. The descriptions contained in "Redemption Prior to Maturity" above and which follow insofar as they describe DTC and its relationship with Cede & Co.; the procedures and recordkeeping with respect to beneficial ownership interest in the Series 2001 Bonds; payment of interest and other payments on the Series 2001 Bonds to Participants or Beneficial Owners; confirmation and transfer of beneficial ownership interests in the Series 2001 Bonds; redemption procedures and notices for the Series 2001 Bonds while such bonds are in a book-entry system; and other bond-related transactions by and between DTC, Participants and Beneficial Owners, are based on information that has been obtained from sources that the Issuer believes to be reliable, including DTC, but neither the Issuer nor the Underwriters has any responsibility for the accuracy thereof.

Registration, Transfer and Exchange. The Series 2001 Bonds are issued in fully registered form and are initially to be registered in the name of Cede & Co., as nominee for DTC, as securities depository for the Series 2001 Bonds. Purchases by Beneficial Owners of the Series 2001 Bonds are to be made in book entry form in the principal amount of $5,000 or any integral multiple thereof. Payments to Beneficial Owners are to be made as described below under "*Book Entry Form*." The Series 2001 Bonds may be exchanged or transferred at the principal office of the Trustee.

No charge is to be imposed upon registered owners in connection with the transfer or exchange except for taxes and governmental charges related thereto. Transfers by Beneficial Owners are to be made as described below under "*Book Entry Form.*"

Book Entry Form. DTC will act as securities depository for the Series 2001 Bonds. The Series 2001 Bonds will be issued initially in the form of fully-registered bonds, in the aggregate principal amount of the Series 2001 Bonds, and will be registered in the name of Cede & Co., as nominee for DTC. One fully-registered bond certificate will be issued for each maturity of the Series 2001 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC 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, as amended. DTC holds securities that its Participants (the "Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants accounts, thereby eliminating the need of physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The rules which apply to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of the Series 2001 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2001 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2001 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, but Beneficial Owners are 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 2001 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in the Series 2001 Bonds, except in the event that the use of the book-entry system for the Series 2001 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2001 Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Series 2001 Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2001 Bonds, DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2001 Bonds are credited, which may or may not be the Beneficial Owners. The 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.

Redemption notices shall be sent to Cede & Co. If less than all the Series 2001 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant. Neither DTC nor Cede & Co. will consent or vote with respect to the Series 2001 Bonds. Under its usual procedures, DTC mails an omnibus proxy (the "Omnibus Proxy") to the Issuer 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 2001 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2001 Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payment date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practice, 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 Issuer or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Trustee, disbursement of those payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2001 Bonds at any time by giving reasonable notice to the Trustee, or to the Issuer. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2001 Bonds are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Series 2001 Bond certificates will be printed and delivered.

According to DTC, the foregoing information with respect to DTC has been provided for informational purposes only and is not intended to serve as a representation, warranty or contract modification of any kind.

NEITHER THE ISSUER, NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, TO INDIRECT PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DTC PARTICIPANT, OR ANY INDIRECT PARTICIPANT; (II) THE DELIVERY OF ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE SERIES 2001 BONDS UNDER THE INDENTURE; (III) THE SELECTION BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2001 BONDS; (IV) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR REDEMPTION PREMIUM, IF ANY, OR INTEREST DUE WITH RESPECT TO THE SERIES 2001 BONDS; (V) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF THE SERIES 2001 BONDS; OR (VI) ANY OTHER MATTER.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE SERIES 2001 BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES ONLY TO DTC AND NOT LESS THAN TWO NATIONAL INFORMATION SERVICES. ANY FAILURE OF DTC TO ADVISE ANY PARTICIPANT, OR OF ANY PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE SERIES 2001 BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

SECURITY FOR THE SERIES 2001 BONDS

Authorization

Pursuant to Chapter 1503, Texas Government Code, as amended, the City is authorized to issue revenue bonds for the purpose of establishing, improving, enlarging, extending or repairing the Airport or Airport System of the City, including buildings, improvements and other facilities and services that the City deems to be necessary, desirable, or convenient to the efficient operation and maintenance of its Airport or Airport System and to lease all or any part of said improvements and facilities and pledge moneys derived therefrom to the payment of such bonds. The City has found and determined that certain centralized rental car facilities, equipment and improvements are necessary, desirable and convenient for the efficient operation of the Airport and that it is in the public interest and a public purpose of the City to provide for construction and acquisition thereof as "Special Facilities," which shall initially consist of the Project, to be financed through the issuance of "Special Facilities Bonds," of which the Series 2001 Bonds shall be the first series.

Bond Insurance Policy

Payment, when due, of the principal of and interest on the Series 2001 Bonds will be guaranteed by the Bond Insurance Policy to be issued by the Bond Insurer simultaneously with the delivery of the Series 2001 Bonds. See "BOND INSURANCE POLICY AND INSURER" and APPENDIX B.

Pledged Revenues

The Series 2001 Bonds are being issued pursuant to the Indenture and are special limited obligations of the Issuer payable solely from, and secured by a lien on and pledge of, the Pledged Revenues and Pledged Funds. The Series 2001 Bonds do not constitute an indebtedness or general obligation of the Issuer.

The Issuer has irrevocably pledged and assigned to the Trustee all of its right, title and interest in the Pledged Revenues and Pledged Funds on deposit under the Indenture including the Revenue Fund, the Debt Service Fund, the Debt Service Reserve Fund, the Coverage Fund, the Administrative Costs Fund, the Facility Improvement Fund and the Project Fund to the payment of the Series 2001 Bonds. See APPENDIX E – SELECTED PROVISIONS OF THE INDENTURE.

The principal source of revenue pledged as security for the Series 2001 Bonds is the Customer Facility Charge. For a description of the projected amounts of the Customer Facility Charge for calendar years 2001 through 2010, see "INTRODUCTION – Financial Feasibility Report" and the Feasibility Report attached hereto as APPENDIX A. The initial amount of the Customer Facility Charge is $3.00 per Transaction Day. Beginning on the first day of the month following the issuance of the Series 2001 Bonds, the Operators are required to collect the Customer Facility Charge from certain customers that rent or otherwise enter into a similar arrangement for the use of an automobile in connection with the Operators' automobile rental business at the Airport and make remittances of Customer Facility Charge revenues to the Trustee. The amount of the Customer Facility Charge charged by an Operator shall be the same amount as the Customer Facility Charge charged by each of the other Operators and shall be set forth as a separate line item in each rental agreement and identified as a Customer Facility Charge. Each Operator is required to remit all Customer Facility Charges collected by it directly to the Trustee on the 20th day of each month with respect to Customer Facility Charges collected during the preceding month during which the Series 2001 Bonds are outstanding. The Customer Facility Charge revenues collected by each Operator prior to remittance to the Trustee, are regarded as trust funds held by an Operator as bailee, for the beneficial interest of the Trustee. All Customer Facility Charges collected and held by an Operator are property in which the Operator holds only a possessory interest and not an equitable interest, and the Operators acknowledge in the Master Lease that the Customer Facility Charges are pledged as security for the Series 2001 Bonds. See APPENDIX D – SELECTED PROVISIONS OF THE MASTER LEASE.

No Operator, Issuer or Airport Liability

THE OPERATORS HAVE NOT GUARANTEED THE PAYMENT OF PRINCIPAL OF OR INTEREST ON THE SERIES 2001 BONDS, AND NO PROPERTIES OR REVENUES OF THE OPERATORS ARE PLEDGED AS SECURITY THEREFOR. IN ADDITION, THE OPERATORS HAVE NOT GUARANTEED THE COLLECTION OR PAYMENT OF THE CUSTOMER FACILITY CHARGE FROM PERSONS ON WHOM IT WAS CHARGED.

THE SERIES 2001 BONDS ARE LIMITED SPECIAL REVENUE OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM AND SECURED BY A PLEDGE OF THE PLEDGED REVENUES OR PLEDGED FUNDS. THE PROPERTIES CONSTITUTING THE AIRPORT, THE AIRPORT SYSTEM AND THE GENERAL OR SPECIAL REVENUES OF THE AIRPORT HAVE NOT BEEN PLEDGED AS SECURITY FOR THE SERIES 2001 BONDS, AND NO MORTGAGE OR SECURITY INTEREST HAS BEEN GRANTED OR LIEN CREATED THEREON FOR THE BENEFIT OF THE SERIES 2001 BONDS. THE SERIES 2001 BONDS ARE NOT GENERAL OBLIGATIONS OF THE ISSUER AND THE COVENANTS AND REPRESENTATIONS CONTAINED IN THE INDENTURE DO NOT CONSTITUTE A PERSONAL OR PECUNIARY LIABILITY OR CHARGE AGAINST THE GENERAL CREDIT OF THE ISSUER. THE CITY COUNCIL, THE STATE AND ANY OTHER POLITICAL SUBDIVISION OF THE STATE AND THEIR RESPECTIVE OFFICERS, AGENTS AND EMPLOYEES SHALL NEVER BE LIABLE IN ANY MANNER FOR THE PAYMENT OF THE SERIES 2001 BONDS. THE OWNERS OF THE SERIES 2001 BONDS SHALL NEVER HAVE THE RIGHT TO DEMAND PAYMENT THEREOF OUT OF ANY FUNDS RAISED OR TO BE RAISED BY TAXATION, AND MAY NOT BE REPAID IN ANY CIRCUMSTANCES FROM TAX REVENUES OR ANY OTHER REVENUES GENERALLY AVAILABLE TO THE ISSUER OTHER THAN THE TRUST ESTATE.

THE SERIES 2001 BONDS SHALL NOT CONSTITUTE OBLIGATIONS OF THE CITY'S AIRPORT SYSTEM AND NO REVENUES OF THE CITY'S AIRPORT SYSTEM ARE PLEDGED OR WILL BE MADE AVAILABLE TO REPAY ANY OF THE SERIES 2001 BONDS.

Debt Service Reserve Fund

The Indenture establishes the Debt Service Reserve Fund, which is required to be funded in an amount equal to the Maximum Annual Debt Service Requirement for the Series 2001 Bonds (the "Debt Service Reserve Fund Requirement") in the amount of $12,676,572. The Issuer may satisfy the Debt Service Fund Requirement by depositing to the credit of the Debt Service Reserve Fund any combination from time to time of cash, Authorized Investments and/or one or more surety policies.

In lieu of depositing cash in the Debt Service Reserve Fund equal to the Debt Service Reserve Fund Requirement, the Issuer will acquire the Surety Policy with a portion of the Series 2001 Bond proceeds for delivery to the Trustee. See "Surety Policy" below.

At any time that there are insufficient funds available in the Debt Service Fund to make any required payment of interest on or principal of the Series 2001 Bonds, or to reimburse the credit providers for amounts advanced for such purpose, there shall be transferred from the Debt Service Reserve Fund to the Debt Service Fund such amounts as may be necessary for such purpose. In the event the Debt Service Reserve Fund contains one or more Debt Service Reserve Fund Surety Policy or Policies, the Trustee shall not draw on a Debt Service Reserve Fund Surety Policy unless no other cash or investments are otherwise available in the Debt Service Reserve Fund. If more than one Debt Service Reserve Fund Surety Policy is held in the Debt Service Reserve Fund, the Trustee shall draw on such policies on a proportionate basis. Whenever amounts have been drawn on one or more Debt Service Reserve Fund Surety Policies, amounts subsequently transferred to the Debt Service Reserve Fund shall be used to reimburse the provider (or if more than one, to the providers on a proportionate basis) of such Debt Service Reserve Fund Surety Policies in accordance with the terms thereof, for the amounts advanced, interest thereon and any associated fees. The issuer(s) of such Debt Service Fund Surety Policy or Policies shall be secured with respect to such reimbursement obligations by a lien on the Pledged Revenues, subject and subordinate to the lien securing the Bonds and the required deposits to the Debt Service Fund, and shall further be secured by a lien on amounts from time to time on deposit in and required to be deposited to the Debt Service Reserve Fund.

In the event that the balance in the Debt Service Reserve Fund shall be less than the Debt Service Reserve Fund Requirement, then (i) on or before the last day of each month, after making all prior required transfers from the Revenue Fund, there shall be transferred to the Debt Service Reserve Fund from the Revenue Fund amounts sufficient to reestablish the Debt Service Reserve Fund Requirement within a period of no more than twelve months and (ii) to the extent necessary, the Customer Facility Charge shall be increased by the City as required in order to produce amounts in the Debt Service Reserve Fund to be sufficient to make such transfers. See APPENDIX E – SELECTED PROVISIONS OF THE INDENTURE.

Amounts in the Debt Service Reserve Fund may be applied in any manner authorized under Texas law, including but not limited to making the final payment of principal and interest on the Bonds. Further, amounts in the Debt Service Reserve Fund, to the extent they are in excess of the Debt Service Reserve Fund Requirement, may be transferred at any time to the Debt Service Fund.

Surety Policy

Concurrently with the issuance of the Series 2001 Bonds, Financial Guaranty will issue the Surety Policy. The Surety Policy unconditionally guarantees the payment of that portion of the principal of and interest on the Series 2001 Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the Issuer, provided that the aggregate amount paid under the Surety Policy may not exceed the maximum amount set forth in the Surety Policy, which is $12,677,000. Financial Guaranty will make such payments to the Paying Agent for the Series 2001 Bonds on the later of the date on which such principal and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice subsequently confirmed in writing or written notice by registered or certified mail from the Paying Agent of the nonpayment of such amount by the Issuer. The term "nonpayment" in respect of a Series 2001 Bond includes any payment of principal or interest made to an owner of a Series 2001 Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final nonappealable order of a court having competent jurisdiction.

The Surety Policy is non-cancelable and the premium will be fully paid at the time of delivery of the Series 2001 Bonds. The Surety Policy covers failure to pay principal of the Series 2001 Bonds on their respective stated maturity dates, or dates on which the same shall have been called for mandatory sinking fund redemption, and not on any other date on which the Series 2001 Bonds may have been accelerated, and covers the failure to pay an installment of interest on the stated date for its payment. The Surety Policy shall terminate on the scheduled final maturity date of the Series 2001 Bonds.

Generally, in connection with its issuance of a Surety Policy, Financial Guaranty requires, among other things, (i) that, so long as it has not failed to comply with its payment obligations under the Surety Policy, it be granted the power to exercise any remedies available at law or under the authorizing document other than (A) acceleration of the Series 2001 Bonds or (B) remedies which would adversely affect holders in the event that the issuer fails to reimburse Financial Guaranty for any draws on the Surety Policy; and (ii) that any amendment or supplement to or other modification of the principal legal documents be subject to Financial Guaranty's consent. The specific rights, if any, granted to Financial Guaranty in connection with its issuance of the Surety Policy are set forth in the description of the principal legal documents appearing elsewhere in this Official Statement. Reference should be made as well to such description for a discussion of the circumstances, if any, under which the Issuer of the Series 2001 Bonds is required to provide additional or substitute credit enhancement, and related matters.

For a specimen copy of the Surety Policy, see APPENDIX B – SPECIMEN BOND INSURANCE POLICY INSURANCE POLICY AND SPECIMEN SURETY POLICY.

The Surety Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Coverage Fund

The Indenture establishes a Coverage Fund, which will be initially funded from Series 2001 Bond proceeds. Pursuant to the Indenture, Series 2001 Bond proceeds will be deposited in the Coverage Fund in an amount equal to 25% of the Maximum Annual Debt Service Requirement for the Series 2001 Bonds (the "Coverage Fund Requirement") in the amount of $3,169,143. Thereafter the amount in the Coverage Fund is required to be maintained in an amount not less than the Coverage Fund Requirement. The Indenture requires that on the first Business Day of each calendar year, an amount equal to the Coverage Fund Requirement is to be transferred to the Revenue Fund from the Coverage Fund. The Indenture also requires that after the Trustee has made all prior transfers from the Revenue Fund, on or before the last Business Day of each month there shall be transferred from the Revenue Fund to the Coverage Fund (i) in the first month of each calendar year, to the extent available in the Revenue Fund, an amount equal to the Coverage Fund Requirement, and (ii) if required, in each succeeding month, an amount equal to one-twelfth (1/12) of the Coverage Fund Requirement until the Coverage Fund Requirement has been reestablished in the Coverage Fund. See "Flow of Funds" below.

Facility Improvement Fund

The Indenture also establishes a Facility Improvement Fund. On or before the last Business Day of each month, after making all prior transfers from the Revenue Fund, any remaining amounts in the Revenue Fund shall be transferred to the Facility Improvement Fund. In addition, any amounts remaining in the Project Fund after all Capital Costs of the Project have been paid shall be deposited in the Facility Improvement Fund. Amounts in the Facility Improvement Fund, if any, may be used for any of the following purposes, including the establishment of reserves for such purposes: (i) upon written direction of the Issuer to the Trustee (upon which the Trustee may rely without investigation or inquiry) and after Issuer consultation with the Operators, to pay for the cost of any capital expenditures arising in connection with improvements, expansions, replacements or capital repairs of the Special Facilities as provided in the Master Lease, (ii) upon direction of the Issuer and after consultation with the Operators, to pay relocation or reallocation costs as a result of space reallocations required by the Master Lease, including costs and expenses of signage and new roadway connections and ramps resulting from such reallocation, (iii) upon direction of the Issuer, to make transfers to the Revenue Fund in order to satisfy the Rate Covenant, (iv) to make transfers to the Debt Service Fund to prevent a default in the payment of principal of or interest on the Series 2001 Bonds; and (v) upon direction of the Issuer and after consultation with the Operators, to establish a CFC Stabilization Account, which may be funded only with amounts accumulated in the Facility Improvement Fund as a result of Customer Facility Charge collections over and above the amounts necessary to pay 100% of current annual debt service requirements on the Series 2001 Bonds, to pay current Administrative Costs or to replenish any other fund. Amounts in the CFC Stabilization Account may, at the direction of the Issuer, be transferred to the Revenue Fund in order to avoid or delay changes in the Customer Facility Charge, and thereby stabilize the CFC.

For a more detailed description of the Facilities Improvement Fund, see APPENDIX E – SELECTED PROVISIONS OF THE INDENTURE.

Rate Covenant

Under the terms of the Rate Covenant set forth in the Indenture, the Issuer is required to cause the Customer Facility Charge to be calculated, established and imposed and use diligence to cause the Operators to collect the Customer Facility Charge and remit such collections directly to the Trustee for deposit into the Revenue Fund. The Customer Facility Charge is to be established initially and reviewed and adjusted (if necessary) annually (or otherwise as described below) by the Director based upon written rate reports and recommendations from the Independent Rate Consultant ("Rate Reports") (or, with the consent of the Operators, the City) at rates estimated to generate Pledged Revenues in each calendar year equal to not less than 125% of the debt service requirements on the Bonds for such calendar year, and the amounts necessary to fund in such calendar year all transfers from the Revenue Fund as required by the Indenture.

Under the Indenture, the Director is required to cause the Rate Reports and recommendations to be prepared and to be filed with the Trustee, the Director, the City Controller and each Operator no less frequently than annually, and to be prepared based upon the Transaction Day and other rental information required to be provided annually by the Operators pursuant to the Master Lease. Such Rate Reports are required to include proforma Customer Facility Charge collection data for the ensuing calendar year based upon the imposition of the Customer Facility Charge at the recommended rate. If at any time during such ensuing calendar year, (i) the aggregate collections of Customer Facility Charges are less than 90% of the proforma aggregate collections for the corresponding period as shown in the Rate Report filed with the Trustee, the Director, the City Controller and each Operator, the Director, following consultation with the Operators, may promptly increase the Customer Facility Charge without waiting for the next annual review, or (ii) for four consecutive months the monthly collections of the Customer Facility Charge are less than 80% of the proforma monthly collections for the corresponding periods as shown in the report filed with the Trustee, the Director, the City Controller and each Operator, the Director shall promptly direct the Independent Rate Consultant to review the Transaction Day and Customer Facility Charge collection history and, after consultation with the Operators and Director, to issue a new Rate Report to be filed with the Trustee, the Director, the City Controller and each Operator recommending appropriate action with respect to the Customer Facility Charge rate (and which may include recommending the use of amounts in the CFC Stabilization Account and Facility Improvement Fund), which recommendation shall be implemented as promptly as practicable; provided, that if such report filed with the Trustee, the Director, the City Controller and each Operator is to be issued within the final three months of a calendar year, it may also include recommendations for the ensuing calendar year, in which case no additional Rate Report for such ensuing calendar year will be required, except as may be required by this clause (ii).

So long as the Issuer engages an Independent Rate Consultant to recommend a Customer Facility Charge rate that will enable the Issuer to satisfy the terms of the Rate Covenant and the Issuer causes the prompt imposition of such recommended rate, any failure to satisfy the Rate Covenant in any calendar year shall not constitute an event of default under the Indenture.

Flow of Funds

All revenues and funds under the Indenture are required to be deposited as follows:

1. All Customer Facility Charges remitted by the Operators to the Trustee are to be deposited upon receipt to the Revenue Fund.

2. The Trustee is required to transfer moneys then credited to the Revenue Fund in the following order of priority:

a. First, until the Capitalized Interest Account Requirement for the Series 2001 Bonds is satisfied, the Trustee is required to transfer (i) to the Series 2001 Bonds Capitalized Interest Account in the Debt Service Fund an amount equal in each year to the interest scheduled to be paid in such year on the Series 2001 Bonds, (ii) to the Administrative Costs Fund an amount equal to the Administrative Costs Requirement for such year, and (iii) to the Capitalized Interest Account, all amounts in the Revenue Fund until such account shall have received (from any source including proceeds of the Series

2001 Bonds) an aggregate amount equal to the Capitalized Interest Account Requirement for the Series 2001 Bonds, and thereafter transfer to the Debt Service Fund (x) on or before the last Business Day of each month, an amount sufficient (after giving effect to amounts credited to the Capitalized Interest Account), to accumulate, in approximately equal monthly installments, the amounts necessary to pay all interest on the Series 2001 Bonds scheduled to be payable on the next Interest Payment Date and all principal of the Series 2001 Bonds scheduled to be paid within the next twelve month period, and (y) prior to each Interest Payment Date or other date on which principal on the Series 2001 Bonds is payable, any additional amounts necessary to increase the balance in the Debt Service Fund to be sufficient to make such payments;

b. Second, on or before the last Business Day of each month, the Trustee is required to transfer to the Debt Service Reserve Fund, amounts necessary to reimburse the Bond Insurer for any amounts advanced under the Surety Policy sufficient to reestablish the Debt Service Reserve Fund Requirement within a period of no more than twelve months;

c. Third, on or before the last Business Day of each month, the Trustee is required to transfer to the Coverage Fund, (i) in the first month of each calendar year to the extent available in the Revenue Fund, an amount equal to the Coverage Fund Requirement and (ii) if required, in each succeeding month, an amount equal to one-twelfth (1/12) of the Coverage Fund Requirement until the Coverage Fund Requirement has been reestablished in the Coverage Fund;

d. Fourth, on or before the last Business Day of each month, the Trustee is required to transfer to the Administrative Costs Fund amounts necessary to cause the amount on deposit therein to equal one-twelfth of the Administrative Costs Fund Requirement for the ensuing calendar year; and

e. Fifth, on or before the last Business Day of each month, the Trustee shall transfer all remaining moneys to the Facility Improvement Fund.

For a more detailed description of the application of the monies in the Debt Service Fund, Debt Service Reserve Fund, Administrative Costs Fund and Facility Improvement Fund, see the description above of each of these funds and APPENDIX E, attached hereto and made a part hereof.

Additional Bonds and Refunding Bonds

The Issuer may issue one or more series of Additional Bonds with respect to the Project secured on a parity with the Series 2001 Bonds, any other series of Additional Bonds and Refunding Bonds, provided, however, that no such bonds may be issued unless certain requirements are satisfied, including the following:

1. Execution by the Issuer and Trustee of a supplement to the Indenture providing for the issuance of such bonds;

2. Execution by the Director of the City's Department of Aviation of a certificate concerning the valid issuance of and the Operators' obligations to make payments under the Master Lease to secure such Additional Bonds;

3. Either:

(i) Certification by the City Controller that the Pledged Revenues for the prior calendar year or for any twelve consecutive months out of the prior eighteen months was equal to at least 125% of the Maximum Annual Debt Service Requirements on the Bonds outstanding after the issuance of such series of Additional Bonds; or

(ii) Certification by the Feasibility Consultant that the Pledged Revenues estimated to be received in the three consecutive calendar years following the exhaustion of capitalized interest in any series of such Additional Bonds will in each year be not less than 125% of the debt service in such calendar year on all Bonds outstanding after issuance of such Additional Bonds; or

(iii) In the event such Additional Bonds are being issued for the purpose of completing the Project or any subsequent Special Facilities for which Additional Bonds are issued, such series of completion bonds are issued in amounts not to exceed 15% of the series of bonds that were originally issued for such Project or Special Facilities; or

(iv) In the event Refunding Bonds are issued, certification by the City that either (A) debt service will not increase in any calendar year following such issuance or (B) net present value savings will be realized, or (C) such issuance is in the City's best interests and has been approved by the Bond Insurer; and

4. In the event Refunding Bonds are issued, such bonds shall not create a lien on Pledged Revenues prior and superior to any Series 2001 Bonds outstanding after such issuance, and, in the event that all Bonds then outstanding are Refunding Bonds, such bonds shall not be issued unless the requirements set forth above in paragraph 3 are satisfied.

For a further description of other requirements under the Indenture for the issuance of Additional Bonds, see APPENDIX E.

BOND INSURANCE POLICY AND INSURER

The following information has been furnished by the Bond Insurer for use in this Official Statement. Reference is made to APPENDIX B for a specimen of the Bond Insurer's Policy. No representation is made by the Issuer, the Financial Advisor, the Underwriters or the Operators as to (i) the accuracy or adequacy of the information about the Bond Insurer that is included herein directly or by reference or (ii) the absence of material adverse changes affecting the Bond Insurer subsequent to the date hereof.

Policy

Concurrently with the issuance of the Series 2001 Bonds, Financial Guaranty will issue its Policy. The Policy unconditionally guarantees the payment of that portion of the principal of and interest on the Series 2001 Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the Issuer of the Series 2001 Bonds. Financial Guaranty will make such payments to State Street Bank and Trust Company, N.A., or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of Series 2001 Bonds or the Paying Agent of the nonpayment of such amount by the Issuer. The Fiscal Agent will disburse such amount due on any Series 2001 Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal and interest due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal and interest shall be vested in Financial Guaranty. The term "nonpayment" in respect of a Series 2001 Bond includes any payment of principal or interest made to an owner of a Series 2001 Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The Policy is non-cancelable and the premium will be fully paid at the time of delivery of the Series 2001 Bonds. The Policy covers failure to pay principal of the Series 2001 Bonds on their respective stated maturity dates or dates on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the Series 2001 Bonds may have been otherwise called for redemption, accelerated or advanced in maturity, and covers the failure to pay an installment of interest on the stated date for its payment.

Generally, in connection with its insurance of an issue of municipal securities, Financial Guaranty requires, among other things, (i) that it be granted the power to exercise any rights granted to the holders of such securities upon the occurrence of an event of default, without the consent of such holders, and that such holders may not exercise such rights without Financial Guaranty's consent, in each case so long as Financial Guaranty has not failed to comply with its payment obligations under its insurance policy; and (ii) that any amendment or supplement to or other modification of the principal legal documents be subject to Financial Guaranty's consent. The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the Series 2001 Bonds are set forth in the description of the principal legal documents appearing elsewhere in this Official Statement. Reference should be made as well to such description for a discussion of the circumstances, if any, under which the Issuer is required to provide additional or substitute credit enhancement, and related matters.

This Official Statement contains a section regarding the ratings assigned to the Bonds and reference should be made to such section for a discussion of such ratings and the basis for their assignment to the Bonds.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

The Bond Insurer

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation (the "Corporation"), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither the Corporation nor GE Capital is obligated to pay the debts of or the claims against Financial Guaranty. Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of September 30, 2000, the total capital and surplus of Financial Guaranty was approximately $1.126 billion. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 115 Broadway, New York, New York 10006, Attention: Communications Department (telephone number: 212-312-3000) or to the New York State Insurance Department at 25 Beaver Street, New York, New York 10004-2319, Attention: Financial Condition Property/Casualty Bureau (telephone number: 212-480-5187).

[Remainder of page intentionally left blank.]

DEBT SERVICE SCHEDULE

The following table sets forth for each calendar year ending December 31, the debt service amounts for the Series 2001 Bonds.

Year Ending	Principal	Interest	Total Debt Service Requirements
2001	$ -	$2,942,773.83	$2,942,773.83
2002	-	8,828,321.50	8,828,321.50
2003	-	8,828,321.50	8,828,321.50
2004	1,185,000.00	8,796,089.50	9,981,089.50
2005	1,355,000.00	8,726,324.00	10,081,324.00
2006	1,535,000.00	8,645,887.25	10,180,887.25
2007	1,730,000.00	8,552,468.00	10,282,468.00
2008	1,945,000.00	8,444,185.50	10,389,185.50
2009	2,170,000.00	8,320,885.00	10,490,885.00
2010	2,415,000.00	8,181,814.25	10,596,814.25
2011	2,675,000.00	8,026,155.00	10,701,155.00
2012	2,960,000.00	7,851,680.50	10,811,680.50
2013	3,260,000.00	7,655,986.50	10,915,986.50
2014	3,590,000.00	7,437,046.50	11,027,046.50
2015	3,945,000.00	7,193,433.25	11,138,433.25
2016	4,340,000.00	6,910,697.00	11,250,697.00
2017	4,775,000.00	6,585,747.25	11,360,747.25
2018	5,245,000.00	6,228,534.25	11,473,534.25
2019	5,755,000.00	5,836,384.25	11,591,384.25
2020	6,300,000.00	5,406,623.50	11,706,623.50
2021	6,885,000.00	4,936,578.25	11,821,578.25
2022	7,505,000.00	4,432,956.00	11,937,956.00
2023	8,165,000.00	3,893,908.00	12,058,908.00
2024	8,870,000.00	3,307,904.00	12,177,904.00
2025	9,630,000.00	2,671,504.00	12,301,504.00
2026	10,445,000.00	1,980,924.00	12,425,924.00
2027	11,315,000.00	1,232,380.00	12,547,380.00
2028	12,255,000.00	421,572.00	12,676,572.00
TOTAL	$130,250,000.00	$172,277,084.58	$302,527,084.58

Source: Salomon Smith Barney

THE AIRPORT

The Airport is located approximately 22 miles north of the City's central business district on property comprising in excess of 9,000 acres. The Airport opened in 1969 and is the Houston area's dominant commercial airport facility. Airline service at the Airport is presently provided by 23 airlines, including the 10 major U.S. commercial airlines and 10 foreign-flag carriers. In fiscal year 2000, over 17.0 million passengers were enplaned at the Airport. Based on data compiled by the Airports Council International for calendar year 1999, the Airport ranked 13th among United States airports in terms of total passengers and 19th in terms of aircraft movements.

Existing principal facilities at the Airport consist of four runways, various taxiways, aircraft aprons, a bulk fuel storage facility, an underground fuel distribution system, four terminal buildings with related support facilities, a 566 guest-room hotel leased to and managed by Marriott Hotels, roadways, and surface and structural parking spaces for approximately 19,300 automobiles. The Airport's runways include a 12,000-foot Category I runway, a 10,000-foot Category II runway and a 9,400-foot Category III runway, each capable of handling any aircraft now in commercial service, and a 6,000-foot runway designed to accommodate aircraft of up to 60,000 pounds. The Airport's four terminal buildings, Terminals A, B, and C, and the Mickey Leland International Airlines Building (D) ("Terminal D"), have a total of 86 gate positions and serve both narrowbody and widebody aircraft. Upon completion of current projects already in progress, such terminal buildings will contain, in the aggregate, approximately 2,449,822 square feet of floor space. Terminal A will contain approximately 668,396 square feet of floor space, Terminal B will have approximately 344,787 square feet of floor space, Terminal C will have approximately 888,386 square feet of floor space and Terminal D will have approximately 548,253 square feet of floor space.

The existing terminals, the hotel and some of the surface parking areas are connected by an underground train. The underground train has been in use since the opening of the Airport in 1969. Management of the Airport is evaluating replacement options, including a moving walkway, for the underground train, which has not undergone a major renovation in 20 years. The City and Continental Airlines, Inc. ("Continental") have undertaken certain expansion and improvement activities at the Airport, including the construction of a new 2,200-foot above-ground automated people mover ("APM"), or TerminaLink system, which is now available for use by Continental passengers in transit between Terminals B and C. The APM was completed in 1999 at a cost of $58 million and connects Continental's mainline gates at Terminal C with the Continental Express feeder service gates at Terminal B.

The Marriott Hotel at Intercontinental opened in 1972 and was expanded to 566 guest-rooms in 1982. It is owned by the City, subject to leases that terminate in 2019. Other City-owned facilities at the Airport include three cargo buildings and an office building occupied by the Houston Airport System. Two air carriers, two fixed base operators and a number of private corporations maintain hangar and maintenance facilities and air cargo office and warehouse facilities at the Airport.

The Houston Airport System is currently implementing an approximately $2.6 billion Capital Improvement Program (the "CIP"). Approximately 80% of the CIP is being used for airfield, terminal and infrastructure improvements at the Airport. The Project is an integral part of the CIP. In addition to the Project, the other projects underway and planned at the Airport as part of the CIP include the following: major capacity-enhancing airfield and apron improvements and a number of smaller airfield projects; major expansion projects at all four terminals, plus terminal infrastructure improvements and parking facility projects; infrastructure construction, repair, replacement, improvement and expansion; and, expansion of the fuel delivery capacity and fuel farm.

In addition to the Airport, the City owns and operates the William P. Hobby Airport ("Hobby") and Ellington Field as part of its airport system. For a more complete description of these other facilities included in the City's airport system (the "Airport System"), see "THE CITY'S AIRPORT SYSTEM " herein. The Airport is the principal airport in the Airport System, accounting for approximately 79% of total Airport System passenger enplanements in fiscal year 2000.

THE PROJECT

General Description

The Project is to be located on an approximately 250 acre site on the Airport property, immediately east of JFK Boulevard approximately one mile south of the terminals. The Project will consolidate all rental car operations at the Airport in a single facility, and is to consist of new consolidated and maintenance/storage facilities for the Operators, plus common shuttle buses, a shuttle bus maintenance facility and certain infrastructure improvements. Specifically, the Project includes the design, acquisition, construction and equipping of (i) an approximately 70,000 square foot customer service building (the "Customer Service Building") containing rental customer mini-mall counter areas, common areas and office areas for the Operators, (ii) an approximately 1.6 million square foot two-level parking structure (the "Parking Structure") immediately adjacent and connected to the Customer Service Building containing approximately 4,650 ready/return parking spaces for rental cars, the upper level of which parking structure will be covered by a roof, (iii) individual exclusive use service areas ("Maintenance/Storage Use Facilities") for each of the Operators containing car washes, maintenance facilities, fuel dispenser facilities, fuel storage facilities, overflow parking areas and administrative offices, which facilities will be located outside of the Customer Service Building and Parking Structure, (iv) a fleet of approximately 26 large buses (the "Shuttle Buses"), for transporting rental car customers between the Airport's terminals and the Customer Service Building, plus a bus maintenance facility ("Shuttle Bus Maintenance Facility") consisting of three buildings containing approximately 20,000 square feet in total area with maintenance bays and administrative offices, and located on an approximately 4.2-acre site to the northeast of the Maintenance/Storage Facilities, and (v) certain infrastructure improvements, including, landscaping, roadways, parking structure ramps, utilities, fencing, signage, drainage and a dedicated bus fly-over ramp and the relocation of certain existing utilities (collectively, the "Infrastructure"). See the map and further description of the Project in the Feasibility Report attached hereto as APPENDIX A.

As of the date of this Official Statement, nine Operators have executed Automobile Rental Concession Agreements and Master Leases giving them the right to conduct rental car operations at and occupy and use the Project. All of these Operators currently serve Airport passengers, and transport customers to their facilities with individual buses and vans. The Project is being constructed in order to improve service to Airport rental car customers, to relieve bus traffic congestion in front of the Airport terminals, and roadways, to improve air quality and to provide certain other benefits to the Airport. Upon completion and occupancy of the Project, the current on-Airport rental car facilities will be closed and used by the Airport for purposes not related to the rental of motor vehicles. The Project is additionally being designed to provide space for use by other rental car Operators not currently serving the Airport which may desire to locate on the Airport in the future.

Project Budget

It is currently estimated that the total Project cost will be approximately $131,532,403. The following is an estimated budget for various components of the Project:

Description [1]	Cost
Project Site Work [2]	$22,685,768
Facilities [3]	67,760,141
Bus Acquisition	7,186,494
Exclusive Space [4]	33,900,000
TOTAL	$131,532,403

(1) Includes all hard costs (construction) and soft costs (planning, design, construction management, administration, testing, etc.) for the various components of the Project. A contingency of 7% is also included within the costs. The Airport has appropriated in excess of $9,000,000 of its own funds for planning, design, programming and construction management of the Project. Amounts advanced by the Airport out of the appropriated sums are to be paid back to the Airport from Series 2001 Bond proceeds.

(2) Of such costs approximately $4,888,262 will be paid for by the Airport from its own funds as a contribution to the Project and no Series 2001 Bond proceeds will be used to reimburse the Airport for this contribution.

(3) Includes Parking Structure, Customer Service Building and Shuttle Bus Maintenance Facility.

(4) Each of the Operators will receive a portion of this aggregate amount to pay for its design and construction costs for its individual Maintenance/Storage Facilities and other exclusive use space in the Parking Structure and Customer Service Building.

For a further description of the Project, see Section II of the Feasibility Study attached hereto as APPENDIX A.

Design and Construction

The Airport has engaged the architectural design firm of PGAL, Houston, Texas to plan and design all components of the Project, except for the Maintenance/Storage Facilities. As of the date of this Official Statement, all of the Project design work by PGAL has been completed. Based on this design, the Airport has forwarded requests for and received bids on construction of all components of the Project (except for those portions required to be completed by the individual Operators, as set forth below), and it is expected that the City Council of the Issuer will approve construction contracts based on such bids following its approval of the issuance and sale of the Series 2001 Bonds. Following such approval, the Issuer will give the necessary notices to proceed on construction to the contractors. It is expected that the Project will be open to the public in November, 2002 Prior to such time, the Operators are required to complete design and construction of their individual Maintenance/Storage Facilities, build-out of their individual rental customer counter areas and office areas within the Customer Service Building and build-out of their individual ready/return parking spaces for rental cars located in the Parking Structure. A portion of the Series 2001 Bond proceeds is to be made available to each of the Operators for such purposes, and if their costs exceed the available amounts, the Operators are required to pay for any such excess amounts from their own individual funds. A purchase order (with attached technical specifications) for the Buses has been executed with the Gillig Corporation. Under the purchase order, the pilot bus is to be delivered on August 1, 2002, the first production bus is to be delivered in October 2002 and the final bus is to be delivered prior to opening of the Project to the public.

Operation and Maintenance

The Operators have formed and are all members of the IAH RACS, LLC (the "LLC") a Delaware limited liability company. The LLC intends to contract with third parties to operate and maintain the Customer Service Building, the Parking Structure, the Shuttle Buses, the Shuttle Bus Maintenance Facility and certain grounds on which the Project is located. Each of the Operators is required to pay its share of the operation and maintenance costs pursuant to the allocation formulas established in the Master Lease and the Operating Agreement of the LLC.

[Remainder of page intentionally left blank.]

SOURCES AND USES OF FUNDS

The Issuer anticipates that the proceeds of the Series 2001 Bonds, together with investment earnings thereon, and funds of the Issuer, will be sufficient to pay for the entire costs of the Project. The table below sets forth the estimated sources and uses of Series 2001 Bond proceeds.

Sources	Amounts
Series 2001 Bond Proceeds	$130,250,000.00
Accrued Interest	514,985.42
TOTAL	$130,764,985.42
Uses	
Project Fund [1]	$121,751,926.48
Debt Service Fund [2]	2,871,513.78
Coverage Fund	3,169,143.00
Underwriter's Discount	823,180.00
Costs of Issuance [3]	2,146,840.53
Additional Proceeds	2,381.63
TOTAL:	$130,764,985.42

(1) The amount of Series 2001 Bond proceeds deposited in the Project Fund, together with investment earnings on amounts on deposit in certain funds and accounts held under the Indenture, and the contribution by the City equal the total costs of the Project, including the site work.

(2) Such deposit representing capitalized interest plus investment income thereon, will provide for interest payments on the Series 2001 Bonds through and including July 1, 2001. In addition, accrued interest will be deposited in the Debt Service Fund. Collection of the Customer Facility Charges will commence on the first day of the month immediately following delivery of the Series 2001 Bonds and will be used to pay interest on the Series 2001 Bonds through January 1, 2003.

(3) Includes costs of the Bond Insurance Policy and Surety Policy premiums, fees of the Trustee, legal fees, financial advisory fees, including the Operators' financial advisory fees, fees of the Feasibility Consultant, printing expenses and certain miscellaneous fees and costs.

[Remainder of page intentionally left blank.]

THE CITY'S AIRPORT SYSTEM

The information included under this section has been provided by the City and has not been independently verified by the Operators, the Underwriters or the Financial Advisor, and none of the Operators, the Underwriters or the Financial Advisor makes any representations or warranties, express or implied, as to the accuracy or completeness of such information.

General

The City's Airport System includes the Airport, Hobby Airport, and Ellington Field ("Ellington"). The City owns and operates the Airport, Hobby, and Ellington, which are all subject to all applicable provisions of the Federal Aviation Administration ("FAA") regulations pertaining to operational safety of air carrier airports. For a description of the Airport, see "THE AIRPORT" herein.

Hobby is located approximately seven miles southeast of the central business district of the City on approximately 1,500 acres. Terminal facilities at Hobby consist of approximately 436,000 square feet, including an airline terminal building and three concourses with 31 aircraft gates. Public parking facilities for the terminal include approximately 4,100 parking spaces, of which 3,500 are located in a parking garage. Additional facilities include a cargo building and several hangars. Hobby has two 7,600-foot runways, one 6,000-foot runway and one 5,150-foot runway and is limited to handling only narrowbody aircraft no larger than a Boeing 727-200 or an Airbus A-320. Airports Council International in 1999 ranked Hobby 41st in terms of passengers and 43rd in terms of aircraft operations among airports in the United States.

Ellington is situated approximately 15 miles southeast of the City's central business district on a site of approximately 2,400 acres, a portion of which was conveyed to the City by the federal government on July 1, 1984. Facilities at Ellington include one 9,000 foot runway, one 8,000 foot runway and one 4,000 foot runway, a fuel storage system and various buildings and hangars. Ellington is primarily a general aviation facility, serving to relieve Hobby of such traffic; however, since August 1990 Continental Express has operated a commuter service between Ellington and the Airport. Presently, Ellington has one fixed base operator and also is the home of the Houston-based operations of United Parcel Service.

The Airport System purchased 1,432 acres of land in 1986 on the far west side of the City in Waller County and considered the possibility of developing a fourth City airport at such location. Currently, the Airport System is pursuing the use of this property as a wetlands mitigation area associated with the development of the Airport. At this time, the state and federal agencies involved in approving the Environmental Impact Statement have agreed in principle to such use.

Airport Service Region

The City is the nation's fourth most populous city and lies within the tenth largest metropolitan statistical area in the United States. Located on the coastal plain in southeast

Texas, approximately 50 miles from the Gulf of Mexico, the City is a center for the retail, energy, financial, medical, transportation and manufacturing industries.

The service region for the Airport System, the eight-county Houston-Galveston-Brazoria Consolidated Metropolitan Statistical Area ("CMSA"), has a diverse economic base and is recognized as a major national and international energy, financial, medical, transportation and distribution center. The July 1999 CMSA population was approximately 4,494,000 according to U.S. Bureau of Census estimates. Data from the Greater Houston Partnership forecasts increases in population of 1.4% per year through 2025.

Management

The Department of Aviation manages and operates the Airport System under the administrative control of the Office of the Mayor. The City Controller, as the chief financial officer of the City, maintains the books of account, prepares financial statements and co-signs, with the Mayor, all warrants, contracts and orders for payment of any public funds or money relating to the Department. The day-to-day operations of the Department are under the direct supervision of the Director of Aviation, who is appointed by the Mayor, subject to confirmation by the City Council of the City.

THE RENTAL CAR COMPANIES

General

The nine Operators which are parties to separate Automobile Rental Concession Agreements (the "Concession Agreements") with the Issuer and the Master Lease with the Issuer, and intend to use and occupy the Project and collect and remit Customer Facility Charges are Southwest-Tex Leasing Co., Inc., d/b/a Advantage Rent-A-Car ("Advantage"), Alamo Rent-A-Car, LLC ("Alamo"), Avis Rent A Car System, Inc. ("Avis"), Budget Rent a Car Systems, Inc. ("Budget"), Dollar Rent A Car Systems, Inc. ("Dollar"), Enterprise Leasing Company of Houston ("Enterprise"), The Hertz Corporation ("Hertz"), National Car Rental System, Inc. ("National") and Pace Car Corp., d/b/a Thrifty Car Rental ("Thrifty").

For a further description of each of the Operators, as well as a discussion generally of the rental car industry and market, both nationally and at the Airport, see Section III of the Feasibility Study attached hereto as APPENDIX A. The Airport may in the future grant to additional rental car companies, the right to operate on the Airport and use and occupy the Project on terms substantially identical to the Concession Agreements and Master Lease, requiring such companies to collect and remit Customer Facility Charges from their rental car customers.

Concession Agreements

Under each Concession Agreement, each Operator has been granted the right to operate a concession for the rental of motor vehicles to the public at the Airport and is required to pay to the Airport concession privilege fees. The term of each Concession Agreement is equal to the term of the Series 2001 Bonds and to the Master Lease. **No part of such concession fees will be pledged as security for the Series 2001 Bonds.**

Master Lease

Under the Master Lease, each Operator will be required to collect from customers renting a motor vehicle at the Project the Customer Facility Charge and remit Customer Facility Charge revenues to the Trustee no later than the 20th day of the month following the month of collection. Beginning on the first day of the month following the date of issuance of the Series 2001 Bonds, each Operator will be required to collect and remit Customer Facility Charge revenues.

In addition, under the Master Lease each Operator has been granted the right to lease and rent from the City its respective allocated portion of the Special Facilities, the ground upon which such Special Facilities are located and the Special Facilities' common areas and is obligated to pay to the Issuer ground rental payments and restricted use fees. The Operators are required to cause the LLC to carry out all obligations to operate, maintain and repair the Project, other than the Maintenance/Storage Facilities, the Exclusive Space and the Exclusive Use Ground Lease Area. See APPENDIX D – SELECTED PROVISIONS OF THE MASTER LEASE.

The Operators have not guaranteed payment of debt service on the Series 2001 Bonds, no Operator revenues or property are pledged as security for the Series 2001 Bonds and no Operator has guaranteed completion of construction of the Project. In addition, the Operators have not guaranteed the collection or payment of the Customer Facility Charges from persons on whom they were charged; they are only obligated to remit the Customer Facility Charges actually collected.

FEASIBILITY REPORT

General Description

The Feasibility Consultant prepared the Feasibility Report dated February 12, 2001, included herein as APPENDIX A. The Feasibility Report describes the Project, discusses the rental car market, describes the economic base supporting the rental car market at the Airport, uses an econometric model to set forth trends and forecasts in the rental car demand at the Airport, describes various factors which could have an impact on the rental car demand at the Airport and discusses the financial framework for the Series 2001 Bonds, including preliminary projections of annual debt service requirements with respect to the Series 2001 Bonds, Customer Facility Charge calculations, projections of revenues pursuant to the Indenture, cash flow projections and Rate Covenant calculations. The Feasibility Report should be read in its entirety for an understanding of the econometric model, transaction day forecast assumptions and the basis for the financial analysis.

The Feasibility Report has been included herein in reliance upon the knowledge and experience of Unison-Maximus, Inc. as airport consultants. Unison is an aviation planning consulting firm and wholly owned subsidiary of MAXIMUS, INC.

As noted in the Feasibility Report, any forecast is subject to uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. See "INVESTMENT CONSIDERATIONS."

Forward-Looking Statements

This Official Statement, and particularly the information contained under this caption, the caption "INVESTMENT CONSIDERATIONS," and in APPENDIX A (specifically, the information contained in the cover letter from the Feasibility Consultant, and the information contained in Sections IV, V and VI of the Feasibility Report), contains statements relating to future results that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words "estimate," "forecast," "intend," "expect" and similar expressions identify forward-looking statements. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. For a discussion of certain of such risks and possible variations in results, see "INVESTMENT CONSIDERATIONS" herein (specifically, the information contained under the subheadings "Achievement of Projections," "Airline Industry and Airport Factors," "Construction of Project," "Competition and Alternate Modes of Transportation," and Section V of APPENDIX A hereto.

INVESTMENT CONSIDERATIONS

General

In considering the matters set forth in this Official Statement, prospective investors should carefully review all investment considerations set forth throughout this Official Statement, and should specifically consider certain investment considerations associated with the Series 2001 Bonds. There follows a discussion of some, but not necessarily all, of the possible investment considerations which should be carefully evaluated by prospective purchasers of the Series 2001 Bonds prior to purchasing any Series 2001 Bonds. The Series 2001 Bonds may not be suitable investments for all persons, and prospective purchasers should be able to evaluate the investment considerations and merits of an investment in the Series 2001 Bonds, and confer with their own legal and financial advisors before considering a purchase of the Series 2001 Bonds.

Bond Insurer

The ability of the Bond Insurer to provide funds to make principal and interest payments on the Series 2001 Bonds in accordance with the Bond Insurance Policy and the Surety Policy is based solely upon the Bond Insurer's general credit, and is not secured or otherwise guaranteed by any other entity or amounts. The Issuer is under no obligation to supply, or cause to be supplied, an alternate insurance policy or surety policy if the Bond Insurer fails to pay as required under the Bond Insurance Policy or the Surety Policy, as the case may be, or becomes insolvent or bankrupt, or if the ratings on the Series 2001 Bonds are reduced or withdrawn. If the Bond Insurer becomes insolvent or bankrupt while the Bond Insurance Policy and Surety

Policy are outstanding, the owners of the Series 2001 Bonds may become general unsecured creditors of the Bond Insurer. Prospective purchasers of the Series 2001 Bonds should analyze the financial condition of the Bond Insurer carefully to determine whether it has the ability to make payments required under the Bond Insurance Policy and the Surety Policy. For a description of the Bond Insurer, see "BOND INSURANCE POLICY AND INSURER" herein.

Achievement of Projections

The collection and remittance of Customer Facility Charges in amounts sufficient to pay debt service on the Series 2001 Bonds when due is affected by and subject to conditions which may change in the future to an extent and with effects that cannot be determined at this time. No absolute representation or assurance is given or can be made that Customer Facility Charges will be realized in amounts sufficient to pay debt service when due on the Series 2001 Bonds.

The receipt of Customer Facility Charges is subject to, among other factors, the origin and destination passenger activity levels at the Airport in the future, the level of rental car activity at the Airport in the future, future economic conditions, and other conditions which are impossible to predict. The future collection and remittance of Customer Facility Charges will have a direct impact upon the payment of principal of and interest on the Series 2001 Bonds.

As noted in the Feasibility Report, any forecast is subject to uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized, and unanticipated events and circumstances may occur. Therefore, the actual results achieved during the forecast period will vary, and the variations may be material. See "FEASIBILITY REPORT" and "APPENDIX A."

Airline Industry and Airport Factors

The factors affecting aviation activity with respect to the Airport and the resulting impact on the rental of motor vehicles at the Facilities include: Continental and other airlines service and route networks; the financial health and viability of the airline industry; levels of disposable income; national and international economic and political conditions; the availability and price of aviation fuel; levels of air fares; the capacity of the national air traffic control system; and the capacity at the Airport and the Project.

The financial results of the airline industry have been subject to substantial volatility since deregulation of the airline industry in 1978. If Continental or any other airline executing a lease and use agreement with the Airport were to file for protection in the future under the bankruptcy law, it (or a trustee on its behalf) would have the right to seek rejection of its lease and use agreement, which could have a negative impact on passenger activity at the Airport, the number of persons renting motor vehicles at the Project and the collection of Customer Facility Charges.

The financial strength and stability of Continental and any other airline using the Airport are key determinants of future passenger traffic and the number of available rental car customers. See "THE AIRPORT". No assurance can be given that Continental or any other airline will continue its operations at the Airport during the term of the Series 2001 Bonds. In the event

Continental or any other airline discontinues or reduces its operations at the Airport its level of activity may not be replaced by other carriers. Accordingly, although rental car activity at the Airport is not strictly a function of Continental's, or any other airline's passenger activity, in particular, connecting passenger activity, no assurance can be given as to the levels of passenger activity and the rental car activity as a result thereof. For a further description of other factors affecting air travel, including economic conditions and airline strikes, see Section V of the Feasibility Report attached hereto as APPENDIX A.

Construction of Project

The ability of the contractors to complete the construction of the Project within budget and on schedule may be adversely affected by various factors including: (1) design and engineering errors, (2) unforeseen site conditions, (3) labor cost increases or other difficulties, (4) adverse weather conditions, (5) unavailability or increased costs of building materials, (6) contractor defaults, and (7) litigation. Even though pursuant to the Master Lease, each Operator is required to collect and remit Customer Facility Charges on the first day of the month following the date of issuance of the Series 2001 Bonds, an incomplete Project could adversely affect the ability of the Operators to supply a sufficient number of rental cars to accommodate the corresponding demand and, thus could reduce the projected amount of Customer Facility Charge revenues.

Competition and Alternate Modes of Transportation

There are alternative forms of ground transportation available at the Airport (and at competing smaller airports within the Airport System's vicinity), which could reduce the demand for renting motor vehicles at the Facilities. These alternate forms which compete with rental cars include taxis, buses, shuttle services, and limousines. In addition, other airports compete with the Airport and provide commercial air passenger service to the Houston area. For a further discussion of such airports see "THE CITY'S AIRPORT SYSTEM," and for a further description of these alternate modes, competition and airports and their impact on rental car demand, see Section V of the Feasibility Report, attached hereto as APPENDIX A.

Air Quality

Air quality control measures of the Environmental Protection Agency (the "EPA") and the Texas Natural Resources Conservation Commission (the "TNRCC") may curtail new industrial, commercial and residential development in the City and surrounding areas and could therefore hinder economic growth. Under the Clean Air Act Amendments of 1990, the eight-county Houston-Galveston Consolidated Metropolitan Statistical Area ("CMSA") has been designated by the EPA as a severe ozone nonattainment area. Such areas are required to demonstrate progress in reducing ozone concentrations each year until the EPA "1-hour" standards are met, and compliance with EPA's 1-hour standards must occur no later than the year 2007. To provide for annual reductions in ozone concentrations, the EPA and the TNRCC have imposed increasingly stringent additional volatile organic compound and nitrogen oxide ("NOx") emission limits on existing stationary sources of air emissions. In addition any new source of significant air emissions, such as a new industrial plant, must provide for a net reduction of air emissions by arranging for other industries to reduce their emissions by 1.3 times the amount of pollutants proposed to be emitted by the new source. Due to the magnitude of air emissions reductions needed as well as a shortage of economically reasonable control options, the development of successful air quality compliance plans will be extremely challenging, and will inevitably impact a wide cross section of the business and residential community. If the Issuer and surrounding areas fail to demonstrate progress in reducing ozone concentrations or fail to meet EPA's standards by 2007, EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects, as well as a moratorium on the construction of new major sources of hydrocarbon emissions for which construction has not already commenced.

In addition to the "1-hour" ozone standard deadlines for 2007, the EPA has adopted rules regarding an "8-hour" ozone standard and soot standards. Such rules could impose additional compliance requirements on the Issuer by 2010; however, the rules were recently rejected by the United States Court of Appeals for the District of Columbia following a challenge by the American Trucking Associations. The case is currently on appeal to the United States Supreme Court. Therefore, future compliance obligations associated with these rules are uncertain.

The TNRCC is currently developing a State Implementation Plan ("SIP") for meeting EPA 1-hour ozone attainment standards by 2007. The proposed SIP was published for comment on August 9, 2000. A final plan and rules were adopted by the TNRCC and submitted to the EPA in December 2000. Compliance dates are generally set for between 2002 and 2004, depending on the rule. Major emission reduction projects in the air emission reduction regulations recently proposed by the TNRCC include the following: (1) implementation of a NOx emissions banking and trading system that will cap overall point source emissions of NOx; (2) reductions in speed limits on highways within the nonattainment area; (3) other transportation control measures designed to reduce the overall use of automobiles within the Houston-Galveston ozone nonattainment area; (4) improved vehicle inspection to identify and require repairs of high-pollutant emitting vehicles; (5) restrictions on the use of internal combustion engines in construction during the morning hours; (6) accelerated phase-out of older diesel equipment; (7) implementation of cleaner diesel fuel standards; (8) rules restricting air emissions from airport ground support equipment; (9) institution of California small engine standards; and (10) a 90% reduction in NOx emissions from industrial and commercial point sources.

The City, along with business interest groups and community organizations, has placed a high priority on meeting federal air quality requirements in recognition of the potential impact of the issue on economic prosperity and quality of life in the Houston area. A preliminary nitrogen oxides (NOx) inventory of City operations has just been completed, the results of which will be used in finalizing the SIP. The City has initiated various efforts to reduce NOx emissions, including the following: purchase of low emitting vehicles for the City's fleet; reduction of emissions from small generators operated by the City; demonstration projects relating to diesel NOx catalyst and emulsion fuels; use of on-road diesel in the City's off-road equipment; promotion of ridesharing and public transportation; and certain energy conservation measures.

Meeting federal air quality requirements is also a top priority of the Greater Houston Partnership ("GHP"). Among the diverse efforts taken by the GHP has been the creation of the Business Coalition for Clean Air (BCCA), a project designed to energize and unite businesses within the eight-county region to address this issue. In a press release dated March 7, 2000, the

GHP, together with representatives of the BCC and the Texas Clean Air Working Group, indicated that clean air can be attained without sacrificing a strong economy. Some of the measures being considered include the following: creating innovative market-based mechanisms for reducing nitrogen oxide emissions; pushing back the opening of the public schools each year; adjusting speed limits where there is proven air quality benefit; creating financial incentive programs to assist businesses in implementing costly controls; and funding for state agencies to implement and enforce control measures.

The Airport System recognizes the importance of the air quality issue in planning for airport expansion and has been working with the major airlines at the Airport to develop plans to reduce ground service vehicle emissions. Although initially concerned about whether construction-related pollution during the Airport expansion project would hinder the SIP's success, TNRCC officials announced in June 2000 they will approve the proposed expansions at the Airport without further study, a necessary step in obtaining the final record of decision for the FAA regarding the EIS for the Airside Expansion Program at the Airport. The Airport System is also evaluating other emission reduction strategies such as requiring nonairline ground service equipment providers and parking shuttle operators to reduce vehicle emissions. It is uncertain at this time what if any impacts such emission reduction strategies would have on the Operators or the operation or construction of the Project.

Considerations under the Bankruptcy Code

In the event a bankruptcy case is filed with respect to an Operator, a bankruptcy court could reject the Master Lease, in which event such Operator would not be required to collect and remit Customer Facility Charges for a period of time. In such event, such Operator would also be in default under its Concession Agreement, permitting the Airport to cancel such agreement and remove such Operator from possession and occupancy of the Project.

Limitation of Remedies

Under the terms of the Indenture and the Master Lease, Events of Default are limited to such actions which may be taken at law or in equity. See APPENDIX D – SELECTED PROVISIONS OF THE MASTER LEASE – Section 10.02 Remedies on Default, and – APPENDIX E – SELECTED PROVISIONS OF THE INDENTURE – Section 8.2 Remedies. No mortgage or security interest, however, has been granted or lien created to secure the remittance of Customer Facility Charges or payment of the Series 2001 Bonds.

Various State laws, constitutional provisions, and federal laws and regulations apply to the obligations created by the issuance of the Series 2001 Bonds. There can be no assurance that there will not be any change in, interpretation of, or addition to the applicable laws and provisions will not be changed, interpreted, or supplemented in a manner that would have a material adverse effect, directly or indirectly, on the affairs of the Issuer, the Airport or the Operators.

In the event of a default in the payment of principal of or interest on the Series 2001 Bonds, the remedies available to the owners of the bonds upon a default are in many respects dependent upon judicial action, which is often subject to discretion and delay under existing constitutional law, statutory law, and judicial decisions, including the federal Bankruptcy Code. Bond Counsel's opinion to be delivered concurrently with delivery of the Series 2001 Bonds will be qualified as to enforceability of the various legal instruments by certain limitations, including limitations imposed by bankruptcy, reorganization, insolvency, and equity principles. See APPENDIX F attached hereto.

Secondary Market

No assurance can be given concerning the existence of any secondary market in the Series 2001 Bonds or its creation or maintenance by the Underwriters. Thus, purchasers of Series 2001 Bonds should be prepared, if necessary, to hold their Series 2001 Bonds until their respective maturity dates.

RATINGS

Fitch, Moody's and Standard & Poor's are expected to assign the Series 2001 Bonds ratings of "AAA", "Aaa" and "AAA", respectively, based upon the issuance of the Bond Insurance Policy by the Bond Insurer. See "BOND INSURANCE POLICY AND INSURER." Fitch, Moody's and Standard & Poor's have also assigned the Series 2001 Bonds underlying ratings of "A," "A3" and "A-," based on an analyses independent of the issuance of the Series 2001 Bonds.

A rating reflects only the views of the rating agency assigning such rating, and an explanation of the significance of such rating may be obtained from such rating agency. The Issuer, the Airport and the Underwriters have furnished to the rating agencies certain information and materials relating to the Series 2001 Bonds and the Project, including certain information and materials which have not been included in this Official Statement. There is no assurance that any of the ratings will continue for any given period of time or that any of the ratings will not be revised downward or withdrawn entirely by any such rating agency if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of any such rating may have an adverse effect on the market price of the Series 2001 Bonds.

CONTINUING DISCLOSURE UNDERTAKING

In the Indenture, the Issuer, for the benefit of the holders and beneficial owners of the Series 2001 Bonds, is obligated to provide certain updated financial information annually, and timely notice of specified material events, to certain information vendors. The Issuer is required to comply with such requirements for so long as the Series 2001 Bonds remain outstanding. This information will be available to securities brokers and others who subscribe to receive the information from the vendors. The Issuer is currently in compliance with all continuing disclosure undertakings entered into in connection with outstanding bonds.

Annual Reports

The information to be updated on an annual basis includes (i) the number of Transaction Days at the Airport during the prior calendar year as calculated by the Trustee by dividing the total revenues generated by the Customer Facility Charge for such calendar year by the amount of the Customer Facility Charges allocable to such revenues, (ii) the amount of the Customer Facility Charge in effect during the prior calendar year as reported to the Trustee by the City (if more than one Customer Facility Charge was in effect during such year, the date of any charge(s)), (iii) the total revenues generated by the Customer Facility Charges for the prior calendar year, (iv) the Independent Rate Consultant's report for such calendar year and any supplemental report, with respect to such calendar year, (v) the balances contained in and investment earnings with respect to each Fund under the Indenture, and (vi) audited financial statements of the Airport System and unaudited statistical information, including origination and destination enplanement information for the Airport (or unaudited financial statements if audited financial statements are not available in a timely manner). The Trustee on behalf of the Issuer will update and provide the information in (i) through (v) within six months after the end of each year ending on December 31, 2001. The Issuer shall provide the required audited financial statements within six months of the end of each fiscal year beginning with the fiscal year ending June 30, 2001. The Trustee and the Issuer will provide such updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and is approved by the United States Securities and Exchange Commission (the "SEC").

Updated information may be provided in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12. The updated information is to include audited financial statements of the Airport System, if the Issuer commissions an audit and it is completed by the required time. If audited financial statements are not provided by that time, the Issuer will provide audited financial statements of the Airport System when and if they become available. Any such financial statements of the Airport System will be prepared in accordance with such accounting principles as the Airport System may be required to employ from time to time pursuant to state law or regulation.

The Issuer's current fiscal year is July 1 through June 30. Accordingly, it must provide updated information by January 1 in each year, unless the Issuer changes its fiscal year. If the Issuer changes its fiscal year, it will notify each NRMSIR and any SID of the change.

Material Event Notices

The Issuer will also provide timely notices of certain events to certain information vendors. The Issuer will provide notice of any of the following events with respect to the Series 2001 Bonds, if such event is material under the federal securities laws: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (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 or events affecting the tax status of the Series 2001 Bonds; (7) modifications to rights of holders of the Series 2001 Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing the repayment of the Series 2001 Bonds; (11) rating changes. In addition, the Issuer will provide timely notice of any failure by the Issuer to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The Issuer will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

Availability of Information from NRMSIRS and SID

The Issuer has agreed to provide the foregoing information to NRMSIRs and any SID only. The information will be available to holders of the Series 2001 Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

The Municipal Advisory Council of Texas has been designated by the State of Texas as a SID. The address of the Municipal Advisory Council of Texas is 600 West 8th Street, P.O. Box 2177, Austin, Texas 78768-2177, and its telephone number is 512/476-6947.

Limitations, Disclaimers and Amendments

The Issuer is obligated to observe and perform the covenants specified above and in the Indenture for so long as, but only for so long as, the Issuer remains an "obligated person" with respect to the Series 2001 Bonds within the meaning of the Rule, except that the Issuer in any event is required to give the notice of any Series 2001 Bond calls and defeasance that cause the Issuer to no longer be an "obligated person."

The continuing disclosure provisions described above and set forth in the Indenture are for the sole benefit of the Owners and beneficial owners of the Series 2001 Bonds, and nothing therein, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. the Issuer is undertaking to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide and does not undertake to provide any other information that may be relevant or material to a complete presentation of its financial results, condition, or prospects or hereby undertake to update any information provided in accordance with the Indenture or otherwise, except as expressly provided therein. The Issuer does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Series 2001 Bonds at any future date.

UNDER NO CIRCUMSTANCES SHALL THE ISSUER BE LIABLE TO THE OWNERS OR BENEFICIAL OWNERS OF ANY SERIES 2001 BOND OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE ISSUER, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN ARTICLE 12 OF THE INDENTURE, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR *MANDAMUS* OR SPECIFIC PERFORMANCE.

No default by the Issuer in observing or performing it continuing disclosure obligations under the Indenture shall constitute a breach of or default under the Indenture for purposes of any other provisions of the Indenture.

Nothing in the Indenture regarding the Issuer's continuing disclosure obligations is intended or shall act to disclaim, waive, or otherwise limit the duties of the Issuer under federal and state securities laws.

The Issuer may amend the continuing disclosure provisions of the Indenture 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 Issuer, but only if (1) the Indenture, as so amended, would have permitted an underwriter to purchase or sell the Series 2001 Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as changed circumstances, and (2) either (a) the owners of a majority in aggregate principal amount of the outstanding Series 2001 Bonds consent to such amendment or (b) a person or entity that is unaffiliated with the Issuer (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the Owners and beneficial owners of the Series 2001 Bonds. If the Issuer so amends the provisions of Article 12 of the Indenture, it shall include an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided. The Issuer may also amend or repeal the provisions of Article 12 of the Indenture if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, and the Issuer also may amend such provisions in certain other circumstances.

For a further description of such limitations, disclaimers and amendments, See APPENDIX A, attached hereto.

TAX MATTERS

The following discussion describes the principal U.S. federal tax treatment of U.S. persons that are beneficial owners ("Owners") of the Series 2001 Bonds. This summary is based on the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), published revenue rulings, judicial decisions and existing and proposed Treasury regulations, including regulations concerning the tax treatment of debt instruments issued with original issue discount (the "OID Regulations"), changes to any of which subsequent to the date of this Official Statement may affect the tax consequences described herein.

This summary discusses only Series 2001 Bonds held as capital assets within the meaning of Section 1221 of the Code. It does not discuss all of the tax consequences that may be relevant to an Owner in light of its particular circumstances or to Owners subject to special rules, such as certain financial institutions, insurance companies, tax-exempt organizations, foreign taxpayers, taxpayers who may be subject to the alternative minimum tax or personal holding company provisions of the Code, dealers in securities or foreign currencies, or Owners whose functional currency (as defined in Section 985 of the Code) is not the U.S. dollar. Except as stated herein, this summary describes no federal, state or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of, the Series 2001 Bonds. Investors who are subject to special provisions of the Code should consult their own tax advisors regarding the tax consequences to them of purchasing, holding, owning and disposing of the Series 2001 Bonds, including the advisability of making any of the elections described below, before determining whether to purchase the Series 2001 Bonds.

For purposes of this discussion, a "U.S. person" means an individual who, for U.S. federal income tax purposes, is a citizen or resident of the United States, or a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, or an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source of income. The term also includes nonresident alien individuals, foreign corporations, foreign partnerships, and foreign estates and trusts to the extent that their ownership of the Series 2001 Bonds is effectively connected with the conduct of a trade or business within the United States, as well as certain former citizens and residents of the United States who, under certain circumstances, are taxed on income from U.S. sources as if they were citizens or residents.

In General

Income derived from a Series 2001 Bond by an Owner is subject to U.S. federal income taxation. In addition, a Series 2001 Bond held by an individual who, at the time of death, is a U.S. person is subject to U.S. federal estate tax.

Payments of Interest

Stated interest paid (and other original issue discount) on each Series 2001 Bond will generally be taxable in each tax year held by an Owner as ordinary interest income without regard to the time it otherwise accrues or is received in accordance with the Owner's method of accounting for federal income tax purposes. Special rules governing the treatment of original issue discount, acquisition premium, market discount or amortizable premium are described below.

Acquisition Premium

In the event that an Owner purchases a Series 2001 Bond at an acquisition premium (i.e. at a price in excess of its "adjusted issue price" but less than its stated redemption price at maturity), the amount includable in income in each taxable year as original issue discount is reduced by that portion of the acquisition premium properly allocable to such year. (For Series 2001 Bonds that are purchased at a price in excess of the stated redemption price at maturity, see the discussion below under the heading "TAX MATTERS — Amortizable Premium.) The adjusted issue price is defined as the sum of the issue price of the Series 2001 Bond and the aggregate amount of previously accrued original issue discount, less any prior payments of amounts included in its stated redemption price at maturity. Unless an Owner makes the accrual method election described below, acquisition premium is allocated on a pro rata basis to each accrual of original issue discount (i.e., to each six-month accrual period), so that the Owner is allowed to reduce each accrual of original issue discount by a constant fraction.

Market Discount

An Owner that purchases a Series 2001 Bond at a "market discount" will be subject to provisions in the Code that convert certain capital gain on the redemption, sale, exchange or other disposition of the Series 2001 Bond into ordinary income. A Series 2001 Bond will have market discount to the extent the "revised issue price" of such Series 2001 Bond exceeds, by more than a de minimis amount, the Owner's tax basis in the Series 2001 Bond immediately after the Owner acquires the Series 2001 Bond. The "revised issue price" generally equals the issue price of the Series 2001 Bond plus the amount of original issue discount (computed without regard to any "acquisition premium" described above) that had accrued on such Series 2001 Bond as of the date the Owner acquired the Series 2001 Bond and reduced by the stated interest previously paid with respect to such Series 2001 Bond as of such date.

An Owner may elect to include market discount in income as it accrues, but such an election will apply to all market discount bonds acquired by such Owner on or after the first day of the first taxable year to which such election applies and is revocable only with permission from the Internal Revenue Service ("IRS"). Unless a Bond Owner elects to include market discount in income as it accrues, any partial principal payments on, or any gain realized upon the sale, exchange, disposition, redemption or maturity of a Series 2001 Bond will be taxable as ordinary income to the extent any market discount has accrued on such Series 2001 Bond. Market discount on a Series 2001 Bond would accrue ratably each day between the date an Owner purchases the Series 2001 Bond and the date of maturity. In the alternative, an Owner irrevocably may elect to use a constant interest accrual method under which marginally less market discount would accrue in early years and marginally greater amounts would accrue in later years.

If a Series 2001 Bond purchased with market discount is disposed of in a nontaxable transaction (other than a nonrecognition transaction described in Section 1276(d) of the Code), accrued market discount will be includable as ordinary income to the Owner as if such Owner had sold the Series 2001 Bond at its then fair market value. An Owner of a Series 2001 Bond that acquired it at a market discount and that does not elect to include market discount in income on a current basis also may be required to defer the deduction for a portion of the interest expense on any indebtedness incurred or continued to purchase or carry the Series 2001 Bond until the deferred income is realized.

Amortizable Premium

An Owner that purchases a Series 2001 Bond for any amount in excess of its principal amount, or in the case of a Discount Bond, its stated redemption price at maturity, will be treated as having premium with respect to such Series 2001 Bond in the amount of such excess. An Owner that purchases a Discount Bond at a premium is not required to include in income any original issue discount with respect to such Series 2001 Bond.

If an Owner makes an election under Section 171(c)(2) of the Code to treat such premium as "amortizable bond premium" the amount of interest that must be included in such Owner's income for each accrual period will be reduced by the portion of the premium allocable to such period based on the Series 2001 Bond's yield to maturity. If an Owner makes the election under Section 171(c)(2), the election also shall apply to all taxable bonds held by the Owner at the beginning of the first taxable year to which the election applies and to all such taxable bonds thereafter acquired by such Owner, and it is irrevocable without the consent of the IRS. If such an election under Section 171(c)(2) of the Code is not made, such an Owner must include the full amount of each interest payment in income in accordance with its regular method of accounting and will receive a tax benefit from the premium only in computing its gain or loss upon the sale or other disposition or retirement of the Series 2001 Bond. The existence of bond premium and the benefits associated with the amortization of bond premium vary with the facts and circumstances of each Owner. Accordingly, each Owner of a Series 2001 Bond should consult his own tax advisor concerning the existence of bond premium and the associated election.

Accrual Method Election

Under the OID Regulations, an Owner that uses an accrual method of accounting would be permitted to elect to include in gross income its entire return on a Series 2001 Bond (i.e., the excess of all remaining payments to be received on the Series 2001 Bond over the amount paid for the Series 2001 Bond by such Owner) based on the compounding of interest at a constant rate. Such an election for a Series 2001 Bond with amortizable bond premium (or market discount) would result in a deemed election for all of the Owner's debt instruments with amortizable bond premium (or market discount) and could be revoked only with the permission of the IRS with respect to debt instruments acquired after revocation.

Disposition or Retirement

Upon the sale, exchange or other disposition of a Series 2001 Bond, or upon the retirement of a Series 2001 Bond (including by redemption), an Owner will recognize gain or loss equal to the difference, if any, between the amount realized upon the disposition or retirement and the Owner's basis in the Series 2001 Bond. An Owner's tax basis for determining gain or loss on the disposition or retirement of a Series 2001 Bond will be the cost of such Series 2001 Bond to such Owner, increased by the amount of original issue discount and any market discount includable in such Owner's gross income with respect to such Series 2001 Bond, and decreased by the amount of any payments under the Series 2001 Bond that are part of its stated redemption price at maturity (i.e., all stated interest payments with respect to the Series 2001 Bonds previously paid) and by the portion of any premium applied to reduce interest payments as described above. Such gain or loss will be capital gain or loss (except to the extent the gain represents accrued original issue discount or market discount on the Series 2001 Bond not previously included in gross income, to which extent such gain would be treated as ordinary income). Any capital gain or loss will be long-term capital gain or loss if at the time of disposition or retirement the Series 2001 Bond has been held for more than one year.

Information Reporting and Backup Withholding

The Issuer is required to report to the IRS payments of interest and accruals of original issue discount (if any) on Series 2001 Bonds held of record by U.S. persons other than corporations and other exempt holders. Such information will be filed each year with the IRS on Form 1099 which will reflect the name, address, and taxpayer identification number of the registered Owner. A copy of Form 1099 will be sent to each registered Owner of a Series 2001 Bond for federal income tax reporting purposes. The amount of original issue discount required to be reported by the Issuer may not be equal to the amount required to be reported as taxable income by an Owner of a Discount Bond that acquired such Series 2001 Bond subsequent to its original issuance.

Interest paid to an Owner of a Series 2001 Bond ordinarily will not be subject to withholding of federal income tax if such Owner is a U.S. person. Backup withholding of federal income tax at a rate of 31 percent may apply, however, to payments made in respect of the Series 2001 Bonds, as well as payments of proceeds from the sale of the Series 2001 Bonds, to registered holders or Owners that are not "exempt recipients" and that fail to provide certain identifying information. This withholding generally applies if the Owner of a Series 2001 Bond (who is not an exempt recipient) (i) fails to furnish to the Issuer such Owner's social security number or other taxpayer identification number ("TIN"), (ii) furnishes the Issuer an incorrect TIN, (iii) fails to properly report interest, dividends or other "reportable payments" as defined in the Code, or (iv) under certain circumstances, fails to provide the Issuer or such Owner's broker with a certified statement, signed under penalty of perjury, that the TIN provided to the Issuer is correct and that such Owner is not subject to backup withholding. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. To prevent backup withholding, each prospective holder will be requested to complete an appropriate form.

Any amounts withheld under the backup withholding rules from a payment to a person would be allowed as a refund or a credit against such person's U.S. federal income tax, provided that the required information is furnished to the IRS. Furthermore, certain penalties may be imposed by the IRS on a holder or Owner who is required to supply information but who does not do so in a the proper manner.

THE FEDERAL TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON AN OWNER'S PARTICULAR SITUATION. INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX IMPLICATIONS OF HOLDING AND DISPOSING OF THE SERIES 2001 BONDS UNDER APPLICABLE STATE OR LOCAL LAWS. FOREIGN INVESTORS SHOULD ALSO CONSULT THEIR OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES UNIQUE TO INVESTORS WHO ARE NOT U.S. PERSONS.

LITIGATION

There is no litigation pending against the Issuer, the Airport or the Operators or to the knowledge of their respective officers or counsel, threatened, questioning the transactions and proceedings relating to the authorization, issuance, sale or delivery of the Series 2001 Bonds, the existence of the Issuer, or the rights of their respective officers to their offices, or the authority of the Issuer to proceed with the execution and delivery of and performance of its respective obligations under the Indenture, the Master Lease or the other documents or instruments pertaining to the issuance and delivery of the Series 2001 Bonds.

UNDERWRITING

The Series 2001 Bonds are being purchased for reoffering by the underwriters shown on the cover page of this Official Statement (collectively, the "Underwriters"), at an aggregate purchase price of $129,426,820, representing the aggregate principal amount of the Series 2001 Bonds, less an underwriting discount of $823,180.00. The Bond Purchase

Agreement by and between the Issuer and the Underwriters sets forth the provisions for the purchase of the Series 2001 Bonds by the Underwriters, and the conditions to such purchase, including the requirement that the Underwriters will purchase all of the Series 2001 Bonds if any are purchased. Salomon Smith Barney has been designated as the representative for the Underwriters.

The Underwriters intend to offer the Series 2001 Bonds to the public at the offering price or prices set forth on the cover page of this Official Statement. The Underwriters may allow concessions from the public offering price to certain dealers, banks and others. After the initial public offering, the public offering prices may be varied from time to time by the Underwriters.

LEGAL MATTERS

Legal matters incident to the validity of the Series 2001 Bonds are subject to the receipt of the opinion of the Attorney General of the State of Texas and the opinion of Vinson & Elkins L.L.P. and Burney & Foreman, as Co-Bond Counsel. The form of the opinion of Co-Bond Counsel is included as APPENDIX F hereto. Certain legal matters will be passed upon for the Underwriters by their counsel, Fulbright & Jaworski L.L.P., Houston, Texas, and for the Issuer by the City Attorney, and for the Operators by their individual counsel. Snell & Wilmer L.L.P., Denver, Colorado will render a legal opinion with respect to certain matters concerning this Official Statement. Snell & Wilmer L.L.P. has also provided certain legal advice to the Operators in connection with the sale and issuance of the Series 2001 Bonds. The legal fees to be paid Co-Bond Counsel and counsel to the Underwriters for services rendered in connection with the issuance of the Series 2001 Bonds are contingent upon the sale and issuance of the Series 2001 Bonds.

FINANCIAL ADVISOR

First Southwest Company ("Financial Advisor") has acted as the financial advisor to the Issuer in connection with the issuance and sale of the Series 2001 Bonds. A portion of its fees for such services is contingent upon the sale and issuance of the Series 2001 Bonds. The Financial Advisor also serves in other capacities with the Issuer. All fees and other remuneration received in such other capacities are separate and distinct from the fees associated with the issuance of the Series 2001 Bonds and are not contingent upon the sale and issuance of the Series 2001 Bonds. The Financial Advisor has not independently verified the information contained in this Official Statement (except for information concerning the Financial Advisor) and makes no guarantee as to its completeness or accuracy. Investors should not draw any conclusions as to the suitability of the Series 2001 Bonds from, or base any investment decisions upon, the fact that the Financial Advisor has advised the Issuer with respect to the Series 2001 Bonds.

MISCELLANEOUS

The Appendices are integral parts of this Official Statement and must be read together with all other parts of this Official Statement. The descriptions of the Indenture and Master Lease do not purport to be comprehensive or definitive, and prospective purchasers of the Series 2001 Bonds are referred to the Indenture and the Master Lease for the complete terms thereof. During the offering period of the Series 2001 Bonds, copies of the Indenture and Master Lease may be obtained from the Underwriters. So far as any statements made in this Official Statement involve matters of opinion, forecasts or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact.

This document was approved by the City Council of the City.

[Remainder of page intentionally left blank.]

APPENDIX A - FEASIBILITY REPORT

[This page intentionally left blank.]

UNISON MAXIMUS
CONSULTING SOLUTIONS

February 12, 2001

IAH RACS LLC
George Bush Intercontinental Airport/Houston
and
Houston Airport System
P.O. Box 60106
George Bush Intercontinental Airport/Houston
Houston, Texas 77205

Re: Financial Feasibility Report of the Feasibility Consultant
City of Houston, Texas, Airport System Special Facility Taxable Revenue Bonds (Consolidated Rental Car Facility Project), Series 2001

Ladies and Gentlemen:

Unison-Maximus, Inc. (Unison) is pleased to submit this Financial Feasibility Report of the Feasibility Consultant regarding the proposed issuance of the City of Houston, Texas, Airport System Special Facilities Taxable Revenue Bonds (Consolidated Rental Car Facility Project), Series 2001 (the Bonds). The Bonds are to be issued pursuant to the Trust Indenture by and between the City of Houston, Texas (the City), as Issuer, and The Chase Manhattan Bank, as Trustee, dated March 1, 2001 (the Trust Indenture). The Bond proceeds are intended to finance the costs of the Consolidated Rental Car Facility Project (the Project) at George Bush Intercontinental Airport/Houston (Intercontinental or the Airport).

This report has been prepared to address the financial aspects of the Project and the Bonds. The report provides a general description of the Project, the U.S. rental car industry and the Airport market, the Airport's local economic base, and the legal framework governing the financing and operation of the Project. The report also presents an analysis and forecast of Airport rental car demand, and forecast of Customer Facility Charge (CFC) revenues, debt service coverage, and the application of Pledged Revenues to various funds as specified by the Trust Indenture.

The Project

The Project is being undertaken to provide facilities to allow the consolidation of all current and future on-airport rental car operations at one common on-Airport location. The Project, which will be situated on a 250-acre site immediately east of JFK Boulevard, approximately one mile south of the terminal complex, consists of the following facilities: Customer Service Building, Parking Structure, Shuttle Buses, Shuttle Bus Maintenance Facility, Maintenance/Storage Facilities, and associated Infrastructure.

409 West Huron • Suite 400 • Chicago, Illinois 60610-3401 • (312) 988-3360 • (312) 988-3370
CHICAGO • LOS ANGELES • ST. LOUIS

The Project is estimated to cost approximately $131.5 million, of which $4.9 million is to be funded by the Houston Airport System (the Airport System) as an equity contribution and $126.6 million is to be financed with the Bonds. As defined by the Master Special Facilities Lease Agreement (Master Lease), the Costs of the Project include, among others, the costs of designing, constructing, fabricating, equipping, and installing the Project. Eligible project costs are specified in detail in the Master Lease and summarized in this report.

In addition to the Airport System contribution and the proceeds of the Bonds, the rental car companies currently operating at the Airport (the Operators) are expected to invest certain equity funds to fund a portion of the costs of their Maintenance/Storage Facilities and tenant finishes in the Customer Service Building.

Proposed Financing Structure

Under the Master Lease, the City commits to use its best efforts to issue the Bonds in amounts sufficient to pay the Capital Costs of the Project, which is defined to include the Costs of the Project plus the Financing and Issuance Costs of the Project. Pursuant to the Trust Indenture, the Bonds are special limited obligations of the City and are secured by a pledge of, and payable solely from, the Pledged Revenues. The Pledged Revenues include CFC revenues as the major component, investment income derived from amounts credited to the Pledged Funds as defined in the Trust Indenture, and other Fund transfers as specified in the Trust Indenture.

The Master Lease requires that each of the Operators collect and remit a CFC from every vehicle rental[1] at the Airport beginning on the first day of the month following the date of issuance of the Bonds. The CFC will be assessed per transaction day. The Master Lease requires that the CFC be set at a rate determined by the City based on the recommendation of an Independent Rate Consultant. The CFC revenues will be remitted to the Trustee by each Operator as Special Facilities Rent and will be used to pay the debt service requirements of the Bonds. All CFC revenues are pledged for the payment of the Bonds under the Trust Indenture.

The Trust Indenture includes the following provision:

> The City shall cause the Customer Facility Charge to be calculated, established and imposed as herein provided so long as any Bonds remain Outstanding, and the City shall use diligence to cause the Customer Facility Charge to be collected by the Operators in accordance with the terms of the [Master Lease] and deposited with the Trustee directly by the Operators. The Customer Facility Charge shall be established initially and reviewed and adjusted (if necessary) annually (or otherwise described [in the Trust Indenture]) by the [Aviation] Director based upon the Rate

[1] With the exception of certain local rentals prior to the Date of Beneficial Occupancy, as set forth in the Master Lease.

> Reports from the Independent Rate Consultant (or, with the consent of the LLC, by the City), at rates estimated to generate CFC revenues, along with other Pledged Revenues, in each calendar year equal to not less than (i) 125% of the debt service requirements on the Bonds for such calendar year; and (ii) the amounts necessary to fund in such calendar year all transfers from the Revenue Fund as required by Article IV of [the Trust] Indenture.

This provision is referred to as the Rate Covenant.

The Plan of Financing provides for funding a Coverage Fund in the amount of 25% of the maximum annual debt service. This amount will be re-deposited each year into the Revenue Fund (a mechanism referred to as "rolling coverage") to meet the Rate Covenant.

Under the Concession Agreement and the Master Lease, the Operators will be required to pay concession fees and ground rent. The proceeds from these fees are to be part of the general airport revenues and are excluded from the Pledged Revenues under the Trust Indenture. Therefore, the proceeds from these fees are not available to pay debt service on the Bonds.

Report Organization

The attached report has been prepared to address the financial aspects of the Project and the Bonds. It is organized into the following sections:

Section I, Introduction – an overview of the Airport, rental car operations at the Airport, and the Project

Section II, The Project – a description of the Project and the Project budget

Section III, The Rental Car Industry – an overview of U.S. rental car industry trends and the Operators serving the Airport market

Section IV, Local Economic Base – a profile of the Houston air service area economy and relevant economic and demographic trends

Section V, Rental Car Demand Analysis and Forecasts – a review of recent trends in rental car activity at the Airport and forecasts of annual rental car demand (transaction days) for the Fiscal Year (FY)[2] 2001-2010 period

Section VI, Financial Analysis – a description of the legal framework for the financing and operation of the Project, a discussion of the proposed financing, and forecasts of the

[2] The City's fiscal year ends on June 30.

following: (1) the required CFC rate, (2) CFC revenues, interest income and other Pledged Revenues, (3) debt service coverage, and (4) the application of Pledged Revenues to the funds and accounts established by the Trust Indenture for the 10-year forecast period, calendar years (CY) 2001–2010.

Assumptions

In performing the rental car demand and financial analyses in the report, we made a number of assumptions and developed forecasts regarding the following: the future trend in passenger traffic and rental car demand at the Airport, the future trends of certain economic indicators, the structure of the Bonds, and future interest rates. The following assumptions are noteworthy:

1. Forecasts of origination and destination (O&D) enplanements used in the analysis are based on forecast of aviation activity in the Report of the Airport Management Consultant, September 11, 2000, prepared by Roger H. Bates, Airport Consultant, in association with AVK Consulting and Unison-Maximus, Inc., and published in the Official Statement for the *$696,465,000 City of Houston, Texas, Airport System Subordinate Lien Revenue Bonds, Series 2000.* O&D enplanements are projected to grow at an average annual rate of 3.3% during the period FY 2000-2010.

2. The real U.S. Gross Domestic Product (GDP) per capita, which measures rental car customers' income, is assumed to grow at an annual average rate of 2.4% over the CY 1999-2010 period.

3. Non-agricultural employment in the Houston-Galveston-Brazoria consolidated metropolitan statistical area (Houston CMSA) is assumed to grow at an average annual growth rate of 1.8% over the CY 1999-2010 period.

4. The rate of inflation is projected at 2.8% annually.

5. The average daily rental rate, in real terms, is projected to increase at an average annual rate of 0.4% during the forecast period.

6. Rental car demand, as measured by transaction days, is projected to increase from 3.21 million in FY 2000 to 4.29 million in FY 2010, representing an average annual increase of 2.9% over the 10-year forecast period.

7. The size of the Bond issue is estimated to be $130,005,000. The Bonds are assumed to be issued in March 2001. They will have a term of approximately 27 years from March 1, 2001 through January 1, 2028, and carry an average interest yield of 7.27%. Interest will be capitalized from Bond proceeds through July 1, 2001.

8. An interest rate of 5% was assumed in calculating certain investment income.

Summary of Findings and Conclusion

The following table summarizes the financial forecasts developed in the report:

SUMMARY TABLE
Consolidated Rental Car Facility Project
CY 2001-2010

	Construction Period		Beneficial Occupancy			
	2001	2002	2003	2004	2005	2010
Pledged Revenues						
CFC Revenues[1]	$6,744,000	$10,382,750	$10,704,000	$11,014,250	$11,342,500	$11,838,750
Investment Income	105595	258102	283102	286626	290545	313870
Transfers						
Coverage Fund	3285547	3285547	3285547	3285547	3285547	3285547
Facility Improvement Fund	-	-	-	-	-	-
	$10,135,142	$13,926,399	$14,272,649	$14,586,423	$14,918,592	$15,438,167
Current Annual Debt Service Requirements	4,691,258	9,382,516	10,382,516	10,487,416	10,601,817	11,186,820
Debt Service Coverage	n.a.	1.48	1.37	1.39	1.41	1.38
Required CFC Rate[2]	$1.83	$2.64	$2.84	$2.79	$2.73	$2.53
Proposed "Level" CFC Rate[2]	$3.00	$3.00	$3.00	$3.00	$3.00	$2.75

[1] Less allowance for 1-month cash flow lag.
[2] Per vehicle transaction day.

The principal findings of the report are as follows:

- The demographic and economic trends in the Houston CMSA reflect a strong local economy that will continue to support growth in passenger traffic at the Airport.

- Rental car demand at the Airport, as measured by transaction days, grew at an average annual rate of 6.8% over the last five years. Rental car demand is expected to continue to grow during the forecast period at a more moderate average annual rate of 2.9%.

- The City and the Operators intend to initially establish a level CFC rate somewhat higher than the required rate, consistent with the requirements of the Trust Indenture, to build up reserves for future capital improvements in the Facility Improvement Fund.[3] Assuming a 2.9% average annual growth rate of transaction days, level CFC rates of $3.00 per transaction day during the CY 2001-2005 period and $2.75 during the CY 2006-2010 period will generate sufficient Pledged Revenues to cover debt service requirements and administrative costs, and thereby satisfy the Rate Covenant. At the proposed CFC level rates of $3.00 and $2.75, debt service coverage margins during the period following the anticipated Date of Beneficial Occupancy (December 1, 2002) are forecast to range between 1.34x and 1.48x, well above the 1.25x requirement of the Rate Covenant.

- To test the sensitivity of the financial forecasts to variations in market demand, financial projections were developed assuming no growth in rental car market demand (transaction days) during the 10-year forecast period. With no growth in market demand, the required CFC rate would increase gradually over the projection period from $3.01 in CY 2003 (the first full year of occupancy of the Facility) to $3.24 in CY 2010.

The analyses and forecasts contained in this report are based upon certain data, estimates and assumptions that were provided by the Operators and the Airport, and certain data and projections that were obtained from other reputable independent sources. Based upon our review, we believe that the information is accurate, and the assumptions provide a reasonable basis for the forecasts. However, some variation from the forecasts is inevitable because of unforeseen events and circumstances, and these variations may be material. The report should be read in its entirety for an understanding of the forecasts and the underlying assumptions.

Based upon the assumptions and analysis presented in this report, Pledged Revenues are forecast to be sufficient to meet the requirements of the Trust Indenture throughout the period CY 2001-2010. Also, based on CFC rates collected, or projected, at other U.S. airports that have developed, or are planning to develop, consolidated rental car facilities, we believe that the forecast CFC rates are reasonable.

---

[3] As described in the report, the Trust Indenture establishes a CFC Stabilization Account in the Facility Improvement Fund and allows the City to transfer moneys from the Account to the Revenue Fund (as part of Pledged Revenues) to supplement CFC revenues to pay debt service and administrative costs in future years to maintain a level CFC rate.

We appreciate the opportunity to assist the City and the rental car Operators on this important financing program.

Sincerely,

Unison - Maximus, Inc.

UNISON-MAXIMUS, INC.

[This page intentionally left blank.]

GEORGE BUSH INTERCONTINENTAL AIRPORT/HOUSTON

FEASIBILITY STUDY OF THE
CONSOLIDATED RENTAL CAR FACILITY PROJECT

Table of Contents

February 12, 2001

LIST OF TABLES

LIST OF FIGURES

SECTION I

INTRODUCTION

The City of Houston owns and operates the Houston Airport System (the Airport System), which is comprised of three airports: George Bush Intercontinental Airport/Houston (Intercontinental, IAH, or the Airport), William P. Hobby Airport (Hobby), and Ellington Field. The Airport System is managed and operated by the City's Department of Aviation, an organizational unit now referred to as the Houston Airport System (HAS).

HAS is developing a consolidated rental car facility (the Project) at the Airport. The Project will consolidate rental car operations at the Airport in a single facility at a convenient location adjacent to the main Airport access road, John F. Kennedy Boulevard. Nine rental car companies (the Operators) currently serve the Airport, and all nine Operators are participating in the Project. The Project is estimated to cost $131.5 million and will be financed from the proceeds of the *City of Houston, Texas, Airport System Special Facilities Taxable Revenue Bonds (Consolidated Rental Car Facility Project), Series 2001* (the Bonds), as well as certain other HAS equity funds. The Bonds are to be issued pursuant to the *Trust Indenture by and between the City of Houston, Texas, as Issuer, and The Chase Manhattan Bank, as Trustee, dated March 1, 2001* (the Trust Indenture).

This report has been prepared to address the financial aspects of the Project and the proposed Bonds. In particular, the report documents projections of Special Facilities Rent to be derived from the collection of a Customer Facility Charge (CFC) by the Operators and the adequacy of such CFC revenues, together with other Pledged Revenues, to pay debt service on the Bonds and meet the other funding requirements of the Trust Indenture.

The report is organized into the following sections:

- **Section I, Introduction** – an overview of the Airport, rental car operations at the Airport, and the Project

- **Section II, The Project** – a description of the Project and the Project budget

- **Section III, The Rental Car Industry** – an overview of U.S. rental car industry trends and the Operators serving the Airport market

- **Section IV, Local Economic Base** – a profile of the Houston air service area economy and relevant economic and demographic trends

- **Section V, Rental Car Demand Analysis and Forecasts** – a review of recent trends in rental car activity at the Airport and forecasts of annual rental car demand (transaction days) for the fiscal year (FY)[1] 2001-2010 period.

- **Section VI, Financial Analysis** – a description of the legal framework for the financing and operation of the Project, a discussion of the proposed financing, and a presentation of financial forecasts of the following: (1) the required CFC rate, (2) CFC revenues, interest income and other Pledged Revenues, (3) debt service coverage, and (4) the application of Pledged Revenues to the funds and accounts established by the Trust Indenture for the 10-year forecast period, calendar years (CY) 2001-2010.

The financial forecasts are presented in a series of tables in Section VI of the report.

A. OVERVIEW OF THE AIRPORT

Intercontinental is the principal airport in the Airport System, accounting for 79% of total Airport System passenger enplanements in FY 2000 (17.01 million out of a total of 21.58 million). There are two other airports in the system: Hobby and Ellington Field. Hobby offers commercial passenger service, but has limited space for expansion. Ellington Field offers minimal commercial passenger service. Hence, much of the growth in passenger traffic in the Houston area is expected to occur at Intercontinental. The analysis and forecast of rental car demand in this report are based on forecasts of enplanements only at Intercontinental.

The Airport is a "system hub" in the route system of Continental Airlines. Continental Airlines, together with its wholly owned subsidiary, Continental Express, accounted for 82% of passenger enplanements at the Airport in FY 2000 (13.96 million out of 17.01 million).

According to traffic data compiled by the Airports Council International (ACI) in calendar year (CY) 1999, Intercontinental was the 13th busiest airport in the United States in terms of total passengers. The Airport was also the 19th busiest in the nation in terms of aircraft movements and 24th in terms of air cargo. Intercontinental is the only airport in Houston that provides international service and serves as an international gateway to Europe and Latin America.

In addition to Continental and Continental Express, 11 other airlines currently provide scheduled domestic passenger service, and 10 foreign-flag carriers provide scheduled international passenger service at IAH. Several charter airlines and all-cargo carriers also operate at the Airport. The Airport currently provides nonstop domestic service to more than 100 airport destinations nationwide and nonstop international service to 46 cities in 21 countries and Puerto Rico.

[1] The City's fiscal year ends on June 30.

Located approximately 22 miles north of downtown Houston, the Airport encompasses a total area of over 9,000 acres. The Airport has four terminals: Terminal A (used primarily by domestic airlines other than Continental, Continental Express and Northwest), Terminal B (used by Continental Express and Northwest), Terminal C (used primarily for Continental's domestic flights), and Terminal D (used by Continental, Continental Express and foreign flag airlines for international flights).

In recent years, the Airport has experienced significant growth in air traffic, largely as a result of the expansion of Continental's hubbing operations. Based on Continental's expansion plans at the Airport, this growth is expected to continue for the next several years. Between FY 1992 and FY 1999, passenger enplanements at IAH grew at an average annual rate of 7.9%, more than double the 3.9% average annual growth rate in enplanements for the entire United States. This growth has been shared between originating and connecting traffic, attesting to the continued strength of the local Houston area economy. The growth in originating traffic has continued to fuel growth in rental car demand at the Airport. Between FY 1996 and FY 2000, rental car transaction days have increased at an average annual rate of 6.8% and rental car gross revenues have increased at an average annual rate of 10.1%.

Based in part on planning information provided by Continental, passenger enplanements at the Airport are forecast to continue to increase at above-average rates of growth (4-5% annually) and to reach 22 million by FY 2006.[2]

HAS is currently implementing a $2.6 billion Capital Improvement Program (CIP) and has issued bonds in two series in the total amount of $1,326,000 to finance a portion of the costs of the CIP. Approximately 80% of the $2.6 billion CIP represents airfield, terminal and infrastructure improvements at Intercontinental. The Project is an integral part of the CIP and will provide the capacity for the continued growth of rental car activity at the Airport, as well as improve the efficiency of rental car operations and relieve curbside congestion at the terminals.

The current CIP is partly a response to the decision by Continental in 1996 to begin a major expansion of its hub operations at Intercontinental. In addition to the Project, the CIP for Intercontinental includes the construction of a new runway and taxiway, the extension and widening of the existing runway, the construction of new cargo infrastructure, and other related improvements to expand the capacity of the airfield. The specific project categories are as follows:

- Airfield and apron projects – This category of projects includes a group of capacity-enhancing airfield and apron projects that is being managed under the designation of the "Airside Improvements Program" and a number of other smaller airfield projects. The Airside Improvements Program includes the following: new northeast cargo area infrastructure/related taxiways and drainage; new east cross-field taxiway; new north parallel runway, Runway 8L-26R; widening and upgrading of the south ramp east of

[2] Roger H. Bates, Airport Consultant, in association with AVK Consulting and Unison-Maximus, Inc., "Report of the Airport Consultant," *Official Statement for the City of Houston, Texas, Airport System Subordinate Lien Revenue Bonds, Series 2000*, September 11, 2000.

Terminal C (the new international ramp); extension, widening, and overlay of Runway 15R-33L; construction of a second taxiway bridge for Taxiway SD across the Airport entrance road (John F. Kennedy Boulevard) and widening of the Terminal A/B ramp; and airside expansion.

- Terminal projects – These involve major terminal expansion and improvement projects including the renovation and expansion of Terminal A for the domestic airlines other than Continental; the renovation and improvement of Terminals B and C for Continental; a new 3,500 space parking structure between Terminals A and B; improvements to Terminal D (the existing international terminal); the International Services Expansion Program including a new central Federal Inspection Services Facility, a new international ticketing building for Continental, and a new 2,500-space parking structure; terminal infrastructure projects; and other parking facilities projects.

- Airport infrastructure/systems projects – These include the construction, repair, replacement, improvement and expansion of miscellaneous airport infrastructure.

Continental is also making a substantial investment in facilities at Intercontinental. In addition to projects funded with corporate equity, Continental's 1996 expansion at Intercontinental included projects financed with five series of special facility revenue bonds (the Continental SFRBs) in 1997 and 1998 in the total amount of $236 million. These projects included the construction of an automated people mover system (APM) between Terminals B and C, certain renovations and improvements to Terminals B and C, and other support facilities for Continental – projects that are now complete. Continental also anticipates financing an additional $375 million of Airport projects with one or more issues of additional Continental SFRBs in conjunction with the new International Services Expansion Program.

B. RENTAL CAR OPERATIONS AT THE AIRPORT

The nine Operators that currently serve the Airport are: Southwest-Tex Leasing Co., Inc., d/b/a Advantage Rent-A-Car (Advantage); Alamo Rent-A-Car, LLC (Alamo); Avis Rent A Car System, Inc. (Avis); Budget Rent a Car Systems, Inc. (Budget); Dollar Rent A Car Systems, Inc. (Dollar); Enterprise Leasing Company of Houston (Enterprise); The Hertz Corporation (Hertz); National Car Rental System, Inc. (National); and Pace Car Corp., d/b/a Thrifty Car Rental (Thrifty). Each of the Operators currently operates on-Airport[3] and runs its own bus service to transport customers between the terminals and its facility.

The Operators currently operate under the terms of concession agreements that extend until the Date of Beneficial Occupancy of the consolidated facility. The Operators each pay the City privilege fees of 8.5% of the first $3 million of annual gross revenues and 10% of the annual gross revenues in excess of $3 million against specific minimum annual guarantees

[3] Airport management considers on-Airport Operators as those rental car companies that have concession agreements with the Airport System. At present, there are no off-airport rental car companies doing business at the Airport.

applicable to each Operator. The minimum annual guarantee for each Operator is 85% of the privilege fees paid in the previous year or $100,000, whichever is greater. In FY 2000, the Operators reported aggregate gross revenues of $132.6 million on more than 905,000 rental car contracts. The average contract duration was 3.55 days.

Each of the Operators is participating in the Project and has executed an Automobile Rental Concession Agreement (Concession Agreement) and the Master Special Facilities Lease Agreement (Master Lease). The terms of these agreements are summarized in Section VI.

C. OVERVIEW OF THE PROJECT

The Project is situated on a 250-acre site immediately east of JFK Boulevard approximately one mile south of the terminal complex. It involves the design, acquisition, development, construction, and equipping of the new consolidated rental car facility at the Airport, including the acquisition of 26 buses to be used in the consolidated busing operation to transport customers between the Airport terminals and the customer service building in the consolidated rental car facility. The Project includes (1) a 70,000 square-foot common rental car customer service building (the Customer Service Building), (2) an attached parking structure accommodating 4,648 rental car ready/return spaces (the Parking Structure), (3) individual exclusive-use maintenance and storage facilities for each of the Operators (the Maintenance/Storage Facilities), (4) acquisition of 26 shuttle buses and construction of a shuttle bus maintenance facility, and (5) associated site development and infrastructure improvements such as roadways, landscaping, and signage. These are more particularly described in Section II of this report.[4] The Project is scheduled to open for public use in November 2002. Once the Project is completed and available for public use, the bus services previously provided by the individual Operators will be discontinued and replaced by a consolidated bus service. The Operators have formed a limited liability company (IAH RACS LLC or the LLC) to maintain and operate the common use facilities in the Project, including the consolidated busing operation.

The Project will consolidate all rental car operations in a single facility at the Airport, thereby providing convenient and efficient service to rental car customers. The new consolidated facility will free up for other uses terminal building space that is now devoted to rental car counters. The consolidated bus operation will alleviate curbside and roadway congestion, and improve air quality at the Airport.

Beginning on the first day of the month following the date of issuance of the Bonds, each Operator will collect a CFC from every vehicle rental at the Airport.[5] The CFC revenues will be remitted as Special Facilities Rent to the Trustee and used to pay debt service on the Bonds and make other deposits and payments required by the Trust Indenture. The CFC will be assessed per transaction day, and will be set at a rate that will generate proceeds that,

[4] Throughout this report, capitalized terms are used as defined in the Master Lease and the Trust Indenture.
[5] With the exception of certain local rentals prior to the Date of Beneficial Occupancy, as set forth in the Master Lease.

together with certain other Pledged Revenues, will be at least sufficient to pay debt service on the Bonds and meet the other funding requirements of the Trust Indenture.

This report presents a general description of the Project; addresses the rental car industry, the current rental car market and future rental car demand at the Airport; discusses the financing of the Project; and presents forecasts of (1) the required CFC rate, (2) CFC revenues, interest income and other Pledged Revenues, (3) debt service coverage, and (4) the application of Pledged Revenues to the funds and accounts established by the Trust Indenture for the 10-year forecast period, CY 2001-2010.

SECTION II

THE CONSOLIDATED RENTAL CAR FACILITY PROJECT

The Project is being undertaken to provide facilities to allow the consolidation of all current and future on-airport rental car activities at one common on-Airport location. This section describes the major elements of the Project and the Project budget.

A. PROJECT DESCRIPTION

Figure II-1, Project Site Plan, shows the overall layout of the site and the major facilities that comprise the Project. The Project site consists of approximately 250 acres of land adjacent to John F. Kennedy Boulevard at Rankin Road immediately north and east of the HAS Administration Building complex. The Project consists of all properties, facilities, structures, equipment, fixtures, furnishings, finishes and appurtenances to be acquired, constructed, fabricated and/or installed at the Project Site other than HAS facilities (described below). The Project is comprised of the following principal elements:

- **Customer Service Building** – A consolidated rental car customer service building of approximately 70,000 square feet including customer service and administrative office areas for each Operator, public circulation areas, public restrooms, elevator/escalator/stairwell vertical circulation coves, a building manager's office, and a 30-foot exterior landscaped median.

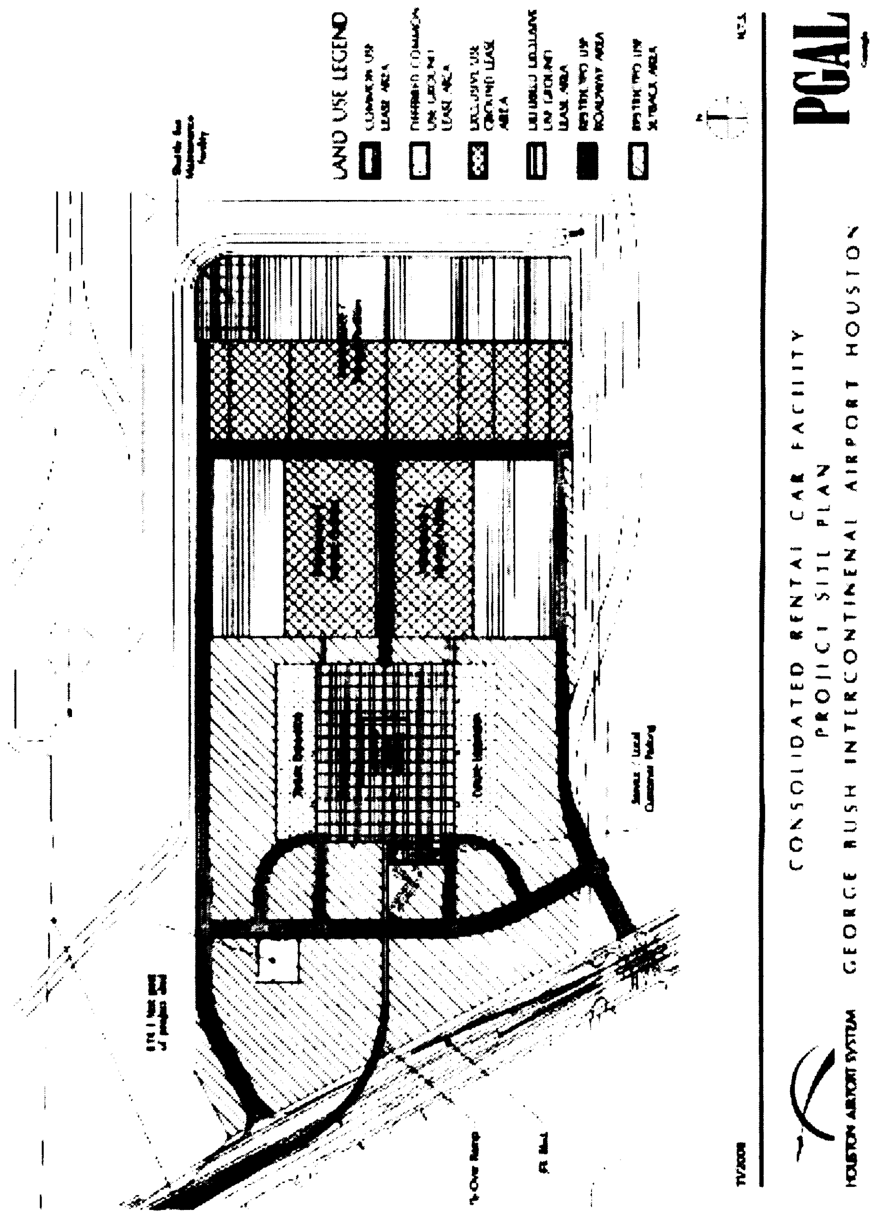
  The Customer Service Building is situated in the center of the Parking Structure mid-level between the first and second floors of the structure. The Customer Service Building includes four egress doorways (one on each of the four faces of the building) to provide convenient and relatively equal access from the Operators' counter areas to the ready car areas in the Parking Structure.

- **Parking Structure** – A parking structure of approximately 1.6 million square feet to accommodate rental car pickup and return activities comprised of ready/return parking areas, internal vehicle circulation lanes and an exterior circulation roadway.

  The Parking Structure will be covered at the top level with a full roof. Initially, Hertz and Avis (which collectively account for over 50% of the rental car market at the Airport) will occupy the first level of the Parking Structure; the other Operators will share the second level.

- **Shuttle Buses** – Shared busing rolling stock (26 buses) for the consolidated busing operation, as well as a reasonable supply of spare parts.

"FIGURE 2-1"


LAND USE LEGEND
CONSOLIDATED RENTAL CAR FACILITY
PROJECT SITE PLAN
GEORGE BUSH INTERCONTINENTAL AIRPORT HOUSTON
HOUSTON AIRPORT SYSTEM
PGAL

- **Shuttle Bus Maintenance Facility** – A maintenance facility for the shuttle buses on approximately four acres of ground and including an administration building, a bus maintenance facility, a bus wash facility, and a bus parking area.

- **Maintenance/Storage Facilities** – Individual, exclusive-use maintenance and storage facilities for each rental car Operator encompassing a total of approximately 50 acres.

  Hertz and Avis will have direct access to their Maintenance/Storage Facilities via separate, dedicated, grade-level roadways from the Parking Structure. The other Operators will access their Maintenance/Storage Area premises via a central ramp leading from the Parking Structure to the north-south service roadway that bisects the Maintenance/Storage Area site.

- **Infrastructure** – Infrastructure at the site of the Facility including roadways, garage ramps, utilities, landscaping, perimeter fencing, and drainage, together with certain site improvements that include construction of a bridge over Ditch D, relocation of an existing above-ground Houston Lighting & Power (HL&P) power line that traverses the site, and construction of a bus fly-over ramp from JFK Boulevard to the roof of the Customer Service Building.

Passengers arriving at one of the Airport terminals will proceed to the curbside area to board the common rental car shuttle bus. The bus will travel south on JFK Boulevard and exit JFK via the fly-over ramp to the roof top level of the Customer Service Building. Rental car customers will then disembark and travel down one level (via escalators or elevators) to the center of the lobby of the Customer Service Building and from there to their particular rental car counter areas. After the rental transactions are complete, the customers will exit one of the four doors and traverse either up or down escalators one half level into the Parking Structure to pick up their cars. Customers returning their rental vehicles will follow the reverse course.

HAS has bid the Project in two packages: Package 444A, Project sitework development, and Package 444B, Project facilities. In addition, the Shuttle Buses are being purchased separately.

The Project also includes fixed budgets of $30.0 million for construction and $3.9 million for design and other professional services for the Maintenance / Storage Areas and tenant space improvements in the Customer Service Building—all of which will be administered directly by the individual Operators rather than HAS. Each of the Operators has been allocated a share of the total $33.9 million budget and will draw on Bond proceeds to pay for the costs of its maintenance facility and tenant improvements in an amount not to exceed its allocated share of the budget.[1] In addition, the Operators are expected to invest a significant amount of equity funds to fund costs related to their Maintenance/Storage Facilities and tenant finishes in the Customer Service Building.

[1] Any costs incurred by the Operators over and above their allotted shares of the $30.0 million construction budget and $3.9 million design budget must be paid by the individual Operators from their corporate resources.

The Project sitework bid package (444A) includes site development, bridges/ramps and infrastructure improvements. Elements of this package include: site preparation; installation of on-site roads and utilities (storm, water, sanitary, power, gas); re-routing of Ditch D around the perimeter of the site; construction of a bridge and drainage improvements from Rankin Road (the entrance road that intersects JFK Boulevard) to the site across Ditch D; relocation of the existing HL&P power line, the bus fly-over road from JFK Boulevard; vehicle ramps to the second level of the Parking Structure; and certain roadway modifications around the airport hotel to improve the efficiency of the routing of the shuttle buses.

The Project facilities bid package (444B) includes the Parking Structure, the Customer Service Building, the Shuttle Bus Maintenance Facility, and landscaping, graphics and signage.

Construction of the Project is expected to begin in March 2001, with an expected Date of Beneficial Occupancy of the Facility on or about December 1, 2002.

B. PROJECT COSTS

The Project budget is shown in **Table II-1**. The total Project budget is estimated to be approximately $131.5 million, including (1) $4.9 million of costs associated with certain infrastructure elements of the Project that are to be borne by the City (HAS contribution) and (2) $126.6 million of costs to be financed with the Bonds. The term *Costs of the Project*, as defined by the Master Lease, specifically excludes HAS contribution and, therefore, represents only that portion of the total Project budget to be financed with the Bonds – $126.6 million.

The Master Lease defines the term *Costs of the Project* to include:

1. Costs of designing, constructing, fabricating, equipping, and installing the Project, including amounts paid by the City in contemplation of being reimbursed with the Bond proceeds, as well as the costs of bus acquisition;

2. Charges of architects and engineers for plans, specifications, drawings, supervision, and inspection for the Project;

3. Expenses incurred by the Operators and the City for the review of plans, specifications and contracts for the Project, and for the inspection in connection with the construction and acquisition thereof;

4. Costs of any permits, licenses, fees, performance and payment bonds, appraisals, and insurance policies procured in connection with the construction and acquisition of the Project; and

5. Any other fees, costs, and expenditures incidental or pertaining to the design, acquisition, construction, fabrication, equipping and installation of the Project.

TABLE II-1

COSTS OF THE PROJECT
Consolidated Rental Car Facility Project
George Bush Intercontinental Airport/Houston

Project Element	HAS Cost	Costs to be Financed with the Bonds	Total Project Costs
Project 444A - Project Site Work	4,888,262	17,797,506	22,685,768
Project 444B - Facilities		67,760,141	67,760,141
Exclusive Space		33,900,000	33,900,000
Bus Procurement		7,186,494	7,186,494
TOTAL PROJECT COSTS	**$ 4,888,262**	**$ 126,644,141**	**$ 131,532,403**

Source: Houston Airport System and PGAL based on actual bids for Project 444A, Project 444B, and bus procurement.

HAS appropriated in excess of $9.0 million for planning, design and construction management for the Project – costs that are part of the *Costs of the Project*. The proceeds of the Bonds will be used to reimburse HAS for these costs.

[This page intentionally left blank.]

SECTION III

RENTAL CAR INDUSTRY

This section discusses recent developments in the U.S. rental car industry and highlights of the history of the nine rental car companies that currently serve the Airport market. The purpose of the section is to provide a context for the subsequent detailed examination of the rental car market at IAH. The section contains a discussion of the following Operators currently serving the Airport: Advantage, Alamo, Avis, Budget, Dollar, Enterprise, Hertz, National, and Thrifty.

A. UNITED STATES RENTAL CAR INDUSTRY

1. Background

The U.S. rental car industry has two distinct market segments: (1) the airport market and (2) the local market. The airport market segment serves business and leisure air travelers who rent cars at the airport upon arrival at their destinations. The local market segment primarily serves individuals who rent cars locally to replace their temporarily unavailable private cars. The U.S. rental car industry grossed an estimated $18.3 billion in 1999, representing an 8% increase over the 1998 gross revenue of $17.2 billion.[1]

The Hertz Corporation is the oldest company in the industry, tracing its history back to 1918 when Walter L. Jacobs opened the first rental car company in Chicago. The early rental car companies in the United States operated in downtown areas, usually at train stations and hotels. The expansion of rental car operations to airport locations was a significant step in the industry.[2] Hertz opened the first airport rental car location at Chicago's Midway Airport in 1932. The economic prosperity of the post-World War II period led to enormous growth in consumer demand for a variety of goods and services, including air travel. Warren Avis opened rental car operations in Detroit's Willow Run Airport and Miami Airport in 1947. By 1948, Avis had rental car operations at airports in Chicago, Dallas, Houston, Los Angeles, New York, and Washington. The rental car industry, in realization of air travelers' need for a convenient mode of ground transportation at their destinations, responded by extending rental car service to other U.S. airports.

Airports usually require the rental car companies to bid competitively for the right to operate on airport property and pay fees for the privilege of serving the airport market. The most

[1] "What happened in 1999?" an editorial comment in *Auto Rental News, 2000 Fact Book,* December 1999, page 4.
[2] This report addresses the financial feasibility of the proposed consolidated rental car facility at IAH. Consequently, the discussion in this sub-section focuses on the airport rental car market segment.

common airport fee, called an "airport privilege fee" or "concession fee," is usually collected from all rental car companies serving the airport market, whether their facilities are located within the airport boundaries ("on-airport") or near the airport ("off-airport"). The airport privilege fee is typically the greater of a minimum annual guarantee or a percentage of each rental car company's gross revenues earned at its airport location. However, on-airport rental car companies may pay a higher airport privilege fee than off-airport rental car companies. In addition to the airport privilege fee, many airports charge the rental car companies rent for their counter space in the airport terminal, ground rent for parking areas designated for rental cars, facilities rentals, and other fees specified in the rental car concession agreement.

2. Recent Industry Trends

i) ***Ownership of Rental Car Companies***. The ownership of the major rental car companies has undergone significant changes since the 1980s. In the 1980s, the three large U.S. car manufacturers (Chrysler, Ford and General Motors) acquired ownership interests in several rental car companies and often used these companies as outlets to absorb their periodic excess new car inventory. In 1987, Ford acquired an 80% ownership interest in Hertz, which was increased to 100% ownership in 1989. In 1989, Ford purchased 100% of Budget's preferred stock, and Chrysler purchased 100% ownership interest in Thrifty. General Motors acquired a 27% ownership interest in Avis in 1989 and subsequently increased its ownership to 29%, leaving the remaining 71% in the hands of Avis' employees. The trend continued into the early 1990s, with Chrysler purchasing Dollar in 1990 and General Motors purchasing National in 1992.

However, in the mid-1990s, the three major U.S. car manufacturers sold all or portions of their interests in the rental car companies. In June 1995, General Motors sold National to a group of private investors, who later sold National to Republic Industries in January 1997; and Republic Industries subsequently purchased Alamo in November 1996. In April 1999, Republic Industries changed its name to AutoNation, Inc., and then in January 2000, AutoNation, Inc. created ANC Rental Corp., a separate and publicly traded company to take over its rental car operations. This spin-off means that AutoNation now functions solely as an automotive retailer.[3] In October 1996, General Motors sold its 29% interest in Avis to HFS, a hotel and real estate franchiser. HFS subsequently merged with CUC International, and is now known as Cendant. In April 1997, Ford sold its interest in Budget to Team Rental, a large Budget franchisee. Hertz became a publicly traded company when it made an initial public offering of 20 million shares of Hertz common stock in April 1997. In December 1997, Dollar Thrifty Automotive Group completed an initial public offering of 22.5 million shares of its common stock, which represented 100% of Chrysler's ownership.

[3] *Auto Rental News*, January/February 2000, page 10.

ii) ***Increased Industry Profitability.*** During the late 1980s and early 1990s, when the three largest U.S. car manufacturers held significant ownership interests in the rental car companies, the focus tended to be on the disposal of excess new car inventory rather than on ensuring the profitability of the rental car companies. A method commonly used was the pricing strategy whereby the car manufacturers sold new cars to the rental car companies with either repurchase agreements or guaranteed depreciation programs. Repurchase agreements are contracts under which the car manufacturers agree to repurchase the cars after a specified period of time and at a predetermined price. Under the guaranteed depreciation program, the car manufacturer agrees to refund to the rental car company the difference, if any, between a car's auction price and the car's predetermined depreciated value. Vehicles purchased under these arrangements were referred to as "program cars", and were attractive to the rental car companies because the repurchase price or guaranteed depreciated value was usually higher than the market value of the car at the time of its resale at an auction. Unfortunately, under these price agreements, the rental car industry profits suffered because industry revenues did not keep pace with fleet acquisition and management costs, particularly during the national economic recession of the early 1990s.

The recent changes in the ownership of the rental car companies have resulted in a renewed focus on profitability. In particular, the rental car companies have been implementing more cost-effective fleet management strategies and adopting more market-based pricing structures for their vehicles. Industry experts suggest that careful monitoring of holding costs, the use of multiple sources to purchase vehicles, and matching fleet size with customer's demand for rental cars are some of the strategies that would ensure increased and sustained profitability for the rental car industry.[4] [5]

The implementation of more market-driven rental car rates has led to increases in the cost of renting cars since 1997.[6] Although they differ in their estimates of the proportion, there is a general consensus among industry observers that rental car rates will continue to increase during 2000. Some observers suggest that consumers may expect rates to go up by as much as 7% during the year, particularly during the peak periods and for discretionary renters.[7] In addition to the rental rate increases, several companies have imposed new customer charges, such as: surcharges on one-day rentals during the middle of the week, cancellation or no-show fees, and itemization of airport concession fees.

---

[4] See, for example, Dennis Eatman, "Effectively Managing Your Fleet", *Auto Rental News,* February 2000, pages 14-17. Holding costs are defined as the vehicle depreciation plus incurred interest.
[5] See *Auto rental News,* January/February 2000, page 17, for comments from various rental car companies' top executives in charge of fleet management on their expectations regarding future trends in industry fleet size.
[6] See, for example, Goldman Sachs, *Rental Car Industry,* May 20, 1998; Lynn Woods, "Car Rental Vendors Gain Leverage," *Business Travel News*, December 8, 1997.
[7] See, for example, David Stepner, "Industry Forecast", *Auto Rental News,* January/February 2000, page 17.

iii) ***Role of the Internet.*** The Internet has become indispensable as a tool for doing business. Advances in e-commerce technology have made it easier for businesses to create a virtual do-it-yourself environment for their customers that greatly facilitate business transactions. The major rental car companies have joined the e-commerce trend and set up websites with extensive reservations and customer service features. Many of the rental car companies have adopted colorful graphics and "clickable" links that make their websites user-friendly. As computer technology improves and its applications expand, it is safe to project that the role of the Internet in the rental car industry will grow, helping the rental car companies control costs while accommodating increasing customer demand.

B. RENTAL CAR COMPANIES THAT SERVE GEORGE BUSH INTERCONTINENTAL AIRPORT

Nine rental car Operators are participating in the Consolidated Rental Car Facility Project at the Airport. Of the nine Operators, only Thrifty is run by a franchisee; the others are corporate-owned locations. A brief profile of each Operator is provided below.

1. Southwest-Tex Leasing Co., Inc., d/b/a Advantage Rent-A-Car

In 1963, Kenneth and Helen Walker of San Antonio, Texas founded a small business called, "Three Ninety-Nine Car Rentals", with five automobiles. Over the years, the company expanded to numerous locations operating under a number of trade names and franchises. In 1985, these operations were consolidated under one name – Advantage Rent-A-Car.[8] Advantage first entered the airport market in 1988 and now operates in 28 airports across Texas and throughout the western United States. In total, Advantage currently operates in over 125 different locations throughout the western United States and 10 locations in Mexico, with a fleet of over 12,000 vehicles.[9]

Advantage has made a strategic decision not to concentrate on one type of rental service,[10] and this is reflected in the composition of the company's rental revenue by market segment. In 1999, approximately 40% of Advantage's revenue nationwide was generated in the airport market segment, and 60% was generated in the local market segment. Its revenue from the airport market was equally divided between the business and leisure customer segments.[11]

Advantage began serving Intercontinental from an off-airport location in January 1985, and from an on-airport location in August 1995. Based on FY 1999 gross rental revenues,

[8] Southwest-Tex Leasing Co., Inc., a Texas Corporation, operates under its trademark name Advantage Rent A Car in the state of Texas.
[9] Advantage Rent-A-Car in http://www.arac.com.
[10] Advantage Rent-A-Car in http://www.arac.com.
[11] "U.S. Car Rental Market: Fleet, Locations and Revenue by Market Segments," *Auto Rental News 2000 Fact Book*, December 1999, page 8.

Advantage accounted for approximately 1% share of the Airport market. Of Advantage's FY 1999 gross rental revenues at Intercontinental, approximately 50% was generated from business travelers, and 50% from leisure travelers.

2. Alamo Rent-A-Car, LLC

In September 1974, Alamo began operations from four locations (Miami, Fort Lauderdale, Tampa and Orlando) with a fleet of 1,000 cars. By 1979, Alamo had grown to 11 off-airport locations, focusing on the leisure segment of the industry. Alamo entered the airport market in 1981 with the opening of its first on-airport facility in Atlanta, and has since aggressively pursued the airport market segment. Alamo has since opened a number of airport locations, and today two-thirds of Alamo's airport locations are on-airport. In total, Alamo has over 550 locations throughout the United States, Canada, Europe, Latin America, and the Caribbean, and operates a fleet of over 150,000 vehicles.[12] In the United States, Alamo operates in over 100 locations.[13]

Alamo's ownership structure has changed over the years. In December 1996, Alamo merged with Republic Industries, Inc. (now AutoNation, Inc.), an automobile retailer.[14] Recently AutoNation spun off its rental operations under a separate division, ANC Rental Corporation.[15]

The composition of Alamo's revenue in 1999 reflects a focus on the leisure component of the airport market segment. In 1999, approximately 90% of Alamo's revenue in the United States was generated from airport transactions. Of Alamo's airport revenue, approximately 75% was from leisure travelers.[16]

Alamo began serving Intercontinental from an off-airport location in February 1986, and from an on-airport location in March 1995. Based on FY 1999 gross rental revenues, Alamo accounted for approximately 6% share of the Airport market. Of Alamo's FY 1999 gross rental revenues at Intercontinental, approximately 33% was generated from business travelers, and 67% from leisure travelers.

3. Avis Rent A Car System, Inc.

In 1947 Warren Avis began renting cars at the Willow Run Airport in Detroit and Miami Airport. By 1948, Avis had locations at airports in New York, Chicago, Dallas, Washington, Los Angeles, and Houston. Avis also established operations in downtown locations to serve demand at hotels and office buildings. Today Avis has over 4,400 locations in the United

[12] Alamo Rent A Car in http://www.goalamo.com.
[13] *Auto Rental News 2000 Fact Book*, December 1999, page 24.
[14] Alamo Rent A Car in http://www.goalamo.com.
[15] "AutoNation Sets Details of Car Rental Unit Spinoff," *Auto Rental News*, January/February 2000, page 10.
[16] "U.S. Car Rental Market: Fleet, Locations and Revenue by Market Segments," *Auto Rental News 2000 Fact Book*, December 1999, page 8.

States, Canada, Europe, Australia, New Zealand, Latin America, and the Caribbean.[17] Avis serves the U.S. market with a fleet of over 200,000 vehicles in over 1,000 locations.[18]

Over the years, there have been significant changes in the ownership structure of Avis that have influenced its operations. In 1979, Avis entered into a worldwide advertising and marketing agreement with General Motors (GM) and began using GM cars in its fleet. In 1989, General Motors acquired a 27% ownership interest in the company (later increased to 29%), with the remainder being employee-owned. In October 1996, Avis was purchased by HFS, which subsequently merged with Cendant.[19] In September 1997, Cendant completed an initial public offering (IPO) of 80% of its stock. The IPO resulted in the spin-off of Avis' operating company, which made it the largest Avis franchisee. Cendant has retained the right to the Avis name and reservation system, and collects from the operating company a percentage of its revenue. At present, Cendant is in the process of acquiring the balance of Avis stock that Cendant does not currently own. It is anticipated that this transaction will close March 2001.

Recently Avis completed the acquisition of a vehicle leasing and fleet management company and a fleet card provider, which signals the transformation of Avis into a services and information provider. Avis also changed its legal name from Avis Rent A Car, Inc. to Avis Group Holdings, Inc.[20]

The composition of Avis' 1999 U.S. revenue shows a concentration on the business component of the airport market segment. Approximately 85% of Avis' U.S. rental revenue in 1999 was generated in the airport market segment, of which approximately 70% was generated from business travelers.[21] This may change in the future with the company's entry into the insurance replacement market in 2000.[22]

Avis has been serving Intercontinental from an on-airport location since 1969. Based on FY 1999 gross rental revenues, Avis accounted for a 27.4% share of the Airport market. Of Avis' FY 1999 gross rental revenues at Intercontinental, approximately 70% was generated from business travelers, and approximately 30% from leisure travelers.

4. Budget Rent a Car Systems, Inc.

Budget is one of seven subsidiaries within Budget Group, Inc. Budget is a network of more than 3,200 company-owned and franchised locations worldwide, all operating under the same Budget name. The company began operations in Los Angeles in 1958, and expanded during

[17] Avis Rent A Car, Inc. in http://www.avis.com.
[18] *Auto Rental News 2000 Fact Book*, December 1999, page 27.
[19] Cendant, formerly CUC International, is a franchiser of brand names including Days Inn, Ramada, Travelodge, Howard Johnson, Century 21, ERA, and Coldwell Banker.
[20] Avis Rent A Car, Inc. 1999 Annual Report in http://www.avis.com.
[21] "U.S. Car Rental Market: Fleet, Locations and Revenue by Market Segments," *Auto Rental News 2000 Fact Book*, December 1999, page 8.
[22] Avis Rent A Car, Inc. 1999 Annual Report in http://www.avis.com.

the 1960s and 1970s primarily through the leisure portion of the airport market segment. During the 1980s, the company began targeting business travelers as well. Today Budget operates in more than 120 countries and U.S. territories with a worldwide fleet of approximately 265,000 vehicles. In the United States, Budget operates in over 1,000 locations with a U.S. fleet of approximately 150,000 vehicles. Approximately 50% of Budget's U.S. locations are franchise-owned.[23]

Budget changed ownership several times over the past years. Among the significant milestones are the acquisition by Ford of 100% of Budget's preferred stock in 1989 and the sale of Budget in April 1997 to Team Rental Group, the largest Budget franchisee at the time, which subsequently changed its name to Budget Group, Incorporated.

In 1999, approximately 65% of Budget's rental revenue was generated in the airport market segment, with airport transactions split approximately equal between business and leisure.[24]

5. Dollar Rent A Car Systems, Inc.

Dollar was founded in 1965 in Los Angeles, where its executive offices remained until August 1994 when Dollar relocated its world headquarters to Tulsa, Oklahoma. In August 1990, Dollar was acquired by Chrysler Corporation and, along with Thrifty and Snappy, became a wholly-owned subsidiary of a Chrysler subsidiary, Pentastar Transportation Group, Inc. (PTG). In January 1993, Dollar absorbed the operations of Dynasty Express Corporation d/b/a General Rent-A-Car, another rental car company owned by Chrysler. PTG was merged into Dollar Thrifty Automotive Group, Inc. (DTAG) in late 1997 and completed an initial public offering. Following divestiture, Chrysler no longer owned any of the DTAG common stock. Currently, DTAG owns Dollar Rent A Car Systems, Inc. and Thrifty Rent-A-Car System, Inc., which operate separate rental businesses and license independent franchisees to rent vehicles under their brands.[25]

Today, Dollar has over 260 suburban and on-airport locations throughout the United States, served by a fleet of 97,000 vehicles. Worldwide, Dollar has nearly 2,000 locations in more than 50 countries with a fleet of more than 210,000 vehicles.[26]

The majority of Dollar's business in the United States comes from the airport market segment. In 1999, approximately 70% of Dollar's U.S. rental revenue was generated in the airport market, and approximately 60% of the company's airport customers were leisure travelers.[27]

---

[23] Budget Rent a Car Corporation in http:www.drivebudget.com.
[24] "U.S. Car Rental Market: Fleet, Locations and Revenue by Market Segments," *Auto Rental News 2000 Fact Book*, December 1999, page 8.
[25] Dollar Rent A Car Systems, Inc. in http://www.dollar.com.
[26] Dollar Rent A Car Systems, Inc. in http://www.dollar.com.
[27] "U.S. Car Rental Market: Fleet, Locations and Revenue by Market Segments," *Auto Rental News 2000 Fact Book*, December 1999, page 8.

6. Enterprise Leasing Company of Houston

Jack Taylor founded Executive Leasing, a vehicle leasing company, in St. Louis in 1957. Rent-a-car operation was launched in 1962 with 17 vehicles, and, in 1969, Executive Leasing changed its name to Enterprise Leasing and expanded outside St. Louis with the opening of the Atlanta group. As of 1999, Enterprise had grown to more than 3,600 offices in the United States and nearly 400 offices in Canada, United Kingdom, Germany, and Ireland. In 1999, Enterprise had approximately 427,000 rental vehicles in service,[28] of which nearly 400,000 vehicles are operated in the U.S. market.[29]

Enterprise has targeted the local rental car market segment, with emphasis on the insurance replacement portion of this segment. Unlike the other large rental car companies that maintain large fleets at airport locations, Enterprise establishes rental offices in cities and suburbs. Enterprise has aggressively sought out customers in the local market segment by entering into agreements with automobile dealers, body shops and others to offer their customers a replacement car while their car is being repaired or undergoing service.

Enterprise's focus on the local market segment is evident in the composition of its 1999 U.S. rental revenue. During 1999, approximately 95% of Enterprise's U.S. revenue was generated in the local market segment, and only 5% in the airport market segment. Within the airport market segment, approximately 90% of Enterprise' customers were leisure travelers.[30]

Enterprise began serving Intercontinental from an off-airport location on June 1, 1993, and went on-airport on February 15, 2000. Based on FY 1999 gross rental revenues, Enterprise accounted for an approximate 1% share of the Airport market. Of Enterprise' FY 1999 gross rental revenues at Intercontinental, 20% was generated from business travelers, and 80% from leisure travelers.

7. The Hertz Corporation

Hertz is the oldest company in the industry, tracing its beginnings to 1918, when Walter L. Jacobs opened his first rental car operation in Chicago. The company has carried the name Hertz since 1923, when Jacobs sold the company to John Hertz, president of Yellow Cab and Yellow Truck and Coach Manufacturing Company. Hertz changed ownership a number of times until it became a wholly-owned subsidiary of The Ford Motor Company in 1994. In April 1997, Hertz completed an initial public offering of 20 million shares of its common stock and became a publicly traded company on the New York Stock Exchange (NYSE:HRZ) with subsidiaries in equipment rental, insurance, telecommunications, and liability claims management.[31]

---

[28] Enterprise Rent-A-Car in http://www.enterprise.com.
[29] *Auto Rental News 2000 Fact Book*, December 1999, page 30.
[30] "U.S. Car Rental Market: Fleet, Locations and Revenue by Market Segments," *Auto Rental News 2000 Fact Book*, December 1999, page 8.
[31] The Hertz Corporation in http://www.hertz.com.

In 82 years, Hertz car rental operation has grown from one location in Chicago with a dozen Model T Fords to more than 1,600 domestic, corporate and licensee locations, and approximately 4,500 corporate and licensee locations abroad with an annual purchased fleet of approximately 525,000 vehicles represented in more than 140 countries.[32]

The composition of Hertz' U.S. rental revenue in 1999 shows a concentration in the business portion of the airport market segment. Approximately 80% of Hertz's U.S. rental revenue in 1999 is attributable to airport operations. Business travelers accounted for approximately 70% of Hertz's airport revenue in 1999.[33]

Hertz began serving Intercontinental in 1969. Based on FY 1999 gross rental revenues, Hertz accounted for approximately 29% share of the Airport market. Of Hertz' FY 1999 gross rental revenues at Intercontinental, approximately 69% were generated from business travelers, and 31% from leisure travelers.

8. National Car Rental System, Inc.

National was established in 1947 by 24 independent rental car operators. National was based in St. Louis until 1961, when an investment group relocated the corporate headquarters to Minneapolis. Household International purchased National in 1974, and sold the company to a group of investors in 1988, with General Motors acquiring a 47% ownership interest. General Motors increased its ownership interest to 100% in 1992, and maintained that ownership until 1995, when National was sold to a group of private investors. National was acquired by Republic Industries (now known as AutoNation, Inc.) in January 1997 and, along with Alamo and CarTemps, USA, became a division of ANC Rental Corporation (itself a division of AutoNation, Inc.) in 2000. ANC Rental Corporation was spun off from AutoNation in June 2000 and is now traded on the NASDAQ stock exchange under the symbol ANCX.

National currently has more than 3,000 locations serving 60 countries worldwide.[34] In the United States, National operates a fleet of approximately 140,000 vehicles in approximately 500 locations.[35] In 1999, approximately 86% of National's U.S. rental revenue originated from the airport market segment, of which 70% was attributable to business travelers.[36]

National has operated at IAH from an on-airport corporate location since August 1982. Based on FY 1999 gross rental revenues, National accounted for approximately 20% share of

[32] The Hertz Corporation in http://www.hertz.com.
[33] "U.S. Car Rental Market: Fleet, Locations and Revenue by Market Segments," *Auto Rental News 2000 Fact Book*, December 1999, page 8.
[34] National Car Rental System, Inc., News Release dated July 1, 2000, in http://www.nationalcar.com.
[35] *Auto Rental News 2000 Fact Book*, December 1999, page 30.
[36] "U.S. Car Rental Market: Fleet, Locations and Revenue by Market Segments," *Auto Rental News 2000 Fact Book*, December 1999, page 8.

the Airport market. Of National's FY 1999 gross rental revenues at Intercontinental, approximately 70% was generated from business travelers, and 30% from leisure travelers.

9. Pace Car Corp., d/b/a Thrifty Car Rental

Thrifty began vehicle rental operations in 1958 in Tulsa, Oklahoma, focusing on off-airport locations to serve the airport market segment. Today, Thrifty serves the airport market segment from both on-airport and off-airport locations, and Thrifty has also established a presence in the local market segment. Thrifty was purchased by a group of rental car executives in 1982, completed an initial public offering of common stock in 1987, and was acquired by Chrysler Corporation in 1989. In late 1997, Chrysler divested Thrifty in an initial public offering as part of DTAG.[37] Thrifty Car Rental, with its affiliate Thrifty Car Sales, is a subsidiary of Thrifty, Inc., and Thrifty, Inc. is a subsidiary of DTAG.[38]

Thrifty's car rental franchise network consists of over 1,200 locations in 66 countries and a worldwide fleet of over 82,600 vehicles. In the United States, Thrifty serves over 560 locations with a U.S. fleet of approximately 46,000 vehicles.[39] [40]

In 1999, approximately 66% of Thrifty's U.S. rental revenue was generated in the airport market segment. Of Thrifty's airport rental revenue, approximately 66% is attributable to business travelers.[41]

The Thrifty location at Intercontinental is operated by a franchisee, Pace Car Corporation. Pace Car Corporation d/b/a Thrifty Car Rental began serving Intercontinental from an off-airport location in October 1989, and from an on-airport location in April 1994. Based on FY 1999 gross rental revenues, Thrifty accounted for approximately 4% share of the Airport market. Of Thrifty's FY 1999 gross rental revenues at Intercontinental, approximately 50% was generated from business travelers, and 50% from leisure travelers.

[37] Thrifty, Inc. in http://www.thrifty.com.
[38] Thrifty, Inc., various press releases, in http://www.thrifty.com.
[39] Thrifty, Inc., various press releases, in http://www.thrifty.com.
[40] *Auto Rental News 2000 Fact Book*, December 1999, page 36.
[41] "U.S. Car Rental Market: Fleet, Locations and Revenue by Market Segments," *Auto Rental News 2000 Fact Book*, December 1999, page 8.

SECTION IV

LOCAL ECONOMIC BASE
HOUSTON AIRPORT SYSTEM AIR SERVICE AREA

Approximately 52% of passenger enplanements at Intercontinental are locally-generated origination and destination (O&D) passengers. O&D traffic demand depends largely on the ability of the local air service area to generate travel among local residents and businesses, and to draw visitors from other parts of the nation and the world. Local demographic and economic factors such as population, employment, and income are important determinants of local O&D air travel demand. This section presents a profile of the Houston air service area and provides an assessment of recent demographic and economic trends and the area's prospects for future growth.

A. LOCAL POPULATION BASE

The Houston Airport System (HAS) serves the Houston-Galveston-Brazoria Consolidated Metropolitan Statistical Area (Houston CMSA),[1] the tenth largest consolidated metropolitan statistical area in the United States and the second largest in Texas in terms of population. **Figure IV-1** shows the eight counties that comprise the Houston CMSA: Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty, Montgomery, and Waller. The most recent estimate by the U.S. Bureau of the Census puts the total population in the entire Houston CMSA at 4.5 million as of July 1, 1999, approximately 22% of the population of the entire state of Texas (**Table IV-1**).[2] As **Figure IV-2** shows, over 89% of the area's population resides in the six-county Houston Primary Metropolitan Statistical Area (PMSA), [3] and over 72% resides in Harris County where the three airports comprising HAS are located. Harris County is the third most populous county in the nation. The City of Houston in Harris County is the fourth most populous city in the United States and the largest in the southwestern United States. The City accounts for approximately 41% of the air service area's population.[4]

Houston has a relatively young and diverse population. Based on the U.S. Bureau of the Census population estimates as of July 1, 1998, the largest age group is the 25 to 44 age

[1] The discussion in this section generally describes trends in the Houston CMSA. However, there are cases where the relevant information is available only for Houston PMSA (as defined in footnote 3) and is used to represent the overall trends for the entire CMSA. Houston PMSA includes six of the eight counties that constitute the entire CMSA, accounts for over 89% of the CMSA's total population, and contributes over 90% of the CMSA's total employment. The terms 'Houston area' and 'Houston' are generally used to refer to the entire CMSA.
[2] Population Estimates Program, Population Division, U.S. Bureau of the Census in http://www.census.gov.
[3] The counties of Chambers, Fort Bend, Harris, Liberty, Montgomery, and Waller constitute the Houston PMSA.
[4] Greater Houston Partnership in http://www.houston.org.

group with 34% of the Houston CMSA population, compared with 31% for the United States as a whole. Houston CMSA attracts many immigrants -- over 12% of the area's population is foreign-born. Based on the July 1998 Census Bureau estimates, the population of Houston CMSA is 76% Caucasian, 19% African-American, and 5% Asian & Pacific Islander. Due to the area's proximity to Mexico, nearly 25% of the Houston CMSA population is of Hispanic origin.[5]

The area has a well-educated population. According to the Greater Houston Partnership, 24% of adult Houstonians have completed four years of college compared to 20% of the U.S. adult population.[6]

According to U.S. Census data, population growth in the Houston CMSA averaged 2.1% per year between 1990 and 1999, double the U.S. average annual population growth rate over the same period (**Table IV-1**). The Sales & Marketing Management 2000 Survey of Buying Power and Media Markets projects a population of 4.9 million for the Houston CMSA by January 1, 2005, which implies an annual population growth rate of 1.7%.[7]

Between 1990 and 1999, the counties of Fort Bend in the southwest and Montgomery in the north experienced record population increases of 5.1% and 5.2% per year, respectively. The population growth in Montgomery County is a recent and continuing development that characterizes a demographic shift to the north -- a shift that makes Intercontinental relatively more accessible and convenient to the Houston area population. Another emerging trend is the shift in local population back to the Central Business District (CBD).

[5] Population Estimates Program, Population Division, U.S. Bureau of the Census in http://www.census.gov.
[6] Greater Houston Partnership in http://www.houston.org.
[7] *Sales & Marketing Management 1999 Survey of Buying Power and Media Markets*, September 2000.

Figure IV-1

**HOUSTON AIRPORT SYSTEM AIR SERVICE AREA
HOUSTON-GALVESTON-BRAZORIA CMSA**

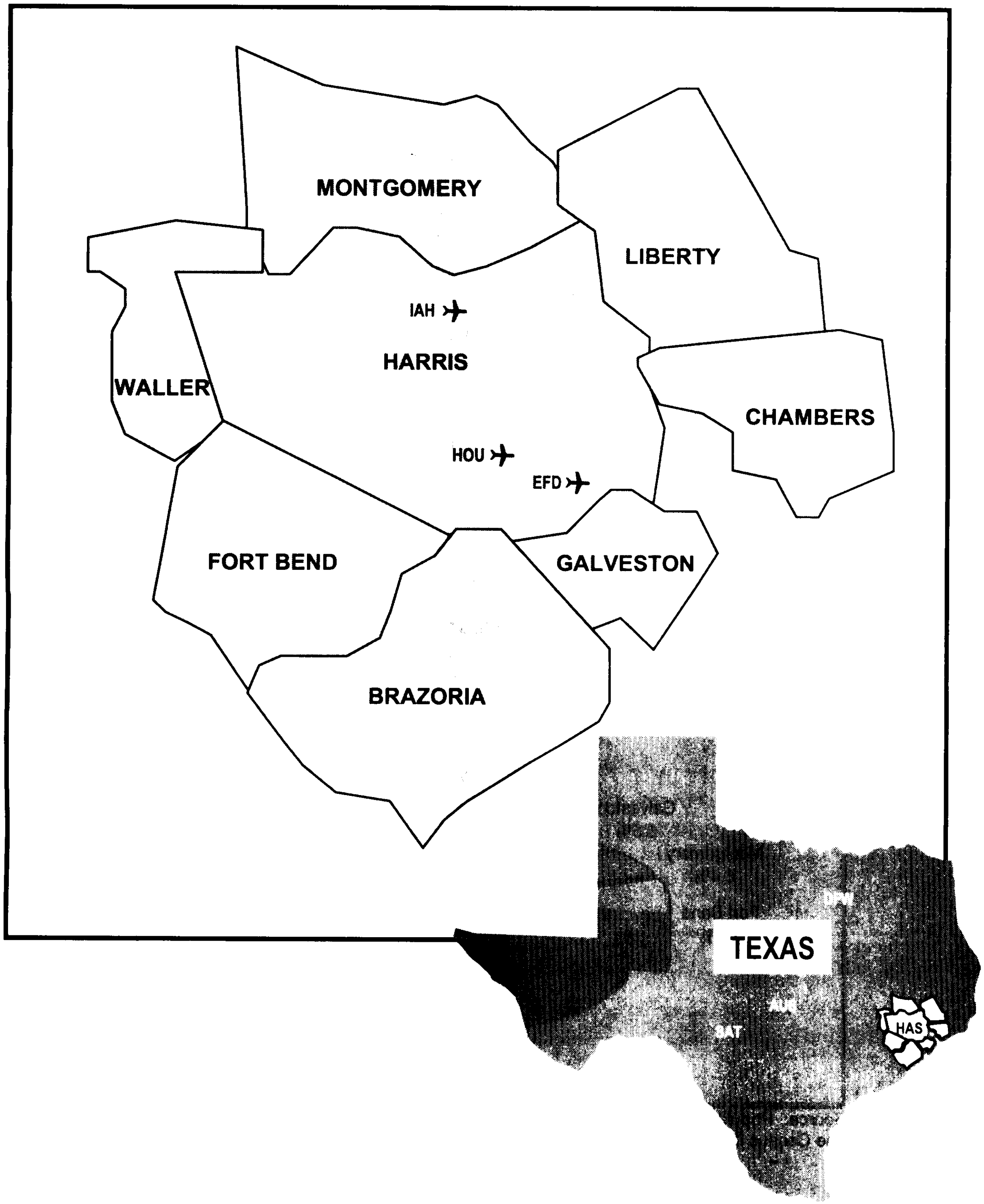


TABLE IV-1

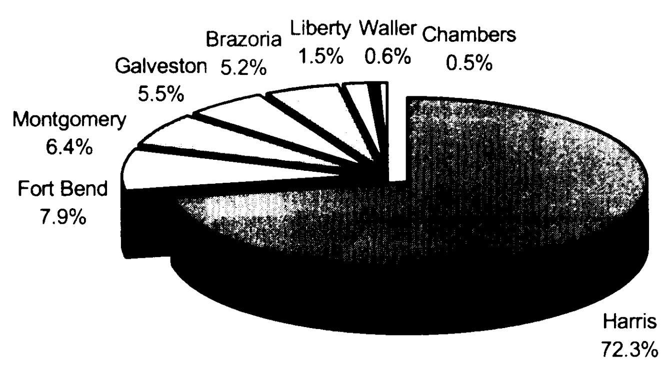
POPULATION GROWTH BY COUNTY
HOUSTON-GALVESTON-BRAZORIA CMSA
CY 1990-1999

County	Population		Avg. Annual Growth
	April 1990	July 1999	1990-1999
Brazoria	191,707	234,303	2.3%
Chambers	20,088	23,993	2.0%
Fort Bend	225,421	353,697	5.1%
Galveston	217,396	248,469	1.5%
Harris	2,818,101	3,250,404	1.6%
Liberty	52,726	67,161	2.7%
Montgomery	182,201	287,644	5.2%
Waller	23,389	28,070	2.0%
CMSA	**3,731,029**	**4,493,741**	**2.1%**
Texas	16,986,335	20,044,141	1.9%
U.S	248,790,925	272,690,813	1.0%

Sources: Population Estimates Program, Population Division, U.S. Bureau of the Census in http://www.census.gov.

FIGURE IV-2

POPULATION DISTRIBUTION BY COUNTY
HOUSTON-GALVESTON-BRAZORIA CMSA
CY 1999

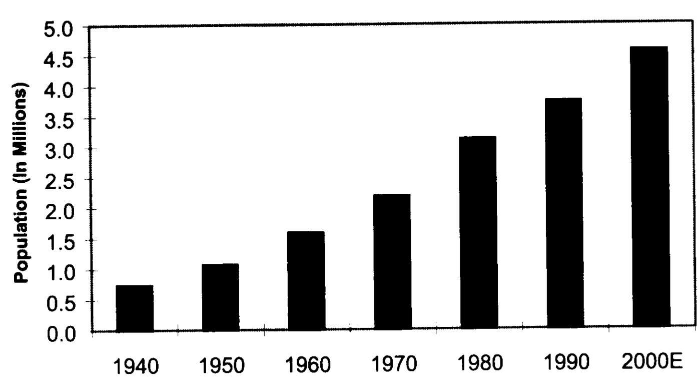


Source: Population Estimates Program, Population Division, U.S. Bureau of the Census in http://www.census.gov.

Figure IV-3 traces the population in the Houston CMSA during the last sixty years and reveals the following trends: a long-run exponential growth trend until 1980 that coincided with a local economic boom; a slowdown in population growth between 1980 and 1990 that coincided with a deep recession; and an acceleration in population growth between 1990 and 2000. Net migration accounted for 67% of the population change from 1970 to 1980, only 19% from 1980 to 1990, and 40% from 1990 to 2000. Significant net migration in recent years reflects the recovery and acceleration of the area's economy and the increasing attractiveness of the Houston area as a place to live and work.[8] The area's large population and prospects for continued above-average population growth provide a strong local market base for air transportation.

FIGURE IV-3

POPULATION
HOUSTON-GALVESTON-BRAZORIA CMSA
CY 1940-2000



Source: Greater Houston Partnership Research Department, "Decennial Census Population Totals," *Houston Facts 1998,* and consultant's estimate of year 2000 population based on Sales & Marketing Management projection.

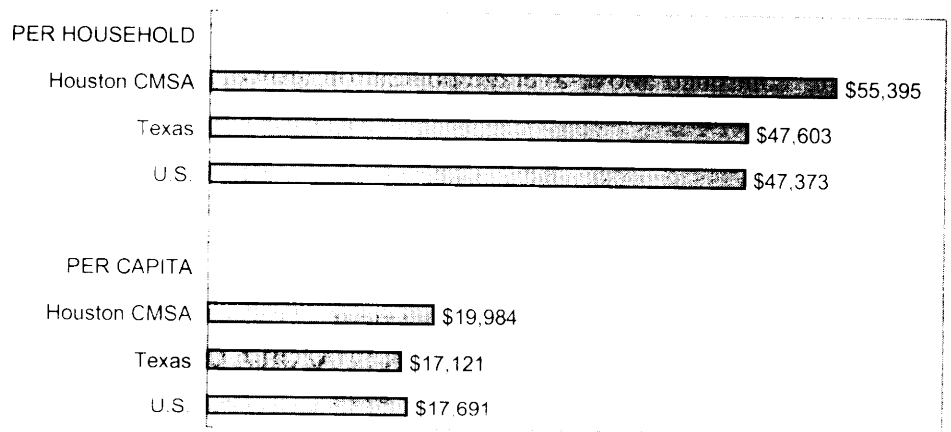
B. INCOME

In 1999, Houston CMSA's after-tax income per household was $55,395, 16% above the Texas average and 17% above the U.S. average (**Figure IV-4**). The after-tax income per capita[9] in 1999 was $19,984, 17% above the Texas average and 13% above the U.S. average. Total personal income after taxes in the Houston CMSA amounted to $90.1 billion, accounting for 26% of Texas' total after-taxes personal income in 1999. That year, Houston's total personal income was eighth highest among U.S. metropolitan areas.

[8] Greater Houston Partnership in http://www.houston.org.
[9] Per capita income is the sum of the wages, salaries, profits, interest, rents, and transfer payments averaged over the population.

FIGURE IV-4

**AFTER-TAX INCOME PER HOUSEHOLD AND PER CAPITA
HOUSTON-GALVESTON-BRAZORIA CMSA
CY 1999**

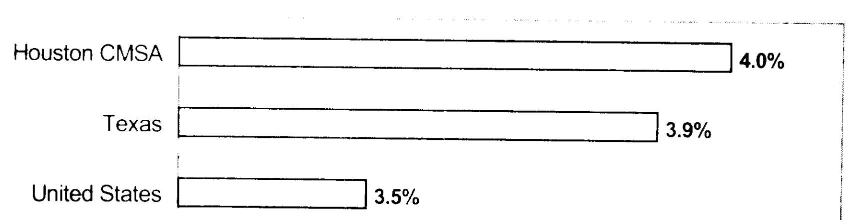


Source: *Sales and Marketing Management 2000 Survey of Buying Power and Media Markets*, September 2000.

Income, when averaged over the population, serves as a measure of economic well-being and is used to compare the relative affluence of residents in different regions. Measured over time, real per capita income also serves as a valuable indicator of economic trends. As shown in **Figure IV-5**, Houston CMSA outpaced Texas and the United States in after-tax income growth between 1995 and 1999.

FIGURE IV-5

**ANNUAL GROWTH RATE OF REAL PER
CAPITA AFTER-TAX INCOME
HOUSTON-GALVESTON-BRAZORIA CMSA
CY 1995-1999**



Sources: Sales and Marketing Management Survey of Buying Power, August 1996 and September 2000, for after-tax income and Bureau of Labor Statistics for the Consumer Price Index.

C. LIVING COSTS

Houston has a relatively low cost of living. The American Chamber of Commerce Researchers Association (ACCRA) Cost of Living Index for the second quarter of 2000 shows that Houston PMSA's overall after-taxes living costs are 4% below the nationwide average (**Table IV-2**).[10] Grocery prices in Houston PMSA are 7% lower than the national average; and housing costs are 13% below the national average -- the key reason for Houston's low living costs. The factors that contribute to low housing costs in Houston PMSA include plentiful low-cost land for residential development, minimal weather-related construction delays, and minimal delays and costs involved in the permitting and development processes.[11]

TABLE IV-2

ACCRA COST OF LIVING INDEX COMPARISONS
HOUSTON PMSA
Second Quarter 2000
(U.S. Average = 100)

	Composite	Grocery Items	Housing	Utilities	Trans-portation	Health Care	Misc.
New York (Manhattan), NY	251.9	142.4	536.5	165.6	120.8	178.1	135.2
Boston, MA	131.3	112.3	176.5	128.8	109.8	130.4	109.5
Los Angeles-Long Beach CA	148.1	113.0	238.7	117.7	116.2	125.6	108.6
Philadelphia, PA	120.8	105.0	147.2	129.4	115.8	99.3	108.7
Denver, CO	107.4	109.6	118.7	85.1	107.2	127.4	99.1
Atlanta, GA	104.1	103.5	113.6	99.4	102.0	105.8	97.7
Phoenix-Mesa, AZ	101.4	104.7	100.8	98.5	110.2	113.3	96.4
Dallas, TX	99.6	98.6	100.0	105.6	106.3	96.3	96.8
Houston PMSA, TX	**95.8**	**92.9**	**87.0**	**100.2**	**108.9**	**111.7**	**97.3**

Source: *ACCRA Cost of Living Index*, Second Quarter 2000.

D. HOUSTON AREA ECONOMY

Until recently, the Houston area economy hit remarkable highs and lows that often ran counter to the trends in the nation and parts of Texas. For example, the local recession from 1982 to 1987 and subsequent recovery took place during the long 1982-90 national economic expansion. Houston continued to experience strong growth as the national economy went through the 1990-91 recession. From 1991 to 1993, the local economy slowed again as the

[10] The ACCRA Cost of Living Index measures relative price levels for consumer goods and services in participating areas, and the average for all participating areas equals 100.
[11] Greater Houston Partnership in http://www.houston.org.

U.S. economy returned to its path of long-term expansion. In 1994, Houston slowly recovered and has since surpassed national growth trends.[12] The industry sectors and employment trends in Houston are described below.

1. Profile of Industry Sectors[13]

The following provides a profile of the industry sectors in Houston:

- **Energy.** Houston is the leading domestic and international center for every segment of the oil and gas industry. Over 5,000 energy-related firms are located within the Houston region. As of February 1999, the Houston PMSA accounted for almost 30% of all U.S. jobs in crude petroleum and natural gas extraction, nearly 19% of all U.S. jobs in oil and gas field services, and approximately 45% of the nation's jobs in oil and gas field machinery manufacturing.

- **Manufacturing.** In 1999, the Houston PMSA had 3,451 manufacturing plants, according to The University of Texas Bureau of Business Research. In 1999, manufacturing employment averaged 219,500 -- 61% in durable goods and 39% in nondurable goods. Houston is a leading center for the manufacture of chemicals, petroleum products, industrial machinery, food products, and fabricated metal products. Houston is home to Compaq Computer, one of the largest computer manufacturers in the world.

- **Engineering.** Houston has nearly 47,000 engineers and architects of all disciplines, the most numerous being in aerospace, civil, chemical, electrical/electronic, and petroleum. Seventeen of the country's top 20 engineering and design firms have offices in Houston. In total, there are approximately 1,500 engineering and architectural firms in Houston.

- **Space Science.** Houston is home to Johnson Space Center, one of NASA's largest research and development facilities. Employing approximately 16,000 engineers, scientists and administrative personnel, the Johnson Space Center remains a strong influence on Houston's economy.

- **Biotechnology, Medicine and Health Care.** The expansion of biotechnology operations aided Houston's economic diversification in recent years and brought Houston into the forefront of the industry. According to the *1999 Texas High Technology Directory*, 105 of Texas' 298 bioscience firms in 1998 were in the Houston CMSA. The Texas Medical Center of Houston is one of the largest medical

[12] Gilmer, Robert W. and Marisol Solis, "Long-Term Performance: Per Capita Income in Houston," *Houston Business: A Perspective on the Houston Economy*, August 1996.
[13] Most of the information in this sub-section was obtained from the following sources: Greater Houston Partnership Internet site in http:\\www.houston.org; and Greater Houston Partnership, *Houston Facts 2000*.

complexes in the world and is on the forefront of research and treatment of cancer and heart disease.

- **Marine Technology.** Houston's marine technology sector is closely tied to oil and gas drilling. More than 150 offshore operators and more than 35 offshore drilling contractors have Houston offices. At least 1,500 Houston firms are active in developing export markets for products and services worldwide and in offshore activities in the Gulf of Mexico.

- **Banking and Finance.** A major financial center, Houston CMSA features 566 commercial banking establishments, 137 savings and loan offices, 214 credit unions, 774 mortgage banking operations, and 778 security brokers and dealers. Twelve of the nation's 20 largest publicly traded banks, including nine of the top 10, operate in Houston.

- **Agribusiness.** Centrally situated in a 20-county coastal prairie agricultural region, Houston is a major agribusiness center for marketing, processing, packaging, and distribution of agricultural commodities. Nearly 26% of Port of Houston export tonnage in 1998 was agricultural commodities.

- **Real Estate.** Construction in Houston increased significantly in 1998. In that year, the City of Houston issued building permits valued at approximately $3.6 billion, an increase of nearly 48% from 1997. Construction activity remains at high levels.

- **Retail Trade.** In 1999, Houston ranked 9th in retail sales among U.S. metropolitan areas, according to Sales and Marketing Management Survey of Buying Power. Based on data from the Texas Comptroller's Office, Houston PMSA retail sales grossed over $54 billion in 1999, up nearly 7% from 1998.

- **Visitor Industry.** With approximately 1.7 million square feet of convention space, Houston is second only to Chicago in the amount of convention space for major exhibitions, according to the Greater Houston Partnership. In FY 1998-99, the Greater Houston Convention & Visitors Bureau reported hosting 402 conventions, which translate into 468,257 room nights, an attendance of 475,831 delegates, and an economic impact of $196.7 million.

2. Employment Trends

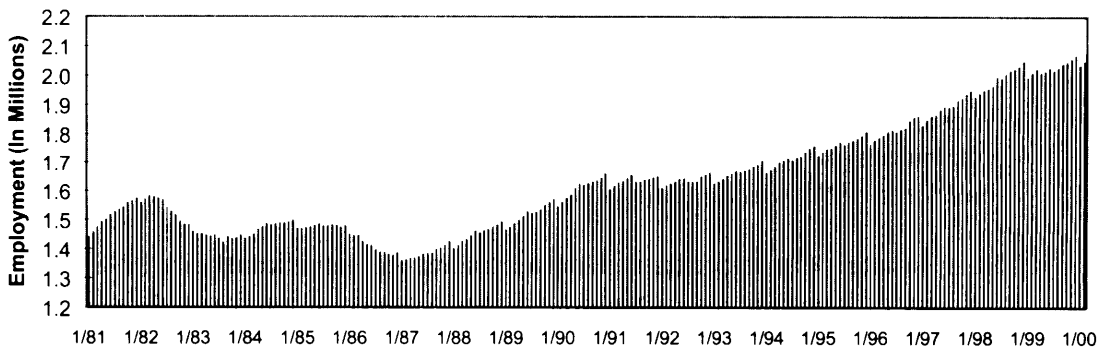
The present state of the Houston area economy is best understood by looking back over 20 years. **Figure IV-6** shows the historical nonfarm payroll employment in the Houston PMSA[14] to illustrate the economic trends in the Houston area. After an economic boom that brought about a 7% annual job growth during 1974-81, Houston went into a recession that resulted in the loss of over 220,000 jobs -- one in seven -- over less than five years. Because

[14] Houston PMSA accounts for approximately 90% of total employment in the Houston CMSA.

Houston's economic base was dominated by upstream energy (oil and gas exploration and production, oil field equipment manufacturing and wholesaling, and pipeline transportation), Houston suffered deeply from the downturn in worldwide demand for crude oil and the increase in oil supply. The upstream energy sector in Houston lost over 184,000 jobs from 1982 to 1987.[15] However, throughout the recession, Houston area employment in energy-independent industries averaged a 9% growth per year.

FIGURE IV-6

NONFARM PAYROLL EMPLOYMENT
HOUSTON PMSA
January 1981-January 2000



Source: Texas Workforce Commission.

The recession ended in 1987, and Houston began a period of expansion that lasted until 1991. In less than four years, all the jobs lost in the mid-1980s were recovered -- not in upstream energy, but in energy-independent industries (e.g. engineering, medicine and health care, and computers and electronics).[16] However, the energy-dependent sectors continue to play a significant role. A sharp downturn in mining activity in 1991, caused by low natural gas prices and a collapse of drilling activity, contributed to bringing Houston's 1987-91 expansion to a halt. Employment among oil service and machinery companies fell sharply. Construction and manufacturing jobs also fell. Other factors contributed to the slowdown in Houston's economic recovery: a national recession, the advent of health maintenance organizations and the effect on employment at specialized medical centers such as the Texas Medical Center, and the scaling back of NASA's space station program.[17]

In recent years, three factors have driven the Houston economy: the national economy, energy prices, and the value of the dollar against foreign currency as it affects international trade. Growth in the Houston economy resumed in mid-1993 and accelerated in 1997 and

[15] Greater Houston Partnership Research Department, *Houston Facts 2000.*
[16] Greater Houston Partnership Research Department, *Houston Facts 2000.*
[17] Federal Reserve Bank, Houston Branch, "Recent Trends in Houston's Job Growth," *Houston Business: A Perspective on the Houston Economy*, October 1995.

1998 largely because of the national economic expansion, the rapid growth in international trade, and renewed profitability in the energy sector. In 1999, local economic growth was tempered by the strengthening of the dollar, inhibiting exports of goods and services abroad, and the weakening of worldwide demand for crude oil. Export-oriented industries -- oil and gas, petroleum and plastics, and engineering and construction services -- felt the impacts of recessions in Asia and Latin America and weak European economic performance and are just now starting to enjoy the fruits of widespread economic improvement abroad. Those industries that maintain a largely domestic focus continue to prosper.[18] [19] [20]

The Greater Houston Partnership highlights the following recent employment trends in Houston:[21]

- **Houston created jobs faster than the national rate.** Over the last five years, employment growth in Houston PMSA averaged a 3.5% per year -- faster than the 2.4% national job growth rate **(Table IV-3)**.

TABLE IV-3

ANNUAL NONFARM PAYROLL EMPLOYMENT
HOUSTON-GALVESTON-BRAZORIA CMSA
CY 1995-1999

	Nonfam Payroll Employment	
Year	Houston PMSA[1]	United States[2]
1995	1,766,400	117,189,000
1996	1,813,700	119,594,000
1997	1,894,400	122,673,000
1998	1,992,500	125,673,000
1999	2,028,700	128,607,000
Avg. Annual Growth,1995-99	**3.5%**	**2.4%**

Sources:
[1] Texas Workforce Commission.
[2] Bureau of Labor Statistics.

- **Houston enjoyed more rapid job growth than most other large metro areas.** Houston CMSA, with 1.7% of the nation's jobs, accounted for 2.1% of the nation's job growth during the 12 months ending December 1999. Among the 10 most populous U.S. metropolitan areas, Houston's job increase from December 1998 to

[18] Federal Reserve Bank, Houston Branch, "Houston Economy Shows Endurance and Renewed Strength," *Houston Business: A Perspective on the Houston Economy*, October 1996.
[19] Federal Reserve Bank, Houston Branch, "Houston Economy Heats Up," *Houston Business: A Perspective on the Houston Economy*, August 1997.
[20] Greater Houston Partnership, *Houston Facts 2000*.
[21] Greater Houston Partnership, *Houston Economic Highlights*, March 2000.

December 1999 ranked second in percentage growth and sixth in absolute gain (**Table IV-4**).

- **Houston's unemployment rate tracked the nation's in recent years and is near full-employment range in 1999.** Rising employment meant declining unemployment. In the last five years, Houston's unemployment rate generally followed the same downward trend as that of the nation. In 1999, unemployment rate in the Houston PMSA was 4.4% -- between Texas' 4.6% and the nation's 4.2% (**Figure IV-7**).

TABLE IV-4

NET CHANGE IN JOBS
TEN MOST POPULOUS U.S. METROPOLITAN AREAS
HOUSTON-GALVESTON-BRAZORIA CMSA
December 1998 - December 1999

Metropolitan Area	Change (000)	Percent Change
Dallas-Fort Worth CMSA	93.4	3.6%
Houston-Galveston-Brazoria CMSA	**57.1**	**2.6%**
Los Angeles-Anaheim-Riverside CMSA	153.5	2.4%
Washington-Baltimore CMSA	81.5	2.1%
New York-Northern New Jersey-Long Island CMSA	201.0	2.1%
San Francisco-Oakland-San Jose CMSA	65.6	2.0%
Philadelphia-Wilmington-Atlantic City CMSA	35.1	1.2%
Boston-Worcester-Lawrence CMSA	33.0	1.1%
Chicago-Gary-Kenosha CMSA	43.8	1.0%
Detroit-Ann Arbor CMSA	24.6	0.9%
United States	2,701.0	2.1%

Source: U.S. Bureau of Labor Statistics, *Employment and Earnings*, February 2000.

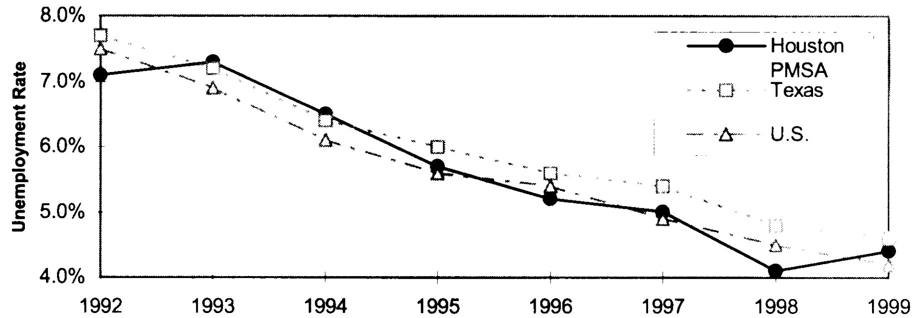
3. Diversification of Houston's Economic Base

A region's economic base is the portion of the region's economy that produces goods or services for export outside the region. It is the economic base that drives regional economic growth. Houston's economic base consists of three parts:

- Upstream energy (oil and gas exploration and production, oilfield equipment manufacturing, and pipeline transportation)
- Downstream energy (refining and chemicals manufacturing)
- Diversifying or energy-independent sectors

FIGURE IV-7

ANNUAL AVERAGE UNEMPLOYMENT RATE
HOUSTON PMSA COMPARED WITH TEXAS AND UNITED STATES
Consolidated Rental Car Facility Project
George Bush Intercontinental Airport/Houston
CY 1992-1999

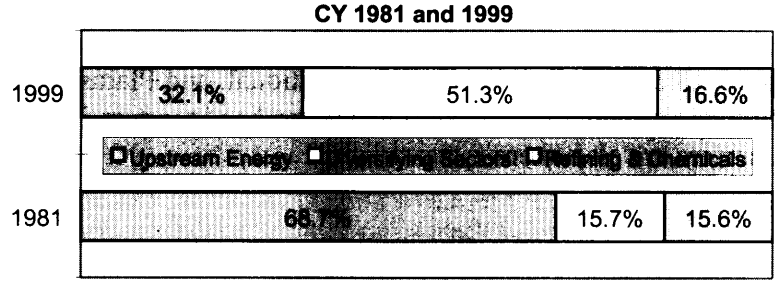


Sources: Texas Workforce Commission; U.S. Bureau of Labor Statistics.

Upstream energy sectors suffer when oil and gas prices decline, downstream energy sectors benefit, and energy-independent sectors are not appreciably affected. Over the last 18 years, Houston's economy has undergone substantial change. It is now more diversified and less dependent on upstream energy (**Figure IV-8**). Upstream energy's share of economic base jobs shrank from 69% in 1981 to 32% in 1999. In contrast, the job share of energy-independent sectors rose from 16% in 1981 to 51% in 1999, making the Houston area much less vulnerable to potential downturns in the upstream energy sector. However, upstream energy will continue to affect the Houston area far more than it does the nation as a whole, especially since many of the area's service jobs are linked to the upstream energy sector.[22]

FIGURE IV-8

LOCAL ECONOMIC BASE EMPLOYMENT
HOUSTON-GALVESTON-BRAZORIA CMSA
CY 1981 and 1999



Source: Center for Public Policy, University of Houston.

[22] Greater Houston Partnership, *Houston Economic Highlights*, March 2000.

4. Relative Job Growth by Industry Sector

Construction and Services sectors lead Houston's recent job growth. **Table IV-5** lists the Job Growth Index[23] of each industry sector in Houston. The Job Growth Index measures how fast a sector is growing relative to overall job growth in the area. Those sectors that show a Job Growth Index greater than one are growing at an above-average rate and are increasing their share of total jobs. Between January 1988 and August 2000, Construction recorded the highest Job Growth Index of 1.83 followed by Services, 1.54.

TABLE IV-5

RELATIVE JOB GROWTH
HOUSTON PMSA
January 1988-August 2000

Industry Sector	Job Growth Index
Construction	1.83
Services	1.54
Transportation, communications, and utilities	0.98
Public education	1.22
Retail trade	0.88
Manufacturing	0.75
Other government	0.59
Wholesale trade	0.51
Finance, insurance, and real estate	0.38
Mining (oil and gas)	-0.08

Source: Texas Workforce Commission.

5. Corporate and International Business

Houston is a major corporate center. Eighteen companies on the 2000 Fortune 500 list maintain headquarters in Houston. These include Enron, Compaq, Conoco, SYSCO, DYNEGY, Reliant Energy, Waste Management, American General, El Paso Energy, Continental Airlines, Coastal, Kinder Morgan, Baker Hughes, Adams Resources, Cooper Industries, Lyondell Chemical, Service Corp International, and Plains Resources. Many other Fortune 500 companies maintain U.S. administrative headquarters in Houston, though their corporate headquarters are elsewhere.

[23] The Job Growth Index is the ratio of an industry's percentage change in jobs to the percentage change in total jobs within a region over a given period. A number greater than one shows that an industry is increasing its share of jobs in the region's economy.

Table IV-6 lists the largest private employers in the area in 1999.

TABLE IV-6

LARGEST PRIVATE EMPLOYERS
HOUSTON-GALVESTON-BRAZORIA CMSA
CY 1999

Company	Employees	Company	Employees
Halliburton Companies	16,622	Columbia/HCA of Houston	10,000
Continental Airlines/Continental Express	16,000	Reliant Energy	9,500
Memorial Hermann Healthcare Systems	14,000	UT M.D. Anderson Cancer Center	8,887
UT Medical Branch-Galveston	14,000	Pappas Restaurants	8,000
Compaq Computer Corp.	12,000	Southwestern Bell	8,000
Kroger Company	12,000	Shell Oil Company	7,920
Randalls Food Markets, Inc.	11,000	Methodist Health Care System	7,571

Source: Greater Houston Partnership, *Houston Facts 2000*.

Houston is also a major center for international business. Consistently ranked among the top five U.S. cities on the number of foreign consulates, Houston is home to the consular offices of 71 foreign governments, 28 foreign trade and commercial offices, and 42 active foreign chambers of commerce and trade associations. Houston is also the base of operations for the international oil and gas exploration and production industry and for many of the nation's largest international engineering and construction firms. A key center for international finance, the City leads the Southwest with 28 foreign banks from 13 nations. The 1999 *International Houston* lists 3,527 Houston-area firms, foreign government offices, and nonprofit organizations involved in international business.[24]

The Port of Houston, a 25-mile complex of diversified public and private facilities, is a major U.S. gateway for international trade and commerce. In 1999, the Port ranked first nationwide in foreign tonnage and second in total tonnage. In 1999, more than 6,500 ships carrying 169 million short tons of cargo called on the Port of Houston. [25]

E. AIR QUALITY

In July 1999, the eight-county Houston CMSA was designated by the U.S. Environmental Protection Agency (EPA) as an ozone non-attainment area.[26] Present regulations require that the greater Houston area must meet the existing ozone standard by 2007, and the new

[24] Greater Houston Partnership Research Department, *Houston Facts 2000.*
[25] Port of Houston Authority in http://www.portofhouston.com.
[26] U.S. Environmental Protection Agency in http://www.epa.gov.

standard by 2010. Failure to meet air quality standards could result in the loss of highway funding and a moratorium on new business and business expansion.[27]

The City of Houston, along with business interest groups and community organizations, has placed high priority to meeting federal air quality requirements in recognition of the issue's potential impact on economic prosperity and quality of life in the Houston area. The City is committed to leading efforts to finalize a state implementation plan to ensure attainment of the ozone standard. A preliminary nitrogen oxides (NOx) inventory of City operations has just been completed, the results of which will be used in finalizing the state plan. The City has initiated various efforts to reduce NOx emissions, including the following: purchase of low emitting vehicles for the City's fleet, reduction of emissions from small generators operated by the City, demonstration projects relating to diesel NOx catalyst and emulsion fuels, use of on-road diesel in the City's off-road equipment, promotion of ridesharing and public transportation, and energy conservation measures.[28]

Meeting federal air quality requirements is also a top priority of the Greater Houston Partnership. Among the diverse efforts taken by the Greater Houston Partnership has been the creation of the Business Coalition for Clean Air (BCCA), a project designed to energize and unite businesses within the eight-county region to address this critical issue. In a press release dated March 7, 2000, the Greater Houston Partnership, together with representatives of the BCCA and the Texas Clean Air Working Group, indicated that clean air can be attained without sacrificing a strong economy. Some of the measures being considered are creating innovative market-based mechanisms for reducing nitrogen oxide emissions; pushing back the opening of public schools each year; adjusting speed limits where there is proven air quality benefit; creating financial incentive programs to assist businesses in implementing costly controls; and funding for state agencies to implement and enforce control measures.[29]

HAS also recognizes the importance of the air quality issue in planning for airport expansion and has been working with the major airlines at Intercontinental and Hobby to develop plans to reduce ground service vehicle emissions. Continental has agreed to make voluntary cuts in smog emissions from its fleet of ground support vehicles by installing pollution-control equipment on vehicles acquired since 1996 and purchasing vehicles with "best available" controls after 2004. Continental's commitment to reduce vehicle emissions at Intercontinental was a key factor in the recent decision by the Texas Natural Resource Conservation Commission to support the issuance of the required Governor's Certification for air quality for the Airport System – a necessary step in obtaining the final Record of Decision from FAA regarding the EIS for the Airside Expansion Program at Intercontinental.[30] HAS is also evaluating other emission reduction strategies such as

[27] Greater Houston Partnership in http://www.houston.org.
[28] Mayor Brown's Remarks, Clean Air Press Conference, April 27, 2000.
[29] Greater Houston Partnership in http://www.houston.org.
[30] Bill Dawson, "Environmental agency to OK airport expansion/Continental Airlines agrees to reduce emissions," *Houston Chronicle*, June 17, 2000.

requiring nonairline ground service equipment providers and parking shuttle operators to reduce vehicle emissions.

The air quality issue has been an important consideration in planning the proposed consolidated rental car facility at Intercontinental. The Project will reduce vehicle emissions at the Airport by consolidating the shuttle bus operations of individual rental car Operators into a common bus service. This will reduce the number of rental car shuttle buses operating at the Airport from approximately 135 to 26.

F. CURRENT AND FUTURE GROWTH PROSPECTS

The Federal Reserve Bank of Dallas, Houston Branch, closely monitors the Houston area economy and reports its observations through a monthly publication called *Houston Business*. The January 2000 issue sums up the current and future state of the Houston economy as follows:

> As we look at the relative stability of the 1990s, we can point to diversification of the city's economic base, to better balance between upstream and downstream oil, and to the stabilizing effects of the consolidation into Houston of large, new headquarters facilities. But the key difference between the 1980s and 1990s is probably simple to define: an absence of speculative excesses. A leaner, smarter oil industry is unlikely to again suffer the kind of setback it experienced in the 1980s. Without the excesses that drove the industry – and ultimately drove the local economy – in the 1980s, Houston seems safe from a repeat disaster.[31]

The Greater Houston Partnership offers the following assessment of Houston's current and future economic outlook:

> [The year] 2000 will be Houston's 14th consecutive year of job growth. The Partnership expects payroll employment in the Houston PMSA to swell by 3.0 percent [this] year, adding more than 61,000 jobs to the region. That prospect represents an improvement from [last] year's better-than-expected gain of 2.3 percent – a bit over 47,000 new jobs. For some time, three external factors have been key drivers of the Houston economy – the national economy, the strength of the dollar and energy prices. The accompanying chart shows how they've affected Houston's economy and how the Partnership sees them acting together [in 2000].

[31] Federal Reserve Bank of Dallas Houston Branch, "Oil and the Houston Economy Today," *Houston Business: A Perspective on the Houston Economy*, January 2000.

	1997	1998	1999	2000
National Economy	+	+	+	+
Dollar vs. Foreign Currencies	-	-	-/+	+
Energy Prices	+	-	-/+	+
Job Growth (%)	5.4	3.2	2.3	3.0

> Houston is expected to outperform the United States over the next quarter-century. During '99-'25, The Perryman Group sees population growth averaging 1.45 percent annually in the Houston region. Over the same period, this prominent Texas-based economic forecasting firm expects employment to rise at a 1.92 percent annual rate. Employment growth faster than the nation's is predicated in part on disproportionately rapid growth in economic base employment, especially in energy independent manufacturing.

In summary, the Houston economy has recently enjoyed a period of exceptional growth and prosperity. As a result of the increasing diversification of the economy, Houston is unlikely to experience wide economic swings as it did in the past and is well positioned to sustain moderate economic growth into the future. Houston's position as a center for corporate headquarters and international trade, coupled with its highly educated labor force and above-average levels of per capita income, suggests the ability to sustain growth of O&D traffic demand – and, consequently, rental car demand – at rates greater than that of the nation as a whole.

SECTION V

RENTAL CAR DEMAND ANALYSIS AND FORECAST

This section reviews the historical trends in rental car demand at IAH during the period FY 1996 through FY 2000 and develops forecasts of demand at the Airport for the period FY 2001 through FY 2010. A discussion of the factors that affect rental car demand is also included.

A. HISTORICAL TRENDS IN IAH RENTAL CAR MARKET

Intercontinental is served by nine Operators: Advantage, Alamo, Avis, Budget, Dollar, Enterprise, Hertz, National, and Thrifty. The historical trends presented in this sub-section reflect the total market performance based on the operations data supplied to Unison by each of these Operators. Two commonly used measures of rental car demand are the number of *transaction days* and *rental contracts*. A transaction day is the 24-hour period during which a car is rented. A rental contract is drawn up every time a car is rented. The number of days a car is rented is known as the *contract duration*. The average price of renting a car per day is referred to as the *rental rate*. The average rental rate is calculated by divided the gross rental revenues by the number of transaction days.

Table V-1 summarizes the rental car market indicators at IAH during the period of July 1995 through June 2000. The total number of transaction days at the Airport increased from 2.47 million in FY 1996 to 3.21 million in FY 2000, representing an average annual growth rate of 6.8%. Most of that growth occurred in FY 1997 and 1998 when transaction days increased by 11.0% and 9.6%, respectively. This contrasts with the relatively low increase in transaction days of 1.9% that occurred between FY 1999 and 2000. The number of rental contracts at the Airport followed the same trend observed for transaction days. The number of rental contracts increased by 10.6% between FY 1996 and 1997 and by 8.6% between FY 1997 and 1998, and then growth slowed to 1.4% between FY 1999 and 2000. Overall, the number of rental contracts increased at an average annual rate of 6.3% between FY 1996 and FY 2000. The average contract duration remained relatively stable at approximately 3.5 days per rental contract during the period of July 1995 through June 2000.

Collectively, the Operators serving the Airport reported an average annual increase of 10.1% in gross rental revenues, from $90.3 million in FY 1996 to $132.6 million in FY 2000. The price of renting a car at IAH showed slight fluctuations during that period, with real (inflation-adjusted) average daily rental rate recording an average annual increase of 0.8% over the FY 1996-2000 period.

TABLE V-1

HISTORICAL RENTAL CAR MARKET INDICATORS [1]
Consolidated Rental Car Facility Project
George Bush Intercontinental Airport/Houston
FY 1996-2000

Fiscal Year	Demand Indicators: Transaction Days	Rental Contracts	Avg. Contract Duration (days)	Revenue Indicators: Gross Rental Revenues	Avg. Nominal Rental Rate [2]	Avg. Real Rental Rate [2]
1996	2,468,162	709,072	3.48	$90,305,421	$36.57	$37.99
1997	2,739,791	781,534	3.51	$101,314,875	$36.90	$37.26
1998	3,001,973	849,094	3.54	$117,924,317	$39.27	$38.97
1999	3,150,226	892,967	3.53	$126,117,538	$40.02	$39.04
2000	3,210,997	905,759	3.55	$132,610,781	$41.30	$39.21
Average Annual Growth Rate						
1996-2000	6.8%	6.3%	0.5%	10.1%	3.1%	0.8%

[1] The data represent the collective market performance of all the rental car companies that serve the Airport.

[2] The nominal rental rate is in current dollars, while the real rental rate is in constant CY 1997 dollars. The difference in the growth rate of the nominal and real values is the inflation rate.

Source: Rental car companies.

Table V-2, Figure V-1 and **Figure V-2** illustrate the seasonal pattern of rental car demand at the Airport. The data show that demand is not uniformly distributed during the year; rather there are peak demand months and relatively low demand months. **Table V-2** and **Figure V-1** indicate that in terms of transaction days, rental car demand at the Airport was consistently high in the months of March, May and October. Relatively low demand occurred in the months of January, February, September, and December. This seasonal pattern is confirmed by the monthly distribution of rental contracts shown in **Figure V-2**.

TABLE V-2

HISTORICAL MONTHLY TRANSACTION DAYS [1]
Consolidated Rental Car Facility Project
George Bush Intercontinental Airport/Houston
FY 1996-2000

Month	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000
Jul	199,511	215,773	237,037	267,537	272,195
Aug	208,711	227,255	258,005	263,739	267,078
Sep	190,385	206,197	227,422	236,282	253,537
Oct	208,690	232,226	268,684	301,058	292,033
Nov	202,558	223,109	236,835	257,748	260,057
Dec	182,598	203,581	222,649	233,164	232,014
Jan	199,416	224,140	229,693	239,836	229,506
Feb	197,384	225,585	236,714	244,657	253,667
Mar	227,986	248,255	269,056	279,109	299,916
Apr	211,699	238,698	267,867	284,151	281,564
May	231,681	261,520	289,688	288,905	293,197
Jun	207,542	233,452	258,323	254,040	276,233
TOTAL	2,468,162	2,739,791	3,001,973	3,150,226	3,210,997

[1] The data represent the sum of the transaction days of the individual rental car companies that serve the Airport.

Source: Rental car companies.

FIGURE V-1

HISTORICAL MONTHLY TRANSACTION DAYS
Consolidated Rental Car Facility Project
George Bush Intercontinental Airport/Houston
FY 1997-2000

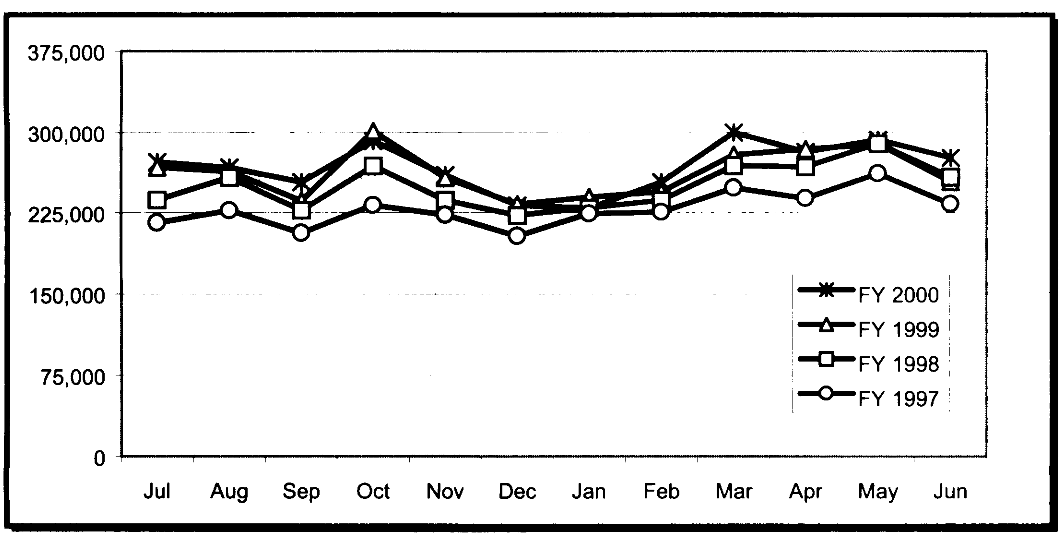
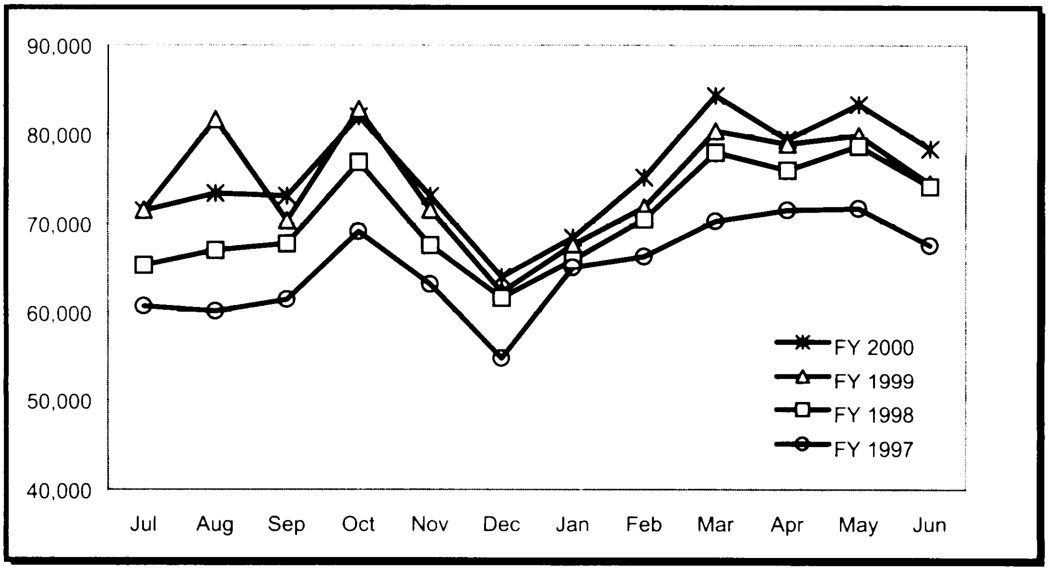


FIGURE V-2

HISTORICAL MONTHLY RENTAL CONTRACTS
Consolidated Rental Car Facility Project
George Bush Intercontinental Airport/Houston
FY 1997-2000



Source: Rental car companies.

B. FORECAST OF RENTAL CAR DEMAND

1. Forecast Methodology

The analysis of the financial feasibility of the consolidated rental car facility project must be predicated on a clear understanding of past rental car demand, and a careful assessment of the future trends in demand. The industry has traditionally relied on judgmental estimation and simple trend line fitting for forecasts of rental car demand. These approaches essentially assume that historical trends will be replicated in the forecast period. The forecasts derived from such methods may be flawed to the extent that the future deviates significantly from the past. More importantly, the forecasts fail to isolate the individual determinants of demand and hence, are not useful for examining the sensitivity of demand to changes in specific market factors.

The forecasting method used in this report combines knowledge of the Airport market with econometric modeling techniques. In particular, Unison adopts the multivariate regression method, which represents a systematic approach to quantifying economic relationships, generating forecasts, and performing sensitivity analyses. Econometric modeling does not assume any *a priori* growth rates or trends; sound economic theory guides the selection of explanatory variables that are incorporated into the model. The result is a set of summary measures that depicts the relationships among the market variables and forms the basis for forecasting future market trends.

In addition, the multivariate regression model developed for this study permits a systematic examination of the sensitivity of rental car demand to changes in rental rates. Of particular interest to this project is the potential impact of a rental rate increase following the implementation of a CFC to recover the cost of the proposed consolidated rental car facility. Known as the *price elasticity of demand,* this measure of sensitivity of demand to changes in rental rate summarizes a large amount of rental car market into a single powerful decision-making indicator. The demand for rental car at an airport may be *price elastic* or *price inelastic* depending on the proportionate change in demand following a rental rate change. For example, a 6% decrease in the number of transaction days following a 4% increase in rental rates would indicate that rental car demand at that airport is price elastic. This would suggest that rental car customers are sensitive to rate increases and would reduce their demand for rental cars. The higher the degree of price sensitivity, the larger the negative impact of a rental rate increase on demand. The converse is also true in that price inelasticity (insensitivity) would result in little or no change in customers' demand for rental cars following a rental rate increase. An assessment of the likely impact of a CFC on rental car demand at IAH would be clearly delineated in the multivariate regression analysis.

2. Rental Car Demand Model and Data

For the purpose of this study, rental car demand is measured in terms of transaction days. The multivariate regression model relates transaction days to a set of measurable factors that represent the essential characteristics of the rental car market at the Airport. The explanatory variables include: 1) the volume of passenger traffic as measured by O&D enplanements;[1] 2) customers' income as approximated by the U.S. real GDP per capita; 3) the price of renting a car as measured by the average daily rental rate; and 4) non-agricultural employment in the Houston-Galveston-Brazoria CMSA as an indicator of local economic activity. A detailed discussion of the CMSA is contained in Section IV of this Report.

As shown in sub-section V-A above, time series data such as monthly transaction days often display a distinct seasonal pattern. When such seasonal variation is detected, it is important to incorporate appropriate explanatory variables in the regression model that would capture the impact of the implied seasonal fluctuation. Unison's approach accounts for the observed seasonality in rental car demand by including *monthly dummy variables* in the model.[2] Another common characteristic of time series data is the incidence of serial correlation between the current and past values. The statistical implication of serial correlation is addressed by including appropriate *trend variables* in the model.

[1] Ideally, potential rental car customers are O&D deplanements. However, the available historical and forecast data are for O&D enplanements. For this study, O&D enplanements are assumed to reflect the trends in O&D deplanements.

[2] Dummy variables take on the discrete values of zero or one. They are econometric devices used to account for a variety of situations including cyclical or seasonal fluctuations. In this study, monthly dummy variables are used to account for the observed seasonality in the time series data.

The multivariate regression model was estimated using historical monthly data for the period July 1995 to June 2000 for the explanatory variables. The forecast period is July 2000 through June 2010. Forecasts represent future scenarios that are not completely known at the current time. In order to enhance their reliability, forecasts must be based on reasonable assumptions. The forecast of transaction days generated from the multivariate regression model is based on the following assumptions regarding future trends in the explanatory variables:

Customers' Income: Rental car customers at IAH come from different parts of the United States hence, the appropriate measure of customer's income is the U.S. GDP per capita. In order to account for the impact of inflation, the nominal GDP figures were converted to constant 1997 dollars. Real per capita GDP (in constant 1997 dollars) data were obtained from an independent source. Real GDP per capita increased from \$29,195 in 1995 to \$33,014 in 1999, representing an average annual growth rate of 3.1%, and is projected to increase at an average annual growth rate of 2.4% over the 1999-2010 period.[3] Like most consumer goods and services, it is expected that rental car demand will increase as consumer income increases.

Average Daily Rental Rate: As shown in **Table V-1,** the price of renting a car at IAH did not vary significantly on an annual basis during the FY 1996-2000 period. The projected average daily rental rate used in the regression model assumes that future daily rental rates will follow the historical trend. The impact of inflation is accounted for by converting the nominal rental rate to constant 1997 dollars. Real daily rental rate is projected to grow at an average annual rate of 0.4% during the forecast period.

Local Employment: The strength of the local economic base of an airport is a major determinant of air travel and related transportation demand in the area. A growing economy exemplifies a strong economy and an area that attracts visitors. Apart from consumers' personal income, the level of non-agricultural employment in the Airport's air service area is a good indicator of local economic activity. The historical and forecast levels of non-agricultural employment in the Houston-Galveston-Brazoria CMSA were obtained from an independent source. Non-agricultural employment in the CMSA is projected to increase at an average annual growth rate of 1.8% over the 1999-2010 period.[4]

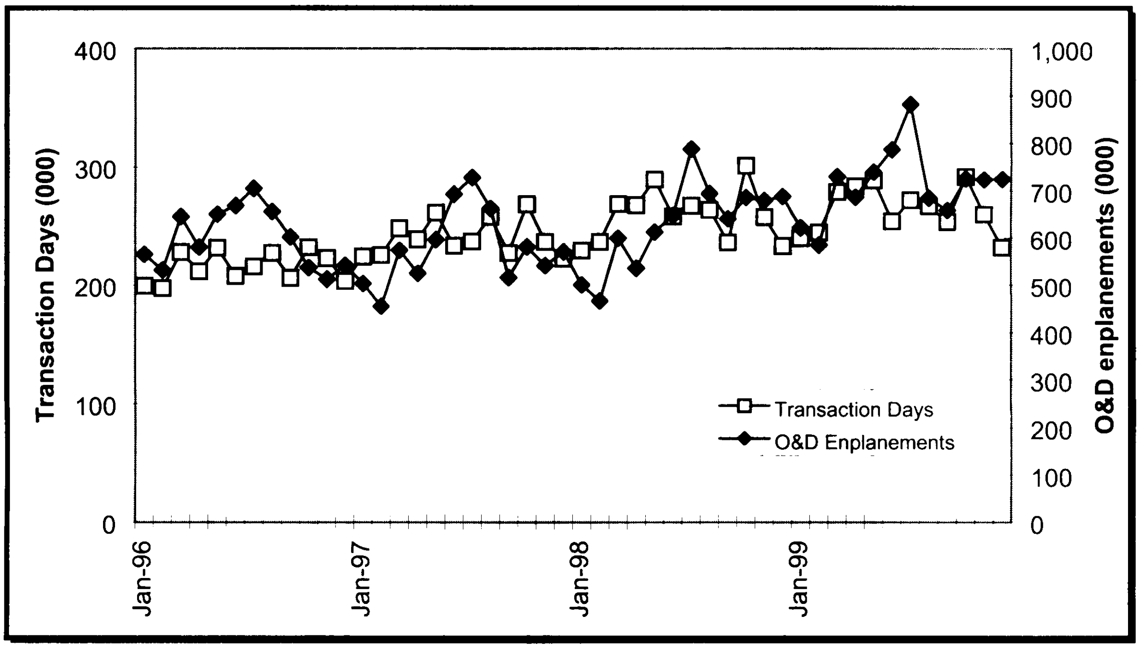
O&D Enplanements: **Figure V-3** illustrates the correlation between transaction days and O&D enplanements at IAH. Clearly, the seasonal variation in transaction days coincides with the seasonal variation in O&D enplanements at the Airport. This similarity suggests that O&D enplanements and transaction days tend to move in the same direction. In particular, it is expected that holding the other explanatory factors constant, an increase in O&D enplanements would lead to an increase in rental car demand at the Airport. Forecasts of O&D enplanements used in the analysis are based on the forecast of aviation activity in the final draft of *The Report of the Airport Management Consultant* of July 2000 prepared by

[3] Standard and Poor's DRI economic database.
[4] Standard and Poor's DRI economic database.

Roger H. Bates, Airport Consultant.[5] O&D enplanements grew at an average annual rate of 5.7% during the period of July 1995 through June 2000. The forecast indicates an average annual rate of 3.3% in O&D enplanements during the period 2000-2010.

FIGURE V-3

MONTHLY TRANSACTION DAYS AND O&D ENPLANEMENTS
Consolidated Rental Car Facility Project
George Bush Intercontinental Airport/Houston
CY 1996-1999



Sources: 1) Rental car companies for transaction days
2) Airport Management records for O&D enplanements

[5] Roger H. Bates, Airport Consultant, in association with AVK Consulting and Unison-Maximus, Inc., "Report of the Airport Management Consultant", *Official Statement for the City of Houston, Texas, Airport system Subordinate Lien Revenue Bonds, Series 2000*, September 11, 2000. The air traffic projections presented in that report were prepared by Unison-Maximus, Inc., under a subcontract with Mr. Bates.

3. Rental Car Demand Forecast

The selected multivariate regression model fit the Airport's market data well. The adjusted R^2 (the coefficient of multiple determination) obtained from the estimation showed that 92% of the variation in the number of transaction days could be explained by the combined variations in O&D enplanements, local economic activity and the average daily rental rate. The resulting forecast of transaction days is presented in **Table V-3**.

TABLE V-3

FORECAST OF TRANSACTION DAYS
Consolidated Rental Car Facility Project
George Bush Intercontinental Airport/Houston
FY 2000-2010

Fiscal Year	Transaction Days (000)	Annual Percent Change
Actual		
2000	3,211	-
Forecast		
2001	3,352	4.4%
2002	3,455	3.1%
2003	3,562	3.1%
2004	3,665	2.9%
2005	3,772	2.9%
2006	3,882	2.9%
2007	3,994	2.9%
2008	4,105	2.8%
2009	4,199	2.3%
2010	4,293	2.2%
Average Annual Growth Rate		
1996-2000	6.8%	-
2000-2005	3.3%	-
2000-2010	2.9%	-

All forecasts are subject to uncertainty. The above forecast is based on information available at the date of this Report. Unexpected events may occur and some of the underlying assumptions of the regression model may not be realized. Therefore, actual results may vary from the forecast, and the variations may be material.

Rental car demand at the Airport, as measured by number of transaction days, is forecasted to grow at an average annual rate of 2.9%, from 3.21 million in FY 2000 to 4.29 million in FY 2010. It should be noted that all forecasts are subject to uncertainty. The forecast developed in this sub-section is based on the information available at the date of this Report. Unexpected events may occur and some of the underlying assumptions of the analysis may not be realized. Therefore. The actual results achieved may vary from the forecast and the variations could be material.

The multivariate regression model was also used to assess the likely impact of a Customer Facility Charge (CFC) that will be implemented to recover the cost of developing the proposed consolidated rental car facility. The analysis assumes that a CFC of $3.00 per transaction day is collected and the effective date of implementation is April 1, 2001. The results are summarized in **Table V-4**.

The implementation of a CFC would cause a reduction in transaction days, but the negative effect would be relatively mild. The estimated reduction in the forecast of transaction days with a CFC of $3.00 per transaction day is about 0.9% per year on average. The largest percentage decrease in transaction days occurs during the first three full years following the implementation of the CFC. The negative impact of the CFC diminishes continuously over the forecast period.

C. OTHER FACTORS THAT COULD AFFECT FUTURE RENTAL CAR DEMAND AT IAH

In addition to the explanatory variables identified in the multivariate regression model, other factors could affect rental car demand at the Airport. These factors, which extend beyond the immediate rental car market, are discussed in this sub-section.

1. <u>Alternative Modes of Ground Transportation</u>

Apart from renting a car or using private automobiles, passengers arriving at IAH may choose from several other modes of ground transportation available at the Airport. These alternative modes differ in terms of the service, schedule flexibility, and the associated monetary and time costs. In general, mass modes of transportation offer a viable alternative to passengers going to a single destination. For those travelers who need to make several local trips or stop at multiple destinations, mass modes of transportation often entail high time costs and inconvenience. Alternative modes of ground transportation available at IAH include:

TABLE V-4

ESTIMATE OF CFC IMPACT ON TRANSACTION DAYS FORECAST [1]
Consolidated Rental Car Facility Project
George Bush Intercontinental Airport/Houston
1999-2010

Fiscal Year Transaction Days (000)				Calendar Year Transaction Days (000)[2]			
Fiscal Year	Without CFC	With $3.00 CFC	CFC Impact	Calendar Year	Without CFC	With $3.00 CFC	CFC Impact
Actual				**Actual**			
2000	3,211	-	-	1999	3,168	-	-
Forecast				**Forecast**			
2001	3,352	3,342	-0.30%	2000	3,277	3277	-
2002	3,455	3,416	-1.14%	2001	3,402	3372	-0.88%
2003	3,562	3,524	-1.08%	2002	3,508	3469	-1.11%
2004	3,665	3,627	-1.02%	2003	3,615	3577	-1.05%
2005	3,772	3,736	-0.97%	2004	3,717	3680	-1.00%
2006	3,882	3,844	-0.97%	2005	3,827	3790	-0.97%
2007	3,994	3,956	-0.97%	2006	3,939	3901	-0.96%
2008	4,105	4,072	-0.80%	2007	4,051	4015	-0.89%
2009	4,199	4,169	-0.72%	2008	4,155	4122	-0.79%
2010	4,293	4,264	-0.68%	2009	4,248	4216	-0.75%
				2010	4,344	4313	-0.71%
Annual Growth rate							
2000-2005	3.3%	3.1%	-	1999-2005	3.2%	3.0%	-
2000-2010	2.9%	2.9%	-	2000-2010	2.9%	2.8%	-

[1] The effective date of the CFC is April 2001. The impact in FY 2001 is relatively small because the CFC is collected over 3 months of that year.
[2] The monthly forecasts of transaction days are also aggregated by calendar year for purposes of the financial analysis in Section VI.

Taxicabs: Taxicabs are available at the south side of Terminals A, B and C and at the west end of Terminal D of the Airport. All destinations within Houston's city limits to or from the Airport are charged according to a flat Zone Rate or meter rate, whichever is less. The taxicab routes are classified into eight zones and the fares are determined by zones. For example, the general vicinity of downtown Houston lies within Zone 2, and the fare from the Airport to the downtown area is $32. Houston City Ordinance authorizes the cab driver to add an additional $1.25 departure fee to the fare. However, two or more passengers going to the same destination are charged only one fare. Taxicabs represent a good substitute for rental cars because they are available on demand, and for air travelers new to the Houston area, a cab ride eliminates the difficulties of driving in an unfamiliar environment. Taxicabs may also be cost-efficient in situations where passengers can share a ride or where a passenger is making a single destination stop to/from the Airport. However, in the case of multiple destination trips, financial considerations may reduce the attractiveness of taxicabs for the average air traveler.

Private Bus: Airport Express provides private bus service at the Airport. The buses leave from the south side of Terminals A, B and C, and at the west end of Terminal D. The fare ranges from $16 to $21 for one-way trips depending on the destination. For example, the fare for a one-way trip from the Airport to downtown Houston is $16, while it costs $21 for a one-way trip to Westside. The bus fare for a connecting trip from IAH to Hobby Airport is $17. Although the monetary costs of private bus service is relatively lower than the cost of renting a car, bus trips have an inherently higher time cost involving waiting time and additional drop-off time.

Limousines: The Galveston Limousine company provides limousine service from the Airport to several cities, including League City, Texas City and Galveston. The fares for one-way trips range from $18 to $26 depending on the destination. While limousine ride may be preferred by groups of passengers or for special occasions, it is doubtful that the limousine constitutes a viable substitute for the rental car among the general passenger population at IAH.

Public Bus: Metro bus service is available at the south side of Terminals A, B and C, and at the west end of Terminal D. The Bush/IAH Express (Route #102) bus leaves at regular intervals from the Airport and makes several stops along its route to downtown Houston. The base local fare is $1.00 and rush hour trips cost an additional fifty cents. Day passes cost $2 and are good for unlimited rides over a 24-hour period. Although the monetary cost of public bus service is relative low, it may not be a viable option for air travelers, particularly those with heavy luggage. There is also the inherent problem of waiting time and longer time spent on the ride.

Courtesy Vans: Several hotels in the Houston area operate complimentary van service to and from the Airport. Although the service is free to the air traveler/hotel guest, courtesy van service frequently entails some waiting time and the service is typically restricted to trips between the Airport and the hotel.

Proposed Light Rail: There are long-term plans to construct a light rail, high capacity transit system in the Houston area. In the initial phase, the light rail would serve the Main Street Corridor that includes downtown, the Texas Medical center, educational institutions, parks, as well as entertainment and sports facilities. The future plans include connections to IAH and Hobby Airports and nearby suburban communities.[6] When the service becomes available, the rail system may represent a viable alternative mode of ground transportation to and from the Airport.

[6] This information was obtained from the Houston METRO website at www.ridemetro.org.

2. Factors Affecting Air Travel

The multivariate regression model developed for this study shows the correlation between rental car demand and O&D enplanements at the Airport. Therefore, factors affecting enplanements at IAH will ultimately affect rental car demand at the Airport. Some of these factors include:

National economic conditions: As with most consumer goods, air travel demand depends on prevailing economic conditions. Periods of economic expansion boost consumer confidence and stimulate the demand for most consumer goods and services. By contrast, economic downturns represent negative prospects and dampen business and consumer demand. The current U.S. economic expansion is into its 9th year, making it the longest period of economic prosperity since World War II.[7] Consumer confidence in the economy remains high, but it is impossible to predict with certainty how long the current economic boom will last, or future national economic conditions. However, passenger traffic and related transportation demand at IAH are likely to continue to respond to future U.S. business cycles.

Changes in airline operating costs: The U.S. commercial airline industry reported profits in all four quarters of 1999, totaling $8.6 billion for the year. According to the FAA, a major contributing factor to the financial success of the airline industry in 1999 was the significant drop in fuel costs. Jet fuel prices dropped by 9.6% in 1999.[8] However, fuel prices have since begun to rise partly because of an OPEC agreement to limit crude oil supply. OPEC is currently monitoring the market very closely and adjusts the volume of oil production accordingly to maintain crude oil prices within a certain range. Airline industry analysts cite high fuel costs, severe weather, and labor-management negotiations as contributing factors to the decline in the profits reported by some of the major airlines during the fourth quarter of 2000.[9] On the positive side, there are indications that some non-OPEC member countries may act independently to relieve the global crude oil shortage. Moreover, the U.S. government is taking actions to prevent further increases in fuel prices such as the release of oil from its strategic reserves.[10] The airline industry generally has addressed the recent fuel cost increases by raising air fares – and, at some airports, imposing discrete fuel surcharges – without dampening air travel demand. The airline industry also continues to benefit from structural changes that keep operating costs in check, including (1) the entry of low-cost, low-fare carriers who are attracted into the industry by the financial success of airlines like Southwest, and (2) the continuing restructuring by most high-cost carriers, including route rationalization, the use of more efficient aircraft equipment, and agreements that enhance worker productivity.[11]

---

[7] The Federal Aviation Administration, *Aerospace Forecasts, FY 2000-2011,* March 2000, page II-1.
[8] The Federal Aviation Administration, *Aerospace Forecasts, FY 2000-2011,* March 2000, page II-1 and III-2.
[9] See for example, "High Fuel Costs and Stormy Weather Batter Airlines' Earnings for Period" in the *Wall Street Journal,* January 18, 2001.
[10] Various articles in the *Wall Street Journal (WSJ).*
[11] The Federal Aviation Administration, *Aerospace Forecasts, FY 2000-2011,* March 2000, pages III-15 and III-17.

Airline strikes and bankruptcies. The airline industry has, from time to time, experienced strikes and bankruptcies (the Trans World Airlines Chapter 11 bankruptcy filing is a current example). Such events, if they occur in the future, can potentially cause disruptions in air traffic activity, particularly at airports where the affected airlines have hub operations.

Travel costs: Air travel is a function of travel costs. The airfare and the cost of renting a car are two of the components of travel costs. In general, people tend to travel more frequently at lower airfares than at higher fares. In addition, it is true that the demand for air travel, particularly leisure travel, is price-elastic, meaning that air travelers are sensitive to changes in airfares and revise their travel plans according to price movements. In recent years, competition among air carriers has ensured that the benefits of increased industry productivity and lower operating costs are increasingly being passed on to air travelers. Any future shifts in the structure of the airline industry that re-configure the degree of competition in the industry could have implications for airfares. Unlike air ticket cost, which is often a large portion of travel cost, the cost of renting a car is often a small component of travel cost. Therefore, the prospective net effect of changes in the two components of travel cost on rental demand at IAH will depend on the relative strengths of the underlying price elasticity and competition in the airline industry.

D. SUMMARY

The following are the highlights of the historical review and forecast of rental car demand at George Bush Intercontinental Airport:

- The Airport rental car market is served by nine Operators, namely, Advantage, Alamo, Avis, Budget, Dollar, Enterprise, Hertz, National, and Thrifty. Collectively, these Operators reported gross rental revenue of $132.6 million in FY 2000.
- Rental car demand, as measured by transaction days, grew at an average annual rate of 6.8% while rental contracts grew at an average annual rate of 6.3% during the period of FY 1996 to 2000. The monthly distributions of transaction days and rental contracts exhibited a seasonal pattern, with consistently high demand in the months of March, May and October, and relatively low demand in January, February, September and December.
- The price of renting a car at the Airport, measured in inflation-adjusted dollars, showed slight increment, and recording an average annual increase of 0.8% over the FY 1996-2000 period. The average rental contract duration was relatively stable at 3.5 days during that period.
- The multivariate regression model developed for this study identified O&D enplanements, customers' income, average daily rental rate, and local non-agricultural employment as explanatory variables for rental car demand at the Airport.
- The forecast indicates that transaction days will increase from 3.21 million in FY 2000 to 4.29 million in FY 2010, representing an average annual increase of 2.9% over that period.

- The implementation of a CFC may cause a reduction in the number of transaction days, but the analysis indicates that the negative impact will be relatively mild and diminish over time.

SECTION VI

FINANCIAL ANALYSIS

This section addresses the financial aspects of the Project, including the plan of financing for the Bonds, and presents projections of the following: (1) the required CFC rates and the proposed "level" CFC rates, (2) CFC revenues, interest income and other Pledged Revenues, (3) debt service coverage, and (4) the application of Pledged Revenues to the funds and accounts established by the Trust Indenture for the 10-year forecast period, CY 2001-2010. The presentation of the proposed financing and the financial forecasts is prefaced by a discussion of the legal framework for the financing and operation of the Consolidated Rental Car Facility (the Project or the Facility).

A. LEGAL FRAMEWORK FOR FINANCING AND OPERATION

The financing and operation of the Consolidated Rental Car Facility will be governed by three documents: (1) the Concession Agreement, (2) the Master Lease, and (3) the Trust Indenture. This section provides a brief overview of key provisions of these documents.

1. Concession Agreement

Under the Concession Agreement, the Operators have the non-exclusive right to conduct an Automobile Rental Business in the Consolidated Rental Car Facility at the Airport and commit to conduct all Airport rental car transactions at the Facility. The term of the Concession Agreement commences with the date the Facility opens for public use (the Date of Beneficial Occupancy or DBO) and continues until the date of the final payment of the Bonds (January 1, 2028, approximately 25 years after DBO).

Under the Concession Agreement, the Operators will pay monthly concession fees equal to the greater of (1) one-twelfth (1/12) of the Minimum Annual Guarantee or (2) the applicable percentage fee. The Minimum Annual Guarantee is 85% of the concession fees paid in the previous year, but in no event less than \$100,000. The percentage fee for the first five years of the Concession Agreement is 8.5% of the first \$3 million of Gross Revenues and 10% of all Gross Revenues above \$3 million. The percentage fee for the second five years of the Term of the Concession Agreement is 10% of all Gross Revenues. At the beginning of the 11^{th} and 21^{st} year of the term, the concession fee will be re-determined based on the average comparable percentage fees paid under the current concession contracts that other airport systems have with rental car companies at the 10 largest airports in the United States,[1] and

[1] With the exception of the airports within the Port Authority of New York/New Jersey.

shall not exceed 15% of Gross Revenues. *Concession fees are not pledged to the payment of the Bonds.* [2]

The Concession Agreement affirms the obligation of each Operator to collect and remit a CFC from each rental car customer as provided for in the Master Lease. In addition, the Concession Agreement provides that Operators "will not intentionally, directly or indirectly, divert Automobile Rental Business from the Airport or otherwise take any action that would result in a CFC not being imposed, collected and remitted, and concession fees not paid to City."

2. The Master Special Facilities Lease Agreement

The Master Lease provides for the financing, construction and operation of the Consolidated Rental Car Facility. The term of the Master Lease commences on the date of issuance of the Bonds and continues until the later of June 30, 2027 or the final payment of the Bonds (including any Additional Bonds or Refunding Bonds). Among other things, the Master Lease addresses the definition of the Project to be financed with the Bonds (see Section II), the issuance of the Bonds, the collection of the CFC, the construction and acquisition of the Consolidated Rental Car Facility, the lease of the site and ground rental rates, and the use of the Facility by the Operators.

a) Definition of the Project

As described in Section II, the Project to be financed with the Bonds consists of the following principal elements: (1) the Customer Service Building, (2) the Parking Structure, (3) the Shuttle Buses, (4) the Shuttle Bus Maintenance Facility, (5) the Maintenance/Storage Facilities, and (6) Infrastructure.

b) Issuance of Bonds

In the Master Lease, the City commits to use its best efforts to issue the Bonds in amounts sufficient to pay the Capital Costs of the Project. The Capital Costs of the Project are defined to include the Costs of the Project plus the Financing and Issuance Costs of the Project. The Costs of the Project were defined in Section II and presented in **Table II-1**. The Costs of the Project do not include $5.6 million of infrastructure cost that HAS agreed to contribute to the Project.

Financing and Issuance Costs of the Project include all costs of financing the Project, including:

- Legal, accounting, feasibility, financial advisory, underwriting and consultant fees and expenses

[2] Concession fees payable by the Operators are included in Gross Revenues under the Bond Ordinances for the City's general airport system revenue bonds.

- Fees and expenses for bond insurance and a reserve fund surety

- All costs and expenses incident to the authorization, issuance, and delivery of the Bonds

- Capitalized interest

- Other fees, costs, and expenses incidental or pertaining to the financing of the Project, including the funding of reserves, funds and accounts required by the Trust Indenture and other costs and expenses that may be properly capitalized as financing costs of the Project.

c) Customer Facility Charge

As defined in the Master Lease, the CFC refers to "the customer facility charge or customer facility charges required to be collected by the Operator pursuant to Article VI hereof, and which upon collection, are required to be remitted to the Trustee as assignee of the City's interest therein." The CFC is required to be collected from each rental car customer at the Airport beginning on the first day of the month following the date of issuance of the Bonds.[3] The CFC is to be assessed per transaction day at a rate established from time to time by the City pursuant to the authority of a City Ordinance.

Section 6.02 of the Master Lease requires each Operator to collect and remit to the Trustee the proceeds of a CFC, as follows:

> In addition to the ground rent and fees paid pursuant to Section 6.01 and other amounts pursuant to their concession agreements, each Operator shall also pay an additional special facilities rent (Special Facilities Rent) for the use and availability of the Special Facilities in an amount equal to the proceeds derived from or attributable to such Operator's imposition and collection of the CFC in accordance with the terms hereof, all of which shall be promptly remitted to the Trustee, as assignee of the City, in order to pay when due the principal of, premium, if any, and interest on the Bonds and make other deposits and payments provided in the Trust Indenture.

CFC proceeds are deemed the property of the Trustee upon their collection, are to be separately stated and accounted for by each Operator, and are payable to the Trustee on the 20th day of each month for the preceding calendar month. All CFC proceeds are pledged for the payment of the Bonds under the Trust Indenture.

The City is obligated to cause a review of the CFC rate to be conducted periodically by an Independent Rate Consultant (or the City if agreed to by the LLC and permitted by the Trust Indenture). However, it is the intent of the City and the Operators to establish and maintain, to the extent possible, a "level" CFC rate that would be somewhat higher than the minimum rate required to meet the Rate Covenant – particularly in the early years following the Date of

[3] With the exception of certain local rentals prior to the Date of Beneficial Occupancy, as set forth in the Master Lease.

Beneficial Occupancy of the Project. The Trust Indenture establishes a CFC Stabilization Account in the Facility Improvement Fund to permit the accumulation of funds, and subsequent transfer of those funds to the Revenue Fund, to provide for such rate stabilization from year to year. The Trust Indenture also permits the accumulation of reserves in the Facility Improvement Fund for future capital improvements, repairs and replacements.

d) Construction and Acquisition of the Project

The Project has been divided into several bid packages, as follows: (1) Project Sitework (444A), (2) Facilities (444B), (3) Exclusive Use Areas, and (4) Bus Procurement. The City, through HAS, will manage the Project sitework and construction of facilities. The Operators will be responsible for the construction and installation of improvements in the exclusive use areas, subject to individual budget allocations that aggregate $33.9 million for the exclusive use area work. The Operators will also be responsible for any costs incurred in excess of their individual allocations. The Operators have negotiated a purchase order with a bus manufacturer for the procurement of the 26 Shuttle Buses.

e) Lease of the Site / Ground Rentals and Restricted Use Fees

The site has been subdivided into certain land uses for the purposes of leasing the ground and charging ground rentals. The Operators are required to pay: (1) ground rent for the Common Use Ground Lease Area, the Deferred Common Use Ground Lease Area, the Exclusive Use Ground Lease Area, and the Deferred Exclusive Use Ground Lease Area; and (2) restricted use fees for the Restricted Use Roadway Area. They are also required to pay for costs of maintenance and utilities of Restricted Use Setback Areas in consideration for the City's agreement to restrict the use of these areas in the future. Ground rental fees will commence as of the Date of Beneficial Occupancy and will be assessed at $0.23 per square foot per year for the Common Use Lease Area and the Exclusive Use Lease Area, and $0.05 per square foot per year for the other areas subject to 15% rate increases every five years. *Ground rentals and restricted use fees are specifically excluded from Pledged Revenues under the Trust Indenture and are not available to pay debt service on the Bond*s.[4]

f) Use of the Facility by the Operators

Under the Master Lease, each Operator has the right to use and enjoy the Special Facilities and the Project Site for the purpose of conducting its automobile rental business, as follows:

- As to the Customer Service Building, renting of motor vehicles to customers
- As to the Parking Structure, rental car pick up and return activities and vehicle circulation
- As to the Shuttle Bus Maintenance Facility, the repairing, overhauling, maintaining, conditioning, servicing, parking, basing and storage of the Shuttle Buses

[4] Ground rentals will flow as Gross Revenues under the Bond Ordinances for the City's airport system revenue bonds.

- As to the Maintenance/Storage Facilities, the repairing, overhauling, maintaining, conditioning, washing, servicing, parking, basing and storage of rental cars and other equipment used in its rental car business

Under the Master Lease, the Operators are collectively obligated to pay all operation, repair and maintenance expenses applicable to the Special Facilities and the Project Site. The Operators have created the IAH RACS LLC (the LLC) to carry out the Operators' obligations to operate, repair, and maintain the Special Facilities and the Project Site, including the Shuttle Buses (excluding the Maintenance/Storage Facilities which are the responsibility of the individual Operators). The Master Lease expressly states that "no portion of any such costs or expenses shall be paid by the City or with the proceeds of the CFC."

3. The Trust Indenture

The Bonds are to be issued pursuant to the Trust Indenture. According to the Trust Indenture, the Bonds will be secured by a pledge of, and payable solely from, the Pledged Revenues (as defined below). The major component of Pledged Revenues is the proceeds of the CFC to be collected and remitted to the Trustee by the Operators. The Trust Indenture governs the issuance of the Bonds, defines Pledged Revenues, establishes certain funds and accounts, and sets forth the required application of Pledged Revenues to those funds and accounts.

a) Issuance of the Bonds

The Bonds are special limited obligations of the City payable solely from the Pledged Revenues and Pledged Funds, including the CFC revenues collected by the Operators in accordance with the Master Lease. The Bonds are to be issued to finance the Capital Costs of the Project, which is defined to include the Costs of the Project plus the Financing and Issuance Costs of the Project.

b) Pledged Revenues

The Trust Indenture defines Pledged Revenues as "the aggregate of (i) Special Facilities Rent received or receivable [defined in the Master Lease as the CFC revenues], (ii) all investment income of every kind derived from amounts credited to the Pledged Funds (other than the Project Fund), and (iii) amounts transferred to the Revenue Fund from the Coverage Fund or Facility Improvement Fund." The definition of Pledged Revenues allows the City and the Operators to both (1) fund debt service coverage once and "roll" that coverage from year to year and (2) use the Facility Improvement Fund to "subsidize" the CFC rate, allowing the parties to maintain a level CFC rate from year to year if they so choose.

c) Rate Covenant

Section 7. 2 of the Trust Indenture requires the City to:

> ...cause the Customer Facility Charge to be calculated, established and imposed as herein provided so long as any Bonds remain Outstanding, and the City shall use diligence to cause the Customer Facility Charge to be collected by the Operators in accordance with the terms of the [Master Lease] and deposited with the Trustee directly by the Operators. The Customer Facility Charge shall be established initially and reviewed and adjusted (if necessary) annually (or otherwise described [in the Trust Indenture]) by the [Aviation] Director based upon the Rate Reports from the Independent Rate Consultant (or, with the consent of the LLC, by the City), at rates estimated to generate CFC revenues, along with other Pledged Revenues, in each calendar year equal to not less than (i) 125% of the debt service requirements on the Bonds for such calendar year; and (ii) the amounts necessary to fund in such calendar year all transfers from the Revenue Fund as required by Article IV of [the Trust] Indenture.

This provision is referred to as the Rate Covenant.

The Trust Indenture also contains an important covenant regarding the collection of Special Facilities Rent:

> The City shall use diligence to cause the Special Facilities Rent payable by the Operators under the [Master Lease] to be paid by the Operators directly to the Trustee in the amounts and at times necessary to enable the Trustee to make all transfers to the Debt Service Fund and every other fund required herein and in the [Master Lease].

d) Establishment of Funds and Accounts/Application of Pledged Revenues

The Trust Indenture establishes the following special funds and accounts:

- Revenue Fund
- Debt Service Fund, including the Capitalized Interest Account for the Bonds
- Debt Service Reserve Fund
- Coverage Fund
- Administrative Costs Fund
- Facility Improvement Fund
- Project Fund

The application of Pledged Revenue to these funds and accounts is depicted in **Figure VI-1**. Bond proceeds remaining after payment of Issuance Costs and after funding capitalized interest and reserve funds will be deposited in the Project Fund and used to pay the Costs of the Project.

B. PLAN OF FINANCING

Table VI-1 presents the plan of financing (sources and uses of funds) for the Project as provided by First Southwest Company, the City's financial adviser.

Sources of funds include:

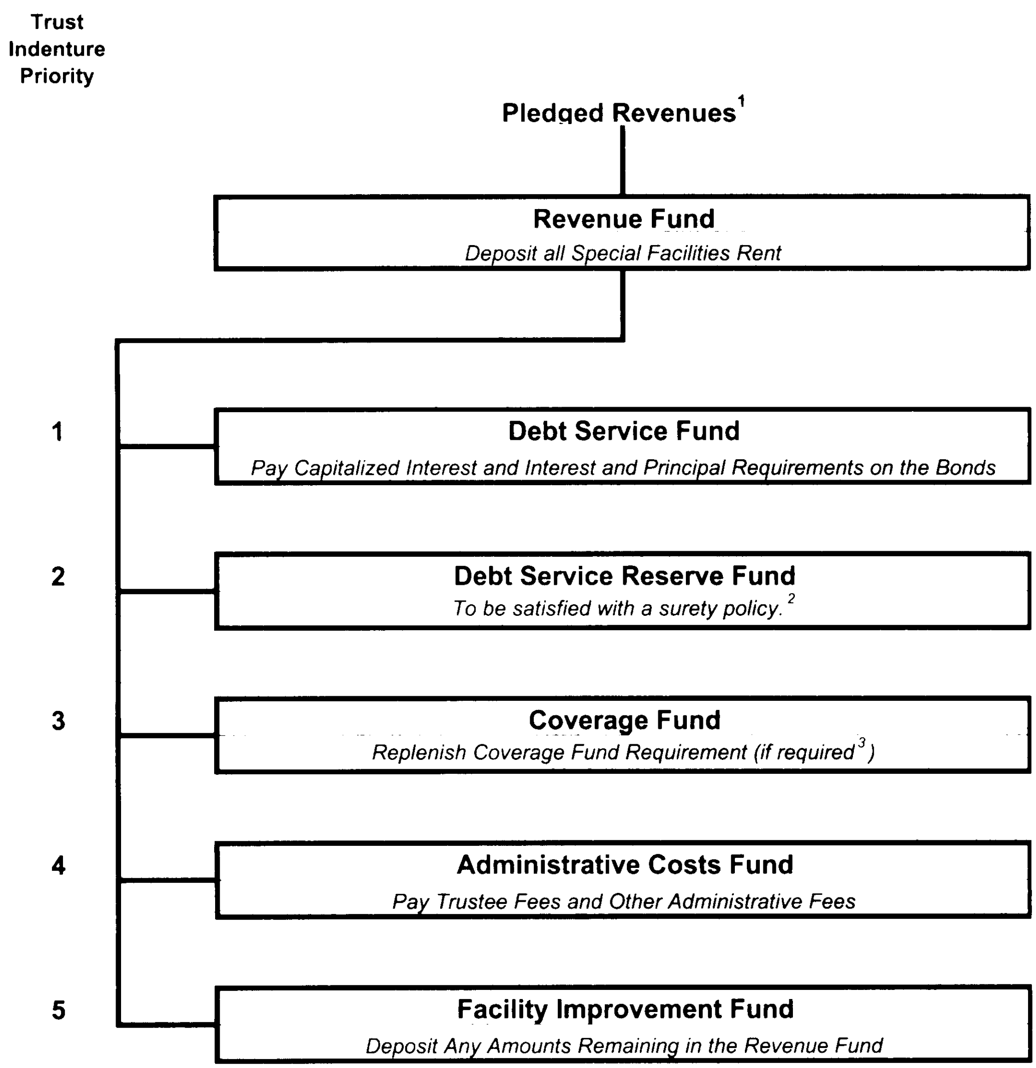
- The principal amount of the Bonds
- Accrued interest
- HAS capital contribution
- CFC revenues applied to Capitalized Interest
- Investment income from moneys deposited in the Project Fund, Capitalized Interest Account, and Coverage Fund.

Uses of funds include:

- Deposits to the Project Fund in an amount which, together with investment income thereon, will equal the Costs of the Project
- Project costs to be contributed by HAS
- Deposits to other Funds including the Coverage Fund, the Capitalized Interest Account, and Accrued Interest
- Costs of Issuance, bond insurance premium, and reserve fund surety policy premium

FIGURE VI-1

FLOW OF FUNDS (APPLICATION OF REVENUES)
UNDER THE PROVISIONS OF THE TRUST INDENTURE
Consolidated Rental Car Facility Project
George Bush Intercontinental Airport/Houston



[1] Pledged Revenues consist of the following: (1) CFC revenues, (2) certain interest income, and (3) transfers from the Coverage Fund (in the amount of the Coverage Fund Requirement) and the Facility Improvement Fund (if any).

[2] The Debt Service Reserve Fund will be satisfied by a surety policy and does not need to be funded from the Bond proceeds.

[3] The Coverage Fund is to be fully funded from the Bond proceeds.

TABLE VI-1

SOURCES AND USES OF FUNDS
Consolidated Rental Car Facility Project
George Bush Intercontinental Airport / Houston

	Total
Sources of Funds	
Principal amount of the Bonds	$ 130,005,000
Accrued interest	364,876
HAS capital contribution	4,888,262
CFC Revenues applied to Capitalized Interest	14,073,773
Investment income	
Project Fund	5,562,132
Capitalized Interest Account	39,183
Debt Service Reserve Fund[1]	-
Coverage Fund	48,371
	$ 5,649,686
Total Sources of Funds	$ 154,981,596
Uses of Funds	
Project Fund Deposits:	
Costs of the Project	
Bond funded	$ 126,644,140
HAS funded	4,888,262
Other Fund Deposits:	
Debt Service Reserve Fund[1]	-
Coverage Fund	3,285,547
Capitalized Interest Account	
March 1-March 15, 2001 (accrued interest)	364,876
March 16-July 1, 2001 (paid from Bond proceeds)	2,762,630
July 2, 2001-January 1, 2003 (paid from CFC Revenues)	14,073,773
	$ 20,486,825
Delivery Date Expenses:	
Cost of Issuance	1,950,075
Bond Insurance	777,705
Reserve Fund Surety Policy	234,009
	$ 2,961,789
Rounding Amount	580
Total Uses of Funds	$ 154,981,596

[1] To be satisfied by a surety policy.

Source: First Southwest Company, February 2, 2001.

The plan of finance provides that the following accounts be funded from the proceeds of the Bonds:

- The Coverage Fund – in the amount of the Coverage Fund Requirement, which is 25% of the Maximum Annual Debt Service Requirements for all Bonds then Outstanding

- The Capitalized Interest Account – in an amount, which, together with certain investment income, will be sufficient to pay interest on the Bonds through July 1, 2001.

In addition, CFC revenues will be used to pay interest on the Bonds through the remainder of the designated capitalized interest period (January 1, 2003).

Amounts in the Coverage Fund will be used each year to help demonstrate compliance with the Rate Covenant. Amounts in the Capitalized Interest Account funded from Bond proceeds will be used to pay the first semi-annual interest due on July 1, 2001. Thereafter, debt service on the Bonds is payable from Pledged Revenues on a current basis.

The Debt Service Reserve Fund Requirement will be satisfied by a surety policy. The reserve fund surety policy may be used any time that the balance in the Debt Service Fund becomes insufficient to pay the required debt service.

The City will insure the Bonds. The bond insurance premium will be paid from Bond proceeds. Project costs and capitalized interest will be net-funded; that is, all investment earnings on the Project Fund and the Capitalized Interest Account will be retained in those accounts and applied toward funding the Costs of the Project and the Capitalized Interest Account Requirement, respectively.

C. DEBT SERVICE

Estimates of annual debt service requirements on the Bonds, as provided by First Southwest Company, are presented in **Table VI-2**. The Bonds will have a term of approximately 27 years from March 1, 2001 through January 1, 2028. Only interest is payable during the first two years, and both principal and interest are payable over the next 25 years. The estimates of annual debt service assume an average interest rate of 7.27%. The Bonds are to be structured with a combination of serial bonds and term bonds to produce gradually increasing annual debt service roughly proportionate to the anticipated increase in rental car transaction days (referred to as a "ramping debt service" structure). As shown in **Table VI-2**, total annual debt service is projected to increase from approximately $7.8 million in CY 2001 (for the nine-month period ending December 31) and $9.4 million in CY 2002, to $13.6 million in CY 2027.

TABLE VI-2

DEBT SERVICE SCHEDULE
Consolidated Rental Car Facility Project
George Bush Intercontinental Airport/Houston
CY 2001 - 2027

Calendar Year	Principal	Interest	Total Debt Service
2001	$ -	$ 7,818,763	$ 7,818,763
2002	-	9,382,516	9,382,516
2003	1,000,000	9,382,516	10,382,516
2004	1,165,000	9,322,416	10,487,416
2005	1,350,000	9,251,817	10,601,817
2006	1,545,000	9,169,332	10,714,332
2007	1,760,000	9,068,598	10,828,598
2008	1,990,000	8,952,966	10,942,966
2009	2,240,000	8,821,228	11,061,228
2010	2,515,000	8,671,820	11,186,820
2011	2,825,000	8,488,476	11,313,476
2012	3,155,000	8,282,534	11,437,534
2013	3,510,000	8,052,534	11,562,534
2014	3,895,000	7,796,655	11,691,655
2015	4,305,000	7,512,710	11,817,710
2016	4,755,000	7,198,875	11,953,875
2017	5,235,000	6,852,236	12,087,236
2018	5,755,000	6,470,604	12,225,604
2019	6,315,000	6,051,065	12,366,065
2020	6,920,000	5,590,700	12,510,700
2021	7,570,000	5,086,233	12,656,233
2022	8,270,000	4,534,380	12,804,380
2023	9,025,000	3,931,497	12,956,497
2024	9,840,000	3,273,575	13,113,575
2025	10,720,000	2,556,239	13,276,239
2026	11,665,000	1,774,751	13,439,751
2027	12,680,000	924,372	13,604,372

Source: First Southwest Company, February 2, 2001.

D. CALCULATION OF THE CUSTOMER FACILITY CHARGE

Under the Master Lease, the Operators are required to pay a Special Facilities Rent equal to the proceeds derived from the collection of the CFC. The Special Facilities Rent will be used to pay debt service on the Bonds.

The Master Lease requires that each Operator collect and remit the CFC from every vehicle rental at the Airport beginning on the first day of the month following the date of issuance of the Bonds. The CFC will be assessed per transaction day and set at the rate determined by the City based on the recommendation of an Independent Rate Consultant or, with the concurrence of the Operators, the City. It is the intent of the City to set the CFC at a "level" rate for five years or more.

Under the Trust Indenture, amounts in the Facility Improvement Fund may be used for specified purposes, including the establishment of a CFC Stabilization Account, funded only with amounts accumulated as a result of Customer Facility Charge collections that are over and above the amounts necessary to pay 100% of the Current Annual Debt Service Requirements on the Bonds and accrued interests, to pay current Administrative Costs, or to replenish any other fund. Amounts in the CFC Stabilization Account may, at the direction of the City, be transferred to the Revenue Fund and included in Pledged Revenues in order to avoid or delay changes in the CFC, and thereby stabilize the CFC rate over time.

Table VI-3 shows the calculation of the required (break-even) CFC and the forecast of CFC revenues at the anticipated "level rate". Net debt service (total debt service less capitalized interest, accrued interest, and investment income) and administrative costs constitute the total amount to be recovered from CFC revenues. The sum of net debt service and administrative costs divided by the forecast transaction days yields the required CFC rate.

As shown in **Table VI-3**, the total amount to be recovered is projected at approximately $4.6 million in CY 2001, increasing to approximately $9.2 million in CY 2002 and $10.1 million in CY 2003 (the first full year of occupancy of the Special Facilities), and gradually increasing thereafter to $10.9 million in CY 2010. The required CFC is forecast to be $1.83 in CY 2001 and to range between $2.53 and $2.84 over the remainder of the forecast period.

TABLE VI-3

CALCULATION OF REQUIRED CUSTOMER FACILITY CHARGE
AND PROJECTION OF CFC REVENUES AT ANTICIPATED "LEVEL" RATES
Consolidated Rental Car Facility Project
George Bush Intercontinental Airport/Houston
CY 2001-2010

	Calendar Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total Debt Service[1]	$ 7,818,763	$ 9,382,516	$ 10,382,516	$ 10,487,416	$ 10,601,817	$ 10,714,332	$ 10,828,598	$ 10,942,966	$ 11,061,228	$ 11,186,820
less: Capitalized Interest	(2,762,630)									
less: Accrued Interest	(364,876)									
less: Investment Income										
Revenue Fund	0	0	(25,000)	(29,125)	(33,750)	(38,625)	(44,000)	(49,750)	(56,000)	(62,875)
Debt Service Fund	(23,456)	(93,825)	(93,825)	(93,224)	(92,518)	(91,693)	(90,686)	(89,530)	(88,212)	(86,718)
Debt Service Reserve Fund[2]	0	0	0	0	0	0	0	0	0	0
Coverage Fund	(82,139)	(164,277)	(164,277)	(164,277)	(164,277)	(164,277)	(164,277)	(164,277)	(164,277)	(164,277)
Net Debt Service[1]	$ 4,585,663	$ 9,124,413	$ 10,099,413	$ 10,200,789	$ 10,311,271	$ 10,419,736	$ 10,529,634	$ 10,639,409	$ 10,752,738	$ 10,872,949
plus: Administrative Costs	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Amount to be Recovered	$ 4,635,663	$ 9,174,413	$ 10,149,413	$ 10,250,789	$ 10,361,271	$ 10,469,736	$ 10,579,634	$ 10,689,409	$ 10,802,738	$ 10,922,949
Forecasted Transaction Days[3]	2,529,000	3,469,000	3,577,000	3,680,000	3,790,000	3,901,000	4,015,000	4,122,000	4,216,000	4,313,000
Required Customer Facility Charge	$1.83	$2.64	$2.84	$2.79	$2.73	$2.68	$2.64	$2.59	$2.56	$2.53
Anticipated Customer Facility Charge @ "level" rates of $3.00 and $2.75	$3.00	$3.00	$3.00	$3.00	$3.00	$2.75	$2.75	$2.75	$2.75	$2.75
Projected CFC Revenues at "level" rates	$ 7,587,000	$ 10,407,000	$ 10,731,000	$ 11,040,000	$ 11,370,000	$ 10,728,000	$ 11,041,000	$ 11,336,000	$ 11,594,000	$ 11,861,000

[1] First Southwest Company, February 2, 2001.
[2] Satisfied by a surety policy.
[3] Transaction day forecasts were obtained from **Table V-4** and aggregated on a calendar year basis for purposes of Section VI.

As stated earlier, the City and the Operators prefer to establish a level CFC rate and maintain that rate for as long as possible, consistent with the requirements of the Trust Indenture. **Table VI-3** shows the forecast CFC revenues from a "level rate" of $3.00 during the first five years of the forecast period and $2.75 thereafter through FY 2010. After paying capitalized interest, the initial $3.00 rate is forecast to generate substantial surplus revenues during the first 18 months of the forecast period (prior to the Date of Beneficial Occupancy of the Special Facilities) – moneys that are to be reserved in the Facility Improvement Fund for future repairs, replacements and capital improvements. No transfers to and from the CFC Stabilization Account are forecast to be needed to maintain the projected "level" rates of $3.00 and $2.75 over the forecast period. At the $3.00 and $2.75 level CFC rates, total CFC revenues are forecast at approximately $7.6 million in CY 2001, and will increase to $10.4 million in CY 2002, $10.7 million in CY 2003, and will gradually increase thereafter to $11.9 million in CY 2010.

E. APPLICATION OF REVENUES AND CALCULATION OF DEBT SERVICE COVERAGE

As discussed earlier, Pledged Revenues consist of:

- CFC revenues
- All investment income from the Revenue Fund, the Debt Service Fund, the Debt Service Reserve Fund, and the Coverage Fund
- Amounts transferred to the Revenue Fund from the Coverage Fund and the Facility Improvement Fund

As shown in **Table VI-4**, total Pledged Revenues are forecast to be approximately $10.1 million in CY 2001, $13.9 million in CY 2002, and $14.3 million in CY 2003 (the first full year of occupancy of the Facility), and are forecast to increase gradually thereafter to $15.4 million in CY 2010.

Table VI-4 shows the application of Pledged Revenues to the funds and accounts established under the Trust Indenture. The following comments pertain to specific fund transfers:

- **Debt Service Fund** – No transfers to the Debt Service Fund are required prior to the initial interest payment date (July 1, 2001) since interest during this period is capitalized from Bond proceeds. Thereafter, monthly transfers will be made from the Revenue Fund to meet semi-annual debt service payment requirements.

TABLE VI-4

APPLICATION OF REVENUES AND CALCULATION OF DEBT SERVICE COVERAGE
Consolidated Rental Car Facility Project
George Bush Intercontinental Airport/Houston
CY 2001-2010

Trust Indenture Priority			Calendar Year 2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
	Pledged Revenues											
	CFC Revenues @ $3.00 and $2.75 "level" rates		$ 7,587,000	$ 10,407,000	$ 10,731,000	$ 11,040,000	$ 11,370,000	$ 10,728,000	$ 11,041,000	$ 11,336,000	$ 11,594,000	$ 11,861,000
	less: Allowance for 1-month cash flow lag		(843,000)	(24,250)	(27,000)	(25,750)	(27,500)	53,500	(26,083)	(24,583)	(21,500)	(22,250)
	Investment Income											
	Revenue Fund		-	-	25,000	29,125	33,750	38,625	44,000	49,750	56,000	62,875
	Debt Service Fund		23,456	93,825	93,825	93,224	92,518	91,693	90,686	89,530	88,212	86,718
	Debt Service Reserve Fund[2]		-	-	-	-	-	-	-	-	-	-
	Coverage Fund		82,139	164,277	164,277	164,277	164,277	164,277	164,277	164,277	164,277	164,277
	Transfers											
	From the Coverage Fund		3,285,547	3,285,547	3,285,547	3,285,547	3,285,547	3,285,547	3,285,547	3,285,547	3,285,547	3,285,547
	From the Facility Improvement Fund		-	-	-	-	-	-	-	-	-	-
	Total Pledged Revenues	A	$ 10,135,141	$ 13,926,399	$ 14,272,649	$ 14,586,423	$ 14,918,592	$ 14,361,642	$ 14,599,426	$ 14,900,520	$ 15,166,536	$ 15,438,167
	Application of Pledged Revenues											
1	Debt Service Fund[1] [3]	B	$ 4,691,258	$ 9,382,516	$ 10,382,516	$ 10,487,416	$ 10,601,817	$ 10,714,332	$ 10,828,598	$ 10,942,966	$ 11,061,228	$ 11,186,820
2	Debt Service Reserve Fund[2]		-	-	-	-	-	-	-	-	-	-
3	Coverage Fund[1]		3,285,547	3,285,547	3,285,547	3,285,547	3,285,547	3,285,547	3,285,547	3,285,547	3,285,547	3,285,547
4	Administrative Costs Fund		50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
5	Facility Improvement Fund		2,108,337	1,208,337	554,587	763,461	981,229	311,764	435,282	622,008	769,762	915,801
	Total Pledged Revenues Applied		$ 10,135,141	$ 13,926,399	$ 14,272,649	$ 14,586,423	$ 14,918,592	$ 14,361,642	$ 14,599,426	$ 14,900,520	$ 15,166,536	$ 15,438,167
	Debt Service Coverage	A/B	n.a.	1.48	1.37	1.39	1.41	1.34	1.35	1.36	1.37	1.38
	Beginning Balance in Facility Improvement Fund		$ -	$ 2,121,514	$ 3,466,135	$ 4,207,894	$ 5,200,836	$ 6,466,638	$ 7,109,528	$ 7,911,169	$ 8,944,285	$ 10,180,506
	plus: Annual Transfer from Pledged Revenues		2,108,337	1,208,337	554,587	763,461	981,229	311,764	435,282	622,008	769,762	915,801
	less: Transfer to Revenue Fund		-	-	-	-	-	-	-	-	-	-
	Interest Income		13,177	136,284	187,171	229,481	284,573	331,126	366,358	411,109	466,458	531,920
	Ending Balance in Facility Improvement Fund		$ 2,121,514	$ 3,466,135	$ 4,207,894	$ 5,200,836	$ 6,466,638	$ 7,109,528	$ 7,911,169	$ 8,944,285	$ 10,180,506	$ 11,628,227
	Annual deposit in CFC Stabilization Account[4]		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	Cumulative balance in CFC Stabilization Account		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

[1] First Southwest Company, February 2, 2001.
[2] Satisfied by a surety policy.
[3] Interest is capitalized from Bond proceeds through July 1, 2001.
[4] The Trust Indenture permits the transfer of monies from the Facility Improvement Fund to the CFC Stabilization Account as needed.

- **Debt Service Reserve Fund** – No transfers to the Debt Service Reserve Fund are required since, in the plan of finance, the Debt Service Reserve Fund Requirement is to be satisfied by a surety policy.

- **Coverage Fund** – The Coverage Requirement will also be funded from the proceeds of the Bonds. Thereafter, each calendar year, the moneys in the Coverage Fund will be "rolled over" from year to year (i.e., transferred to the Revenue Fund to meet the Rate Covenant and then transferred back to the Coverage Fund). This concept is referred to as a "rolling coverage". For purposes of the analysis in this report, First Southwest Company estimated the Coverage Requirement to be approximately $3.3 million – 25% of the Maximum Annual Debt Service on the Bonds.

- **Administrative Costs Fund** – Moneys transferred to this fund will be used to pay Trustee fees and any other administrative fees required by the Indenture, as well as the fees of the Independent Rate Consultant.

- **Facility Improvement Fund** – After making all prior transfers from the Revenue Fund, remaining amounts in the Revenue Fund are transferred to the Facility Improvement Fund.[5] Moneys in the Facility Improvement Fund are available principally as a reserve for capital additions and replacements. However, moneys in the Facility Improvement Fund may also be used to make transfers to the Revenue Fund if needed to stabilize the CFC and satisfy the Rate Covenant. As shown in **Table IV-4**, deposits to and transfers from the Facility Improvement Fund are projected to be made throughout the forecast period, with the balance in the Fund accumulating to approximately $11.6 million in CY 2010. This accumulation of excess Pledged Revenues is primarily the result of (1) beginning the CFC charge immediately after the Bonds are issued but capitalizing interest on the Bonds through the first interest payment date, and (2) accumulating interest income in the Fund.

Within the Facility Improvement Fund, annual deposits are permitted to be made to a CFC Stabilization Account in an amount that represents the difference between: (1) the CFC revenues, and (2) the total annual debt service requirements plus administrative costs. **Table VI-4** assumes that no deposits will be made to the CFC Stabilization Account over the forecast period, since the anticipated level CFC rates exceed the required rate in each year.

Table IV-4 also shows the calculation of the debt service coverage on the Bonds over the forecast period. Throughout the period following the Date of Beneficial Occupancy, debt service coverage margins are forecast to range between 1.34x and 1.48x, well above the 1.25x requirement of the Rate Covenant. These debt service coverage margins are largely a result of the fact that the amount deposited in the Coverage Fund is based on *Maximum* Annual Debt Service (which significantly exceeds Current Annual Debt Service in the early years).

[5] Any amounts remaining in the Project Fund after the Project is completed and all Capital Costs of the Project have been paid are also to be deposited in the Facility Improvement Fund.

F. SENSITIVITY ANALYSIS

To test the sensitivity of the financial projections to variations in market demand, alternative versions of **Tables VI-3** and **VI-4** were prepared assuming *no growth in demand (transaction days) for the 10-year projection period.* **Table VI-3 ALT** shows the calculation of the required CFC rate for the "no growth" scenario. With no growth in market demand, the required CFC rate would increase gradually over the projection period from $3.01 in CY 2003 (the first full year of occupancy of the Facility) to $3.24 in CY 2010.

G. SUMMARY

The financial analysis demonstrates the following findings:

- Assuming a 2.9% average annual growth rate of transaction days, level CFC rates of $3.00 per transaction day during the CY 2001-2005 period and $2.75 per transaction day during the CY 2006-2010 period will generate sufficient Pledged Revenues to cover debt service requirements and administrative costs, and thereby satisfy the Rate Covenant. At the proposed CFC level rate of $3.00 and $2.75, debt service coverage margins during the period following the Date of Beneficial Occupancy (December 1, 2002) are forecast to range between 1.34x and 1.48x, well above the 1.25x requirement of the Rate Covenant.

- To test the sensitivity of the financial projections to variations in market demand, we performed the financial analysis assuming no growth in demand for the 10-year projection period. With no growth in market demand, the required CFC rate would increase gradually over the projection period from $3.01 in CY 2003 (the first full year of occupancy of the Facility) to $3.24 in CY 2010.

"No Growth" Scenario

TABLE VI-3 ALT

CALCULATION OF REQUIRED CUSTOMER FACILITY CHARGE
AND PROJECTION OF CFC REVENUES
Consolidated Rental Car Facility Project
George Bush Intercontinental Airport/Houston
CY 2001-2010

	Calendar Year									
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total Debt Service[1]	$ 7,818,763	$ 9,382,516	$ 10,382,516	$ 10,487,416	$ 10,601,817	$ 10,714,332	$ 10,828,598	$ 10,942,966	$ 11,061,228	$ 11,186,820
less: Capitalized Interest	(2,762,630)									
less: Accrued Interest	(364,876)									
less: Investment Income										
Revenue Fund	0	0	(25,000)	(29,125)	(33,750)	(38,625)	(44,000)	(49,750)	(56,000)	(62,875)
Debt Service Fund	(23,456)	(93,825)	(93,825)	(93,224)	(92,518)	(91,693)	(90,686)	(89,530)	(88,212)	(86,718)
Debt Service Reserve Fund[2]	0	0	0	0	0	0	0	0	0	0
Coverage Fund	(82,139)	(164,277)	(164,277)	(164,277)	(164,277)	(164,277)	(164,277)	(164,277)	(164,277)	(164,277)
Net Debt Service[1]	$ 4,585,663	$ 9,124,413	$ 10,099,413	$ 10,200,789	$ 10,311,271	$ 10,419,736	$ 10,529,634	$ 10,639,409	$ 10,752,738	$ 10,872,949
plus: Administrative Costs	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Amount to be Recovered	$ 4,635,663	$ 9,174,413	$ 10,149,413	$ 10,250,789	$ 10,361,271	$ 10,469,736	$ 10,579,634	$ 10,689,409	$ 10,802,738	$ 10,922,949
Forecasted Transaction Days[3]	2,529,000	3,372,000	3,372,000	3,372,000	3,372,000	3,372,000	3,372,000	3,372,000	3,372,000	3,372,000
Required Customer Facility Charge[4]	$3.00	$3.00	$3.01	$3.04	$3.07	$3.10	$3.14	$3.17	$3.20	$3.24
Projected CFC Revenues at required rate	$ 7,587,000	$ 10,116,000	$ 10,149,000	$ 10,251,000	$ 10,361,000	$ 10,470,000	$ 10,580,000	$ 10,689,000	$ 10,803,000	$ 10,923,000

[1] First Southwest Company, February 2, 2001.
[2] Satisfied by a surety policy.
[3] Annual transaction days are assumed to remain constant at the CY 2001 level. The CY 2001 figure represents the nine-month period ending December 31, 2001.
[4] The CFC is initially set at the $3.00 level rate in CY 2001 and CY 2002, and, in subsequent years, is then allowed to float to the required rate.

"No Growth" Scenario

TABLE VI-4 ALT

APPLICATION OF REVENUES AND CALCULATION OF DEBT SERVICE COVERAGE
Consolidated Rental Car Facility Project
George Bush Intercontinental Airport/Houston
CY 2001-2010

Trust Indenture Priority			Calendar Year 2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
	Pledged Revenues											
	CFC revenues @ required rate		$ 7,587,000	$ 10,116,000	$ 10,149,000	$ 10,251,000	$ 10,361,000	$ 10,470,000	$ 10,580,000	$ 10,689,000	$ 10,803,000	$ 10,923,000
	less: Allowance for 1-month cash flow lag		(843,000)	-	(2,750)	(8,500)	(9,167)	(9,083)	(9,167)	(9,083)	(9,500)	(10,000)
	Investment Income											
	Revenue Fund		-	-	25,000	29,125	33,750	38,625	44,000	49,750	56,000	62,875
	Debt Service Fund		23,456	93,825	93,825	93,224	92,518	91,693	90,686	89,530	88,212	86,718
	Debt Service Reserve Fund[2]		-	-	-	-	-	-	-	-	-	-
	Coverage Fund		82,139	164,277	164,277	164,277	164,277	164,277	164,277	164,277	164,277	164,277
	Transfers											
	From the Coverage Fund		3,285,547	3,285,547	3,285,547	3,285,547	3,285,547	3,285,547	3,285,547	3,285,547	3,285,547	3,285,547
	From the Facility Improvement Fund[4]		-	-	3,163	8,289	9,438	8,819	8,801	9,492	9,238	9,949
	Total Pledged Revenues	A	$ 10,135,141	$ 13,659,649	$ 13,718,062	$ 13,822,962	$ 13,937,363	$ 14,049,878	$ 14,164,144	$ 14,278,512	$ 14,396,774	$ 14,522,366
	Application of Pledged Revenues											
1	Debt Service Fund[1 3]	B	$ 4,691,258	$ 9,382,516	$ 10,382,516	$ 10,487,416	$ 10,601,817	$ 10,714,332	$ 10,828,598	$ 10,942,966	$ 11,061,228	$ 11,186,820
2	Debt Service Reserve Fund[2]		-	-	-	-	-	-	-	-	-	-
3	Coverage Fund		3,285,547	3,285,547	3,285,547	3,285,547	3,285,547	3,285,547	3,285,547	3,285,547	3,285,547	3,285,547
4	Administrative Costs Fund		50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
5	Facility Improvement Fund		2,108,337	941,587	-	-	-	-	-	-	-	-
	Total Pledged Revenues Applied		$ 10,135,141	$ 13,659,649	$ 13,718,062	$ 13,822,962	$ 13,937,363	$ 14,049,878	$ 14,164,144	$ 14,278,512	$ 14,396,774	$ 14,522,366
	Debt Service Coverage	A/B	n.a.	1.46	1.32	1.32	1.31	1.31	1.31	1.30	1.30	1.30
	Beginning Balance in Facility Improvement Fund		$ -	$ 2,121,514	$ 3,192,717	$ 3,349,348	$ 3,508,940	$ 3,675,422	$ 3,850,815	$ 4,034,994	$ 4,227,727	$ 4,430,337
	plus: Annual Transfer from Pledged Revenues		2,108,337	941,587	-	-	-	-	-	-	-	-
	less: Transfer to Revenue Fund[4]		-	-	(3,163)	(8,289)	(9,438)	(8,819)	(8,801)	(9,492)	(9,238)	(9,949)
	Interest Income		13,177	129,615	159,794	167,882	175,919	184,212	192,981	202,224	211,848	222,014
	Ending Balance in Facility Improvement Fund		$ 2,121,514	$ 3,192,717	$ 3,349,348	$ 3,508,940	$ 3,675,422	$ 3,850,815	$ 4,034,994	$ 4,227,727	$ 4,430,337	$ 4,642,403

[1] First Southwest Company, February 2, 2001.
[2] Satisfied by a surety policy.
[3] Interest is capitalized from Bond proceeds through July 1, 2001.
[4] Transfers required to cover 1-month cash flow lag.

[This page intentionally left blank.]

APPENDIX B –
SPECIMEN BOND INSURANCE POLICY AND SPECIMEN SURETY POLICY

Exhibit A

FGIC

Financial Guaranty Insurance Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001

A GE Capital Company

Municipal Bond
New Issue Insurance Policy

Issuer:	**Policy Number:**
	Control Number: 0010001
Bonds:	**Premium:**

SPECIMEN

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to State Street Bank and Trust Company, N.A., or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date

Financial Guaranty Insurance
Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001

A GE Capital Company

FGIC.

Municipal Bond
New Issue Insurance Policy

for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

SPECIMEN

President

Effective Date: **Authorized Representative**

State Street Bank and Trust Company, N.A., acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer

Financial Guaranty Insurance
Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001

A GE Capital Company

FGIC

Endorsement
To Financial Guaranty Insurance Company Insurance Policy

Policy Number: **Control Number:** 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

SPECIMEN

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date: **Authorized Representative**

Acknowledged as of the Effective Date written above:

Authorized Officer
State Street Bank and Trust Company, N.A., as Fiscal Agent

Exhibit A

FGIC

Financial Guaranty Insurance Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001

A GE Capital Company

Municipal Bond Debt Service Reserve Fund Policy

Issuer:

Bonds: , together with any parity obligations issued under the authorizing document, as amended and supplemented, and secured by the same debt service reserve fund

Paying Agent:

Policy Number:

Control Number: 0010001

Premium:

Maximum Amount:

Termination Date:

SPECIMEN

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay the paying agent named above or its successor, as paying agent for the Bonds (the "Paying Agent"), for the benefit of Bondholders, that portion (not to exceed the Maximum Amount set forth above) of the amount required to pay principal and interest (but not any prepayment premium) on the Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer. No payment shall be due hereunder for any event of Nonpayment that occurs after the Termination Date set forth above.

Financial Guaranty will make such payment to the Paying Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. Upon such disbursement, Financial Guaranty shall become entitled to reimbursement therefor (together with interest thereon) all as provided in the Debt Service Reserve Fund Policy Agreement between the Issuer and Financial Guaranty dated as of the Effective Date of this Policy. The Maximum Amount shall be automatically reinstated when and to the extent that the Issuer repays amounts disbursed hereunder, but shall not be reinstated to the extent of amounts received by Financial Guaranty constituting interest on amounts disbursed to the Paying Agent pursuant to this Policy. Financial Guaranty shall provide Notice to the Paying Agent of any reinstatement of any portion of the Maximum Amount within one Business Day of such reinstatement.

This Policy is non-cancellable for any reason, including the failure of the Issuer to reimburse Financial Guaranty for any payment made hereunder.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided

Financial Guaranty Insurance
Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001

A GE Capital Company

FGIC.

Municipal Bond Debt Service Reserve Fund Policy

sufficient funds to the Paying Agent for payment in full of all principal and interest Due for Payment on such Bond and includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from the Paying Agent for the Bonds to Financial Guaranty or from Financial Guaranty to the Paying Agent, as the case may be. "Business Day" means any day other than a Saturday, Sunday or a day on which the Paying Agent is authorized by law to remain closed.

SPECIMEN

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

Deborah M. Reif

President

Effective Date: **Authorized Representative**

State Street Bank and Trust Company, N.A., acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer

APPENDIX C - GLOSSARY OF TERMS*

"Additional Bonds" shall mean any additional parity revenue bonds permitted to be issued by the City pursuant to Section 6.1 of the Indenture.

"Administrative Costs Fund" shall have the meaning ascribed to such term in Article IV of the Indenture.

"Administrative Costs Requirement" shall mean $50,000 for calendar year 2001 and thereafter such amount as shall be estimated by the Independent Rate Consultant to be necessary to pay the costs and expenses in such calendar year of the Trustee, the Independent Rate Consultant, the auditor, the bookkeeper and other such administrative or professional fees; provided, however, that any surplus funds remaining in the Administrative Costs Fund from previous calendar years must be applied toward such estimate. In the absence of such a determination, the Administrative Costs Requirement shall be the amount for the prior calendar year.

"Agreement" shall mean that certain Master Special Facilities Lease Agreement (Consolidated Rental Car Facility Project) dated as of January 1, 2001, by and between the City and the Operators from time to time signatories thereto pursuant to Operator Agreements, and all supplements, amendments and modifications thereof not prohibited by Section 7.1 of the Indenture.

"Airport" shall mean George Bush Intercontinental Airport/Houston.

"Airport System" shall mean all airport, heliport and aviation facilities, or interest therein, now or from time to time owned operated, or controlled in whole or in part by the City, which currently includes the Airport, William P. Hobby Airport, and Ellington Field.

"Authorized Investments" shall mean any of the investment securities (including with respect to which the Trustee or any Person affiliated with the Trustee receives compensation) that are authorized under (i) the Texas Public Funds Investment Act, as amended, (ii) the City of Houston, Texas, Investment Policy, as amended and (iii) Sections 4.10 and 13.2 of the Indenture.

"Authorized Representative" shall mean with respect to the City, the director of the City's Department of Aviation (or successor to that position) or his or her designee, and with respect to the Operators, shall mean the Operators' Authorized Representative as provided in the Agreement.

"Bonds" or "Special Facilities Bonds" shall mean collectively the Series 2001 Bonds and any Additional Bonds and Refunding Bonds from time to time hereafter issued. All such Bonds shall constitute "Special Facilities Bonds" within the meaning of the City's Indentures authorizing the issuance of the City's Airport System Senior, Subordinate and Inferior Lien Revenue Bonds and Notes.

* All references to Sections and Articles of the Agreement and Indenture set forth in this Appendix C – Glossary of Terms, are to the Sections and Articles reprinted in Appendix D – Selected Provisions of the Master Lease and Appendix E – Selected Provisions of the Indenture.

"Bond Insurance Policy" shall mean the municipal bond new issue insurance policy issued by the Bond Insurer that guarantees payment of principal of and interest on the Bonds.

"Bond Insurer" shall mean Financial Guaranty Insurance Company, a New York stock insurance company, or any successor thereto.

"Business Day" shall mean a day other than a Saturday, Sunday, or legal holiday or the equivalent (other than a moratorium) on which banking institutions generally in Houston, Texas or New York, New York are authorized or required by law or executive order to close.

"Capital Costs of the Project" shall mean the Costs of the Project plus the Financing and Issuance Costs of the Project.

"Capitalized Interest Account" shall mean the Capitalized Interest Accounts created within the Debt Service Fund pursuant to Section 4.2 of the Indenture.

"Capitalized Interest Account Requirement" shall mean for the Series 2001 Bonds, $16,185,256.08 (being interest scheduled to accrue on the Series 2001 Bonds through January 1, 2003) and for any Additional Bonds, the amount, if any, provided for in any supplement to the Indenture authorizing such Additional Bonds.

"City" shall mean the City of Houston, Texas.

"City Council" shall mean the governing body of the City.

"Comptroller" shall mean the Comptroller of Public Accounts of the State of Texas.

"Costs of the Project" or "Costs of the Special Facilities" shall mean all costs of construction and acquisition of the Project or Special Facilities, as the case may be, including without limitation the following:

(i) all amounts paid by the City, or authorized by the City and paid by or on behalf of the City by the Operators, to design, construct, acquire, fabricate, equip and install the Project or Special Facilities, including without limitation, all costs of utility extensions and connections and all amounts paid under all contracts for goods, services and facilities related thereto, which amounts, if paid by the City, were or will be paid in contemplation of being refinanced with the Bonds;

(ii) all amounts necessary to provide for work performed, material purchased or expenditures incurred, pertaining to or in connection with the Project or any other Special Facilities approved by City and Operators including, without limitation, the charges of any architects or engineers for plans, specifications, drawings, supervision and inspection for the Project or Special Facilities;

(iii) all expenses incurred by the Operators and the City, or any construction manager or other consultant they shall engage, for the review of plans, specifications and contracts for the Project or the Special Facilities and for the inspection in connection with the construction and acquisition thereof;

(iv) the cost of any and all permits, licenses, fees, performance and payment bonds, appraisals and insurance policies procured in connection with the acquisition and construction of the Project or Special Facilities; and

(v) such other and additional fees, costs, expenditures of whatever nature incidental or pertaining to the design, acquisition, construction, fabrication, equipping and installation of the Project or the Special Facilities.

Costs of the Project shall not include HAS Costs, which shall be borne by the City. Costs of the Project also shall be subject to limitation as provided in the Indenture with respect to the maximum permitted aggregate amount of such Costs of the Project for Maintenance/Storage Facilities.

"Coverage Fund Requirement" shall mean 25% of the Maximum Annual Debt Service Requirements for the Series 2001 Bonds and, upon the issuance of any Additional Bonds or Refunding Bonds, shall mean 25% of the Maximum Annual Debt Service Requirements for all Bonds then Outstanding.

"Current Annual Debt Service Requirements" shall mean the annual scheduled payments of principal of and interest on the Bonds in the then current calendar year; provided, however, that such definition may be amended in any supplemental indenture with respect to any series of Additional Bonds or Refunding Bonds.

"Customer Service Building" shall mean the consolidated rental car customer service building more fully described in Exhibit A-1 to the Agreement.

"Customer Facility Charge" or "CFC" shall mean the charge required to be collected by the Operators upon vehicle rentals pursuant to Section 6.02 of the Agreement, the proceeds of which are required to be remitted directly to the Trustee to satisfy the Operators' obligation to pay Special Facilities Rent, which is herein pledged to the payment of the Bonds.

"Date of Beneficial Occupancy" or "DBO" shall mean the date (which must be the first day of a month) as of which the counter and office space at the Customer Service Building and the ready/return stalls and the staging areas in the Parking Structure are functionally operational which shall be stipulated in a written notice from the Director to the Operators and the Trustee to the effect that (i) all necessary occupancy permits have been obtained and (ii) a reasonable period of time has been provided to the Operators for operational testing of such facilities as well as the Shuttle Buses.

"Debt Service Fund" shall have the meaning ascribed to such term in Article IV of the Indenture, inclusive of the Capitalized Interest Account therein.

"Debt Service Reserve Fund Requirement" shall mean the Maximum Annual Debt Service Requirement for the Series 2001 Bonds and, upon the issuance of any Additional Bonds or Refunding Bonds, shall mean such amount as shall be provided in the supplemental indenture authorizing their issuance.

"Debt Service Reserve Fund Surety Policy" shall mean the agreement(s) permitted to be entered into by the City with the issuer(s) of the Debt Service Reserve Fund Surety Policy or Policies pursuant to the Indenture.

"Deferred Exclusive Use Ground Lease Area" means the portions of the Project Site so designated in Exhibit B to the Agreement.

"Deferred Common Use Ground Lease Area" means the portions of the Project Site so designated in Exhibit B to the Agreement.

"Department of Aviation" shall mean that department of the City that manages the Airport System, also known as the Houston Airport System.

"Director" shall mean the Director of the Department of Aviation or any designee of such Director.

"Exclusive Space" means the exclusive use areas of the Customer Service Building and Parking Structure."

"Exclusive Use Ground Lease Area" means the portions of the Project Site so designated in Exhibit B and as further delineated in Exhibit F to the Agreement.

"Facility Improvement Fund" shall have the meaning ascribed to such term in Article IV of the Indenture.

"Feasibility Consultant" shall mean 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.

"Financing and Issuance Costs of the Project" or "Financing and Issuance Costs of the Special Facilities" shall mean all costs of financing the Project or Special Facilities, as the case may be, and the issuance of the Bonds for such purpose, including without limitation, the following:

(i) legal, accounting, feasibility and financial advisory, underwriting and consultant fees and expenses, including any fees and expenses of any bond insurer and the provider of any reserve fund surety, and all costs and expenses incident to the authorization, issuance, delivery and sale of the Bonds, including without limitation the preparation, execution, delivery and recording of the Agreement, the Trust Indenture, any preliminary and the final offering documents pertaining to the Bonds, and any printing fees for such documents, any purchase agreements pursuant to which the Bonds will be sold, all credit agreements and other documents providing security for the Bonds or the Operators' obligations and all other agreements and documents involved and contemplated hereby, the costs and fees, including legal fees, incident to the qualification of the Bonds for offer and sale under securities laws and the preparation of any memorandum as to the eligibility of the Bonds for offer and sale and for investment under state laws if required or if applicable;

(ii) interest accruing on the Bonds during the period of construction of the Project or Special Facilities financed with the proceeds thereof, the term of which period shall be deter-mined in the Trust Indenture;

(iii) such other and additional fees, costs, expenses and expenditures of whatever nature incidental or pertaining to the financing of the Project or the Special Facilities, including funding of such reserves, funds and accounts as required by the Indenture, and all other costs and expenses that may properly be capitalized as financing costs of the Project or the Special Facilities.

"Fiscal Year" shall mean the City's fiscal year, currently July 1 through June 30.

"Fitch" shall mean Fitch, Inc., its successors and assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Fitch's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Trustee.

"Gross Sales" shall have the meaning assigned in the Concession Agreement.

"Ground Rentals" shall mean the rentals to be paid by Operators directly to the City pursuant to Section 6.01(a), (b) and (c) of the Agreement as consideration for the use of the Project Site.

"HAS" shall mean the Houston Airport System or the City's Department of Aviation, as the case may be.

"HAS Costs" shall mean those costs of Infrastructure and other Project elements to be borne by the City as provided in Exhibit H to the Agreement.

"Hazardous Materials" shall mean:

(i) any and all substances, materials, wastes, pollutants, oils, or governmental regulated substances or contaminants as defined or designated as hazardous, toxic, radioactive, dangerous, or any other similar term in or under any of the Environmental Laws;

(ii) asbestos and asbestos containing materials, petroleum products including crude oil or any fraction thereof, gasoline, aviation fuel, jet fuel, diesel fuel, lubricating oils and solvents, urea formaldehyde, flammable explosives, PCBs, radioactive materials or waste; or

(iii) any other substance that, because of its quantity, concentration, physical, chemical, or infectious characteristics may cause or threaten a present or potential hazard to human health or the environment when improperly generated, used, stored, handled, treated, discharged, distributed, disposed or released.

"Holder" and "Registered Owner" shall mean the Person in whose name such Bond is registered.

"Independent Rate Consultant" shall mean a nationally recognized independent firm, person or corporation having a widely known and favorable reputation for special skill, knowledge and expertise in methods of development, operation, financing and management of airports of approximately the same size as the properties constituting the Airport System.

"Infrastructure" shall mean the infrastructure construction and improvements more fully described in Exhibit A-1 to the Agreement.

"Interest Payment Date" shall mean, with respect to the Current Interest Bonds, January 1 and July 1 of each year while the Series 2001 Bonds are Outstanding, commencing with July 1, 2001.

"LLC" shall mean IAH RACS, LLC, a Delaware limited liability company, or its successors, or any other limited liability companies, partnerships, corporations or other business entities which all Operators own, control and participate in, and which shall act on behalf of all Operators as herein provided, and solely at their cost and expense, to operate, repair and/or maintain the Special Facilities and the Project Site (other than the Exclusive Use Ground Lease Area and the exclusive use areas within the Customer Service Building).

"MAG" shall mean the Minimum Annual Guarantee as established from time to time in the Concession Agreement.

"Maintenance/Storage Facilities" shall mean the individual exclusive use maintenance/ storage facilities more fully described in Exhibit A-1 to the Agreement.

"Market Share" shall mean, for any Operator, the proportion that its Gross Sales bear to the aggregate Gross Sales of all Operators for any twelve-month period of time. The aggregate of all Operators' Market Shares must equal 100% for any period.

"Maximum Annual Debt Service Requirements" for the Bonds shall mean the maximum annual scheduled payments of principal and interest on the Bonds in any calendar year; provided, however, that such definition may be amended in any supplemental indenture with respect to any series of Additional Bonds or Refunding Bonds.

"Moody's" shall mean Moody's Investors Service Inc., its successors and assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Trustee.

"New Entrant" shall have the meaning ascribed to it in Section 3.06(b) of the Agreement.

"New Entrant Block" shall have the meaning ascribed to it in Section 3.06(b) of the Agreement.

"Operator" or "Operators" shall mean individually or collectively the rental car companies that, by execution of an Operator Agreement, are or become signatories hereto, and any of their successors and permitted assigns.

"Operators' Authorized Representative" shall mean the chairperson of the managing committee (or other governing body) of the LLC.

"Outstanding" when used with respect to the Bonds means, as of the date of determination, the aggregate principal amount of all Bonds theretofore authenticated and delivered under the Indenture, except, without duplication:

(1) Bonds theretofore canceled by the Trustee or delivered to the Trustee for cancellation;

(2) Bonds for the payment or redemption of which money in the necessary amount has been theretofore deposited with the Trustee or any Trustee in trust for the Holders of such Bonds, provided that, if such Bonds are to be redeemed prior to the stated maturity thereof, notice of such redemption has been duly given pursuant to the Indenture, or waived, or provision therefor satisfactory to the Trustee has been made;

(3) Bonds in lieu of which another Bond has been authenticated and delivered under the Indenture; and

(4) Bonds purchased or held by the City.

"Parking Structure" shall mean the parking facility more fully described in Exhibit A to the Agreement.

"Person" shall mean any individual, corporation, partnership, joint venture, association, joint-stock company, trust, limited liability company, unincorporated organization, or government or agency or political subdivision thereof.

"Pledged Funds" shall mean any amounts on deposit in the Revenue Fund, the Debt Service Fund, the Debt Service Reserve Fund, the Coverage Fund, the Facility Improvement Fund and the Project Fund.

"Pledged Revenues" shall mean the aggregate of (i) the Special Facilities Rent received or receivable; (ii) all investment income of every kind derived from amounts credited to the Pledged Funds (other than the Project Fund), and (iii) amounts transferred to the Revenue Fund from the Coverage Fund or Facility Improvement Fund.

"Project" shall mean the Customer Service Building, the Parking Structure, the Shuttle Buses, the Shuttle Bus Maintenance Facility, the Maintenance/Storage Facilities and the Infrastructure, all as more fully described in Exhibit A to the Agreement and by this reference made a part of the Agreement, together with any modifications or additions thereto as provided in the Agreement. The Project shall constitute the initial Special Facilities.

"Project Fund" shall have the meaning ascribed to such term in Article IV of the Indenture.

"Project Site" means the area described in Exhibit B to the Agreement.

"Rate Reports" shall mean the written reports and recommendations of the Independent Rate Consultant (or, with the consent of the LLC, the City), prepared pursuant to Section 7.2 of the Indenture, which shall include the following information:

(1) the recommended Customer Facility Charge for the ensuing calendar year (or other stated period);

(2) the recommended transfers to the Revenue Fund from the CFC Stabilization Account or from other amounts in the Facility Improvement Fund;

(3) pro forma Customer Facility Charge collection data for the ensuing calendar year (or other stated period) on a monthly basis, together with calculations showing 90% and 80% of such monthly amounts;

(4) the estimated Administrative Cost Requirement for the ensuing calendar year (or other stated period); and

(5) any additional documentation to support the recommended CFC rate and reflecting the anticipated disposition of the CFC revenues among the funds established and maintained under the Indenture.

"Refunding Bonds" shall mean all special facilities refunding bonds which may be issued by the City for the purposes set forth in Sections 4.04 of the Agreement, and which shall be payable from the same sources as the Series 2001 Bonds.

"Requisition Certificate" shall mean a written consent or order executed by an Authorized Representative of the Operators or the City in substantially the form of Exhibits A-1 and A-2 to the Indenture.

"Restricted Use Areas" shall mean the Restricted Use Roadway Areas and the Restricted Use Setback Areas.

"Restricted Use Fees" shall mean the fees to be paid by Operators pursuant to Section 6.01(c) and (d) of the Agreement.

"Restricted Use Roadway Areas" shall mean the portions of the Project Site so designated in Exhibit B to the Agreement.

"Restricted Use Setback Areas" shall mean the portions of the Project Site so designated in Exhibit B to the Agreement.

"Rule" shall mean Rule 15c2-12 adopted by the SEC under the Securities Exchange Act of 1934, 17 CFR § 240.15c2-12, as amended.

"SEC" shall mean Securities and Exchange Commission.

"Series 2001 Bonds" shall mean the City of Houston, Texas, Airport System Special Facilities Taxable Revenue Bonds (Consolidated Rental Car Facility Project), Series 2001 issued under the Indenture.

"Shuttle Bus Maintenance Facility" shall mean the maintenance facility for the shuttle buses described in Exhibit A to the Agreement.

"Shuttle Buses" shall mean the shared busing rolling stock described in Exhibit A-1 to the Agreement.

"Special Facilities" shall mean the Project, all extensions, additions, modifications and improvements thereto and all other improvements, fixtures, equipment and facilities that, pursuant to the Agreement or any supplement thereto or amendment thereof, are financed with any proceeds of the Series 2001 Bonds or any Additional Bonds.

"Special Facilities Rent" shall mean all payments payable by the Operators pursuant to Section 6.02 of the Agreement.

"Standard & Poor's" shall mean Standard & Poor's Ratings Services, Inc. its successors and assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Standard & Poor's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Trustee.

"Transaction Day" shall mean the period or fraction thereof which constitutes a transaction day for assessment of the Customer Facility Charge.

"Trustee" shall mean The Chase Manhattan Bank, or any bank or trust company appointed as a successor Trustee under the Indenture.

"Trust Indenture" or "Indenture" shall mean the Trust Indenture dated as of March 1, 2001, together with all supplements and amendments thereto, entered into by and between the City and the Trustee to provide for the issuance of and security for the Bonds, as the same may be supplemented and amended from time to time in accordance with its terms and provisions.

[Remainder of page intentionally left blank.]

[This page intentionally left blank.]

APPENDIX D – SELECTED PROVISIONS OF THE MASTER LEASE*

ARTICLE III

LEASE AND TERM; RESTRICTIVE USE AREAS

Section 3.01 Term of Lease of Special Facilities and Project Site. The term of this Agreement shall commence on the date of issuance of the Series 2001 Bonds, and shall continue, unless sooner terminated in accordance with this Agreement, until the later of the 30th day of June, 2027 or the final payment of the Bonds, including Additional Bonds and Refunding Bonds.

Section 3.02 Lease of Special Facilities. Subject to the terms and conditions of this Agreement, the City hereby leases, lets and demises unto Operators, and Operators hereby lease and rent from the City, the Special Facilities, which shall consist initially of the Project. Each Operator shall have exclusive use of those Special Facilities in the Customer Service Building and in the Parking Structure allocated to such Operator as indicated in Exhibits D and E, as amended from time to time to reflect the reallocations provided for herein. Each Operator shall also have exclusive use of those Special Facilities located on Exclusive Use Ground Lease Area assigned to such Operator as indicated in Exhibit F, as amended from time to time as herein provided.

Section 3.03 Lease of the Project Site. (a) Common Ground Lease Area and Deferred Use Ground Lease Area. Subject to the terms and conditions contained herein, the City hereby leases and demises to Operators collectively the Common Ground Lease Area and the Deferred Common Use Ground Lease Area.

(b) Lease of Exclusive Use Ground Lease Area and Deferred Exclusive Use Ground Lease Area. Subject to the terms and conditions contained herein, the City hereby leases and demises to the Operators individually, as their respective interests appear herein, the Exclusive Use Ground Lease Area and the Deferred Exclusive Use Ground Lease Area.

(c) Restricted Use Areas. Subject to the terms and conditions contained herein, the City agrees that it will neither (i) allow the Restricted Use Roadway Areas to be used for any other purpose other than roadways and utilities nor (ii) allow the Restricted Use Setback Areas to be used for any purpose other than as a setback for the Customer Service Building and Parking Structure; provided, however, with respect to the Restricted Use Setback Areas, the City may lease all or any portion thereof to a third party for another purpose not materially adverse to the Special Facilities if (x) the City first gives 90 days prior written notice to the Operators of such proposed lease for another use and the proposed rental rates under such proposed lease, (y) it affords the Operators the right of first refusal to use or lease such Restricted Use Setback Areas for the same rental rate as set forth in the notice, and (z) the Operators fail to exercise their right of first refusal within such 90-day period, and provided further that the City may lease any

* This Appendix D includes only selected provisions and sections of the Master Lease and is not intended to summarize in any other way such document. Certain Sections and Articles to the Master Lease referenced in this Appendix may not be included herein.

portion of the Restricted Use Setback Area for a remote check-in facility to serve any one or more airlines operating at the Airport.

(d) Subject to the terms hereof, Operators shall have the right of reasonable ingress to and egress from the Project Site and the Special Facilities over the portions of the Airport necessary for the operation and maintenance of the Special Facilities in accordance with the terms hereof but subject to reasonable regulations promulgated by the Director.

(e) In the event the City and Operators determine it is necessary or desirable to amend, correct, further define or delineate, delete from or add to any descriptions of the Project Site or any of its components (including as a result of leases or conveyances to third parties as herein permitted), they may do so by a supplement or addendum hereto duly executed by the respective parties. Any such supplement or addendum executed by the Operators' Authorized Representative shall contain a certification that such supplement or addendum has been approved by Operators in accordance with the LLC's members agreement.

Section 3.04 Design of Project; Location of Project Site. The Operators have approved the suitability of the design of the Project and the location of the Project Site for their intended use.

Section 3.05 City Right of Entry. The City may enter upon the Project Site and Special Facilities (i)at any reasonable time for any purpose necessary, incidental to or connected with the performance of Operators' obligations hereunder, or in the exercise of the City's governmental functions, and (ii)upon the termination or cancellation of this Agreement in accordance with the provisions hereof, and such entry or reentry shall not constitute a trespass nor give Operators a cause of action for damages against the City; provided, however, the City shall use all reasonable efforts to minimize any interference or interruption with Operators' business operations.

Section 3.06 Allocations and Future Reallocations; Accommodation of New Entrants, Consolidations, Expansions, Contractions, Etc.

(a) Customer Service Building

(i) Initial Assignment

Each Operator shall initially be leased a module of the Customer Service Building as depicted in Exhibit D and shall occupy such space until any reallocation occurs.

(ii) Future Reallocation

Effective as of the commencement of the eleventh (11th) Contract Year and as of the commencement of each tenth (10th) Contract Year thereafter, and based on six-months prior written notice to the Operators, the City will, in consultation with the Operators, reassign the premises in the Customer Service Building. Such reassignment will be based on Operator Market Shares for the most recent twelve-month period for which such information is available. City will use its best efforts to obtain the concurrence of each of the Operators with respect to such reassignment. However, if a consensus cannot be reached in a timely manner (at least 60 days prior to the expiration of such notice period), the City shall issue a directive with respect to such reassignment, which will be final and binding on the parties. The costs of any reconfiguration of space required by such reallocation (including but not limited to the moving of interior partitions and the refurbishment of modified Operator spaces) will be funded from the Facility Improvement Fund or, if funds in the Facility Improvement Fund are not sufficient for such purpose, from individual Operator corporate resources based upon the Customer Service Building Reallocation Formula in Exhibit C as of the day after reallocation.

(b) Ready/Return Spaces in Parking Structure

(i) Initial Allocation of Leased Spaces

(A) The ready/return parking spaces in the Parking Structure shall be leased initially to each Operator from the City as identified in Exhibit E.

(B) In order to allow ready/return spaces to be reassigned upon any future reallocation, and in order to afford each Operator relatively comparable customer visibility from the Parking Structure escalator and elevator entrances and exits, as well as frontage and contiguous spaces, the Operators may not construct or erect permanent immovable objects or structures in their ready/return spaces and associated circulating area.

(C) Each Operator acknowledges that four Blocks of ready/return spaces in the Parking Structure have been set aside for New Entrants (defined below), which blocks are identified as such on Exhibit E (the "New Entrant Blocks"). A "New Entrant" is defined as a rental car company which shall enter into a Concession Agreement with the City and become a signatory to this Agreement after the date of this Agreement, and shall be given the right to operate from and lease New Entrant space in the Project. The City agrees that all New Entrants may be allocated ready/return spaces in the Parking Structure only in the New Entrant Blocks, until such time as there are more than three New Entrants or any New Entrant has a Market Share of more than one percent (1%), whichever occurs first, at which time any New Entrant with a Market Share greater than 1% may be allocated ready/return spaces in another Parking Structure location, coincident with a reallocation as provided in subsection (b)(ii) below.

(ii) Reallocation of Spaces

(A) On the commencement of the fifth Contract Year for Level Two and on the commencement of each Contract Year thereafter and on the commencement of the sixth Contract Year for Level One and on the commencement of each Contract Year thereafter (each, a "Reallocation Date"), the City shall reallocate the number and location of the Operators' ready/return parking spaces in the Parking Structure based on Market Share for the most recent twelve month period for which such information is available. In determining the new number and location of the Operators' ready/return spaces, the City shall (i) provide each Operator with frontage spaces that are contiguous to an escalator/elevator space location in the Parking Structure and as close as possible to such Operator's counter location, (ii) provide each initial Operator with a minimum of eight Blocks only during the first five Contract Years (except for New Entrants in the New Entrant Blocks), (iii) first reallocate blocks that are the furthest in distance from the counter area and on the perimeter of the Parking Structure, (iv) reallocate spaces in whole blocks and as near in locations and contiguous to Operators' current blocks of spaces (subject to New Entrants' reallocations or a change of an Operators' floor location as described below), and (v) afford each Operator relatively comparable customer visibility from the Parking Structure elevator and escalator entrances and exits.

(B) The reallocation process shall begin with the City giving written notice ("Reallocation Notice") of the reallocation (if any) to Operator not less than sixty (60) days prior to each Reallocation Date, which notice shall contain (i) a new Exhibit E to be substituted for the existing Exhibit E depicting the Operators' new ready/return spaces as a result of such reallocation, and (ii) a rental and fee information sheet (as provided below) which will set forth the Operators' revised allocable shares of ground rent and other rental obligations to be effective on the Reallocation Date. The new Exhibit E shall become a part of the Agreement by reference until superseded by future notice and exhibits of reallocation hereunder.

(C) Notwithstanding any reallocation determinations made by the City, at any time after the City has given the Reallocation Notice and before the Reallocation Date, any two or more Operators may provide written notice to the City that they have agreed to a reallocation of spaces different from the City's, as set forth in the Reallocation Notice. Such notice from such Operators shall contain a proposed revised Exhibit E depicting the requested allocation of spaces and the signatures of authorized representatives from such Operator(s) affected by the proposed revised Exhibit. Before the Reallocation Date, if the City determines that the proposed revised Exhibit does not create an undue hardship on any affected Operator in the Parking Structure and does not interfere with the reasonable operation (including traffic flow) of the Parking Structure, the City shall accept the proposed revised Exhibit, and such exhibit shall be a part of this Agreement until superseded by a future notice and Exhibits.

(D) Each Operator, at its own cost and expense, shall be responsible for making appropriate alterations to its individual exclusive ready/return spaces as necessary to reallocate parking and circulating areas within thirty (30) days prior to the Reallocation Date. However, the costs and expenses of signage, new roadway connections and ramps resulting from such reallocation shall be payable from the Facilities Improvement Fund (to the extent funds are available for such purpose).

(E) Whether or not the reallocation alterations referenced herein are complete, all new ground rent and other rent obligations, including Operators' rental obligations pertaining to the Parking Structure, will be effective on the Reallocation Date, and shall be based on the revised Exhibit.

(iii) Future Expansion Area in Parking Structure

(A) If the Parking Structure is enlarged and expanded in the future, then each Operator shall be entitled to have more ready/return parking spaces, determined on a pro rata Market Share basis for Market Share measured for the most recent twelve-month period immediately preceding the completion of the new parking spaces for which Market Share information is available.

(B) In the event the Operators, after a reasonable time of not less than sixty (60) days after completion of construction of such additional space, are unable to voluntarily reallocate the newly constructed space among themselves, then all Operators shall rely on the City to make a reallocation decision which shall be final. Thereafter, the expansion space shall be included in and reallocated according to b(ii) above.

(iv) Reallocation of Floors

(A) Notwithstanding anything to the contrary herein, prior to the commencement of the sixth Contract Year, no reallocations of ready/return spaces on Level One of the Parking Structure shall occur, unless the Market Shares of the initial occupants of Level One, when combined, have reduced to below 50%. In the event such a change in combined Market Share occurs prior to the commencement of the sixth Contract Year, or at any time thereafter, then one or more Operators located on Level Two shall be required to relocate to Level One and the reallocation formula for all Operators shall thereafter apply to all Operators on both levels of the structure. In order to determine a change of floors, consideration shall be given to Operators whose combined Market Share would most closely approximate 50% for each floor while the reallocation criteria set forth above are complied with. Any such major changes, including floor changes for any Operator shall be accomplished so as to meet the requirements of section (b)(ii) above and this paragraph.

(B) The Operators affected by any change of floors shall have the opportunity to work with each other and develop an alternate plan for floor changes which, to the greatest extent possible shall accomplish the identical goals of changing floors. In the event the Operators cannot agree on an acceptable plan, they shall submit it to the Director, who shall, using the priorities and the criteria listed in the foregoing paragraphs, relocate the ready/return space of an Operator from one floor to another so as to accomplish the floor changes with the least amount of operational disruption.

(c) Maintenance/Storage Facilities

Each Operator shall lease (or sublease) a Maintenance/Storage Facilities upon which it will develop its maintenance/storage facilities. Each Operator shall also be assigned Deferred Exclusive Use Ground Lease Areas for expansion purposes. The initial designations of such areas are as depicted in Exhibit F. New Entrants shall be responsible for obtaining from the City or by sublease from other Operators sufficient Maintenance/Storage Facilities to support their operations. Upon any exercise of rights to use any Deferred Exclusive Use Ground Lease Areas or any lease of a Maintenance/Storage Facility to a New Entrant, Exhibit F shall be supplemented to reflect the foregoing. The Maintenance/Storage Facilities are not subject to reallocation except by agreement among the affected parties.

(d) Accommodation of New Entrants

(i) Each Operator acknowledges the policy of the City to allow additional qualified, financially-responsible rental car operators to become New Entrants entitled (i) to operate on the Airport if they enter into a Concession Agreement with the City and (ii) to operate in the Project subject to the terms hereof upon becoming a signatory to this Agreement. The City reserves the right to advertise for such New Entrants every five years following DBO or on such other intervals as may be recommended by the City Attorney in a written opinion stating the legal basis for such recommendation.

(ii) The Project has been designed to include New Entrant space in the Customer Service Building (the "New Entrant Space") and New Entrant Blocks for ready/return parking for one or more New Entrants. If, at any time following the DBO of the Project, one or more New Entrants shall qualify as Operators, then each such New Entrant will be permitted to occupy all or a portion of the New Entrant Space in the Customer Service Building and all or a portion of the New Entrant Blocks in the Parking Structure. Except as provided in paragraph 3.06(b)(i)(C) above and paragraph (d)(iii) below, all new entrant Operators shall be entitled to only occupy the New Entrant Space and New Entrant Blocks and each new entrant Operator's right to lease and occupy all or a portion of the New Entrant Space and New Entrant Blocks shall be subject to reallocation(s) to accommodate future New Entrants. In order that the New Entrant Space and New Entrant Blocks can accommodate all New Entrants, there shall be no minimum amount of space in the Customer Service Building or Parking Structure for New Entrants.

(iii) At least six months prior to the commencement of the sixth Contact Year, and each five-year period thereafter, the City, in consultation with the Operators, will undertake to develop a plan for accommodation of, outside of the New Entrant Space, any Operator occupying the New Entrant Space that has acquired a Market Share of 2.5% or more based upon the most recent twelve-month period for which such information is available. Such plan must take into account the City's and the Operators' mutual objectives of cost effectiveness, minimum disruption to existing Operators and also all legal and financial developments that have occurred subsequent to the date of this agreement. The City and the Operators will cooperate to allow the implementation of such plan. In the absence of the development of such a plan, the City shall reallocate space in the Customer Service Building among the existing Operators in order to accommodate such Operator outside the New Entrant Space. All costs of such space reallocation shall be paid from the Facility Improvement Fund or, if funds in the Facility Improvement Fund are not sufficient for such purpose, from individual Operator corporate resources based on the Customer Service Building Reallocation Formula in Exhibit C.

(iv) On or before the commencement of the sixth Contract Year, and annually thereafter, the City will undertake to develop a plan for accommodation outside of New Entrant Blocks of certain New Entrants as more fully provided in subsection (b) above.

(v) All Operators, including New Entrants, will be required to have use of an exclusive use Maintenance/Storage Facility at the Project Site. Therefore, unless a New Entrant can acquire or sublease space in an existing Maintenance/Storage Facility, it will need to be assigned one by the City and pay all related Ground Rentals. Up to $850,000 (being the minimum amount provided in Exhibit A-3 and allocated between design and construction on the same basis as for Advantage and Enterprise) of the costs of designing and constructing a new Maintenance/Storage Facility for a new entrant Operator who has reached a 1% Market Share will be advanced from the Facility Improvement Fund (to the extent funds are available for such purpose) and/or reimbursed from the proceeds of Customer Facility Charge over a five-year period following completion and occupancy of the new maintenance/storage facility.

(vi) In order to facilitate the accommodation of New Entrants within the Customer Service Building, the City may release Operators from portions of their MAG in excess of their minimum MAG (as provided in the Concession Agreement) in consideration of the assignment or sublease to such New Entrants by such Operators of portions of their allocated or leased space hereunder.

(e) Use of Deferred Exclusive Use Ground Lease Areas

Certain Deferred Exclusive Use Ground Lease Areas have been designated for future Maintenance/Storage Facilities expansions by designated Operators. Upon 30 days written notice to the City, any Operator may convert Deferred Exclusive Use Ground Lease Areas to Exclusive Use Ground Lease Areas for the purpose of accommodating future expansions of its Maintenance/Storage Facilities. If any Operator commences to use its Deferred Exclusive Use Area prior to its conversion to Exclusive Use Ground Lease Area, then upon 30 days notice, the City may reclassify such area to Exclusive Use Ground Lease Area retroactive to the initial date of such use. Deferred Exclusive Use Ground Lease Areas may be assigned or subleased by Operators to other Operators.

(f) Use of Deferred Common Use Ground Lease Areas

Upon any expansion of the Project or Special Facilities that shall require the use of any part of the Deferred Common Use Ground Lease Areas, such areas shall be reclassified as Common Ground Lease Areas upon the date of beneficial occupancy of such expansion.

Section 3.07 Operator Agreements with Other Car Rental Companies. The City reserves the right to grant to other companies the right to engage in the rental of motor vehicles to the public and operate car rental concessions at the Project, and each Operator understands and agrees that its right to engage in the rental of motor vehicles to the public is not exclusive.

The City agrees that during the term of this Agreement it will not enter into an Operator Agreement with another car rental company operating at the Project which provides for payment by such company to the City under such Operator Agreement of a per square foot per year rental amount for ground which is less than the per square foot per year rental amount as set forth in this Agreement, unless, the same terms are offered to the Operator. The City further agrees that during the term of this Agreement it will not enter into an Operator Agreement with another car rental company operating at the Project for a term expiring prior or subsequent to the term set forth in this Agreement. Nor will the City enter into an Operator Agreement with another car rental company operating at the Project which provides for the charge, collection and remittance by such company under such agreement of usage fees, in an amount less than that required to be charged, collected and remitted pursuant to this Agreement and the Indenture. During the term of this Project, the City will not enter into an Operator Agreement with another car rental company operating at the Project which provides terms and conditions more favorable than as set forth herein.

Section 3.08 Early Termination, Surrender or Abandonment. Upon the early termination, surrender, or abandonment of any Operator Agreement entered into by an Operator in connection with the Bonds, the City agrees it will issue a request for proposals for reletting the abandoned premises, and receive proposals from qualified car rental companies, including the Operator and the other Operators not in default under their Operator Agreements. Any replacement Operator Agreement offered in the Request for Proposals shall comply with Section 3.07 hereof, "Operator Agreements with Other Car Rental Companies" and shall require compliance with the payment of all applicable amounts due under Section 6.01 hereof, "Ground Rentals and Restricted Use Fees," and any replacement Concession Agreement shall comply with Section 7.20 of the Concession Agreement, "Favored Nations," but otherwise the City may determine in its discretion which responsive proposal to accept. If the City receives one or more responsive proposals to its Request for Proposals, it shall be required to relet the abandoned premises.

If there are no responsive proposals from rental car companies, the City may use the abandoned premises for any governmental purpose in the best interests of the City, or may lease the premises to any governmental agency or public utility, or to any private third party other than a commercial ground transportation company conducting shuttle or limousine services in competition with the car rental industry. If there are no responsive proposals from rental car companies for the entire use of the premises, the City may accept proposals for partial use or lease of a portion of the abandoned premises.

Section 3.09 Special Rule for Consolidations. In the event two or more Operators merge into a single company, they shall not be allowed to perform customer sales and service operations out of two separate exclusive use areas in the Customer Service Building. If their exclusive use areas are adjacent to each other, they may at their own expense, remodel them into a single area. If their exclusive use areas are not adjacent, they shall have 30 days to negotiate with the other Operators to achieve contiguous space and thereafter remodel it, at their own expense, into a single area. If no agreement is reached, they must terminate customer sales and service operations in one of the exclusive areas, though the newly merged company remains responsible for all costs and expenses associated with that area. Though this provision does not apply to ready/return spaces, nothing in it prevents the Operators from exchanging spaces.

ARTICLE IV

ISSUANCE OF BONDS; PAYMENT OF COSTS OF THE PROJECTS

Section 4.01 Issuance of Series 2001 Bonds. Subject to the terms and conditions of this Agreement, the City shall diligently use its best efforts to issue, sell and deliver the Series 2001 Bonds in amounts sufficient to pay the Capital Costs of the Project, which amounts shall be established (and may be subject to limitations) in the Trust Indenture. The City shall not authorize the sale of the Series 2001 Bonds or enter into the Trust Indenture until the City has determined that an executed Agreement has been received from all Operators who are initially parties to the Agreement.

Section 4.02 Issuance of Additional Bonds. The City may issue Additional Bonds in amounts sufficient to pay (i) any part of the Capital Costs of the Project not fully funded or provided for out of the proceeds of the Series 2001 Bonds, or (ii)the Capital Costs of the Special Facilities for any additional Special Facilities approved pursuant to Section 5.05 hereof or (iii) the Capital Costs of the Project that are determined by the City for the Project to serve its intended purpose. The City agrees to use its best efforts to issue any Additional Bonds required under clause(i) above, and the Director shall cooperate in a reasonable manner with Operators to request the City to issue Additional Bonds under Clause (ii) above; however, no representation is made or assurance given or implied by the City that it will be able to issue, sell and deliver Additional Bonds on terms and conditions satisfactory to Operators or that it will agree to issue Additional Bonds for any other purpose than as set forth above. The City shall have no obligation to issue Additional Bonds if, in its judgment, to do so would require the Customer Facility Charge to be increased to a level that would be contrary to the best interests of the Airport.

Section 4.03 Application of Proceeds. Subject to the other terms and provisions hereof, the City hereby agrees to apply the proceeds of the Series 2001 Bonds (by depositing the proceeds into the "Project Fund" and other funds or accounts as established, defined and provided in the Trust Indenture) and any Additional Bonds to pay (but only to the extent of such proceeds) the Capital Costs of the Special Facilities financed therewith.

Section 4.04 Refunding Bonds. The City reserves the right to determine to issue Refunding Bonds to achieve debt service savings or to achieve other beneficial financing terms. All Refunding Bonds, if any, shall be secured and payable as provided in the Trust Indenture.

ARTICLE VI

FEES AND PAYMENTS

Section 6.01 Ground Rentals and Restricted Use Fees. Each Operator shall pay to the City monthly ground rent and restricted use fees, which will be considered part of the Airport System Gross Revenues and shall not be pledged to the payment of the Bonds. The Operator shall pay, in advance on the first business day of each month beginning on the Date of Beneficial Occupancy, the following:

(a) Ground rentals for (i) Operator's Exclusive Use Ground Lease Area (shown in Exhibit B) and (ii) Operator's allocable share (as determined in Exhibit C) of the Common Use Ground Lease Area, both based upon a ground rental rate of $0.23 per square foot per year for the period through the end of the fifth Contract Year, and thereafter escalating through the term of this Agreement by 15% at every 60-month interval.

(b) Ground rentals for (i) Operator's Deferred Exclusive Use Ground Lease Area and (ii) Operator's allocable share (as determined in Exhibit C) of the Deferred Common Use Ground Lease Area, both based upon a ground rental of $0.05 per square foot per year for the period through the end of the fifth Contract Year, and thereafter escalating through the term of this Agreement by 15% at every 60-month interval.

(c) Restricted use fees for Operator's allocable share (as determined in Exhibit C) of the Restricted Use Roadway Areas based upon a fee of $0.05 per square foot per year for the period through the end of the fifth Contract Year, and thereafter escalating through the term of this Agreement by 15% at every 60-month interval in consideration of the City's agreement to restrict the use thereof as provided in this Agreement.

(d) Restricted use fees for the Restricted Use Setback Areas shall consist of the Operators' obligations to pay for costs of maintenance of and utilities for such areas pursuant to Sections 8.01 and 8.02 in consideration of the City's agreement to restrict the use thereof as provided in this Agreement.

In order to facilitate the administration of such rentals, the City is authorized to charge rental during the first month on a partial calendar month basis and to establish "rental years" with the initial rental year being less or more than a full twelve-month period so that subsequent rental years will always be twelve-month periods ending the last day of a calendar month.

Section 6.02 Special Facilities Rent.

(a) In addition to the ground rent and fees paid pursuant to Section 6.01 and other amounts payable pursuant to their concession agreements, each Operator shall also pay an additional special facilities rent ("Special Facilities Rent") for the use and availability of the Special Facilities in an amount equal to the proceeds derived from or attributable to such Operator's collection of the CFC in accordance with the terms hereof, all of which shall be promptly remitted to the Trustee, as the assignee of the City, in order to pay when due the principal of, premium, if any, and interest on the Bonds and make other deposits and payments provided in the Trust Indenture. Beginning with the second month following the closing of the Bonds, all CFC proceeds collected shall be remitted by the Operator to the Trustee on the 20th of each month for the preceding calendar month of operations. All CFC proceeds collected by the Operator are due and remittable and deemed remitted to the Trustee immediately upon the collection thereof by the Operator, and pending the actual remittance thereof to the Trustee, such amounts are and shall be, to the greatest extent permitted by law, deemed the property of the Trustee in which the Operator holds only a possessory interest and not an equitable interest. All CFC proceeds collected by the Operator, whether prior to or after remittance to the Trustee under this Section are pledged pursuant to the Trust Indenture for the payment of the Bonds, and the Operator hereby consents to such pledge. The Operator acknowledges the Trustee's security interest in the CFC proceeds as the Trustee's bailee under Section 9.305 of the Texas Business and Commerce Code. The CFC, which is described in further detail below, shall be identified on a separate line on the rental car customer contract, after taxes, and described as the "Customer Facility Charge." Prior to remittance to the Trustee, CFC proceeds collected by the Operator shall be held by the Operator, as bailee, for the benefit of the Trustee. All CFC proceeds collected and held by the Operator shall be considered the property of the Trustee and shall be separately accounted for by each Operator.

(b) Beginning on the first day of the month following the date of issuance of the Series 2001 Bonds, each Operator shall collect the CFC from each customer that rents or otherwise enters into a similar arrangement for the use of an Automobile subject to the CFC in connection with each Operator's Automobile Rental Business (inclusive of transactions made at the Airport terminals and service centers prior to DBO). The CFC collected by the Operator shall be the amount established from time to time by the City pursuant to the authority of a City ordinance. The CFC shall be assessed per "transaction day" (for example, a vehicle rental for up to a 25 hour period or fraction thereof shall be for one transaction day and a vehicle rental for 25 through 49 hours shall be for two transaction days). Each Operator is obligated to charge and use its best efforts to collect the CFC at the rate determined by the City in accordance with the Trust Indenture. Each Operator is obligated and agrees to remit to the Trustee on behalf of the City all CFC proceeds actually collected. The Operator covenants and agrees that it will not be entitled to any rights to offset or other reduction in the requirements herein and to remit all CFC proceeds to the Trustee regardless of any amounts that may be owed or due to the Operator by the City.

(c) The Operator shall maintain records and controls which are sufficient to demonstrate the correctness of the CFC proceeds collected by the Operator and the amount of CFC proceeds paid to the Trustee. The records shall be available for inspection and examination at all times by the Trustee or City, or their duly authorized representatives.

(d) The initial CFC shall be the amount established in the Indenture per vehicle for each transaction day.

(e) The City shall cause a review to be conducted of the CFC periodically as provided in the Trust Indenture by the Independent Rate Consultant (or the City if agreed to by the LLC and permitted by the Trust Indenture). Each Operator agrees to provide, in writing, to the Independent Rate Consultant (or the City if permitted by the Trust Indenture), by not later than three (3) months prior to the expiration of each Contract Year (and at such other intervals required by the Trust Indenture), the following information in conjunction with the reports required to be prepared under the Trust Indenture, which information shall be considered privileged and confidential for the use intended only and subject only to disclosure under the Texas Open Records Act, Chapter 552, Texas Government Code, as amended:

(i) the Operator's rental car transaction days per month for the preceding twelve-month period ending six(6) months prior to the expiration of such Contract Year (or for such other periods or at such other intervals as may be required by the Trust Indenture) ("Operator Reporting Period"); and

(ii) the amount of the CFC proceeds per month remitted by the Operator to the Trustee during the Operator Reporting Period.

Such information shall be provided by each Operator to the Independent Rate Consultant (or the City if agreed to by the LLC and permitted by the Trust Indenture) with the following certification by an authorized Operator representative:

"The information contained herein provided by the Operator is complete and accurate."

The Operator further agrees to otherwise provide its full cooperation and assistance to the Independent Rate Consultant (or City if agreed to by the LLC and permitted by the Trust Indenture) in connection with the preparation of the report on the CFC required to be prepared pursuant to the Trust Indenture. The CFC shall be established and amended from time to time in the manner set forth in the Trust Indenture.

(f) Each Operator recognizes that in the Indenture the City will covenant that if all or any part of the CFC fee fails to survive a challenge in a court of competent jurisdiction, then the City will undertake to replace the stricken portion(s) of the fee with one or more other customer fees or charges (to the greatest extent practicable, on a "transaction day" basis) that will be imposed for the use and occupancy of the Special Facilities sufficient to provide funds in an amount at least equal to the amount that would otherwise have been provided by the CFC (the "Supplemental Special Facilities Rent"). The Supplemental Special Facilities Rent shall continue until such time as a mutual agreement or an alternate to the CFC is agreed upon between the City, the Operators and the Trustee.

(g) Notwithstanding anything else to the contrary stated herein, the Operators do not individually or collectively guarantee the payment of principal of or interest on the Bonds and, (except for their obligation to collect and remit to the Trustee the CFC or substitute customer fees or charges as herein provided), no properties, revenues, or moneys of the Operators individually or collectively shall be used to pay any Special Facilities Rent or Supplemental Special Facilities Rent.

Section 6.03 Operation and Maintenance Expenses; Other Fees and Charges. The ground rentals and restricted use fees under Section 6.01 and the Special Facilities Rent payable under Section 6.02 (which is pledged to the payment of the Bonds and other amounts due under and secured by the Trust Indenture) are intended to be net returns. Accordingly, in addition to such payments, and as more fully provided in Sections 8.01 and 8.02 below, the Operators agree to pay all operation, repair and maintenance expenses applicable to the Special Facilities and the Project Site, including, without limitation, utility costs, insurance premiums, any and all advalorem or other property taxes lawfully levied and assessed against the Special Facilities and Project Site, or the Operators' leasehold estates therein, any and all lawful excise, sales, gross sales or other types of taxes imposed on or in respect of such properties, the expenses of upkeep thereof of every kind and character, including the repair or necessary restoration thereof, and every other item of expense imposed on the Operators pursuant to this Agreement, and if the Special Facilities or any portion of them are ever operated, repaired or maintained by the City as herein provided, all direct and allocable indirect Airport System expenses of operating, repairing and maintaining such Special Facilities or Project Site (while so operated, repaired or maintained by the Airport System) in a manner consistent with other such allocations equitably applied on an Airport-wide basis.

Section 6.04 Late Payment Charge. All late payments will bear interest at the rate of fifteen percent (15%) per annum until paid on the amount outstanding for more than thirty (30) days from the payment due date, with a minimum penalty of fifty dollars ($50.00).

Section 6.05 Books, Records, Audits. Each Operator shall maintain books and records relating to its operations in the Special Facilities and be subject to audit with respect to such operations all as provided in Section 5.2 of the Concession Agreement.

ARTICLE VIII

OPERATOR'S OBLIGATIONS AND CONDITIONS TO OPERATOR'S USE OF SPECIAL FACILITIES

Section 8.01 Maintenance of Special Facilities at Operator's Expense. Subject to the other terms of this Agreement, Operators shall throughout the term of this Agreement collectively assume the entire responsibility, cost and expense, for the operation and all repair and maintenance whatsoever of the Project Site and the Special Facilities, whether such repair or maintenance be ordinary or extraordinary. Additionally, without limiting the generality of the foregoing, Operators shall:

(a) Maintain at all times the Special Facilities in as good a state of repair and preservation as the public terminal areas at the Airport, excepting ordinary wear and tear and obsolescence in spite of repair.

(b) Keep at all times, in a clean and orderly condition and appearance, the Project Site and Special Facilities which are open to or visible by the general public.

(c) Provide and maintain all obstruction lights and similar devices, fire protection and safety equipment and all other equipment of every kind and nature required by laws, rule, order, ordinance, resolution or regulation of any competent authority, including the City and Director.

(d) Repair any damage caused by Operators to paving or other surfaces of the Special Facilities or Project Site caused by any oil, gasoline, grease, lubricants or other flammable liquids and substances having a corrosive or detrimental effect thereon.

(e) Take reasonable measures to prevent erosion, including but not limited to, the planting and replanting of grass or other appropriate landscape material with respect to all portions of the Project Site not paved or built upon, and in particular, plant, maintain and replant any landscaped areas; and in designing and constructing improvements, preserve as many trees as possible consistent with Operator's construction and operations on the Project Site.

(f) Be responsible for the maintenance and repair of all utility services lines placed on the Exclusive Use Ground Lease Area and used by Operators exclusively, including, but not limited to, water lines, gas lines, electrical power and telephone conduits and lines, sanitary sewers and storm sewers.

(g) Take all reasonable measures (i) to reduce to a minimum vibrations tending to damage any equipment, structure, building or portion of building which is located elsewhere on the Airport; (ii) to keep the sound level of its operations as low as possible; and (iii) not to produce on the Airport through the operation of machinery or equipment any electrical, electronic or other disturbance that interferes with the operation by the City, the Federal Aviation Administration or the scheduled airlines, of air navigational, communication or flight equipment on the Airport or on aircraft using the Airport, or with ground transportation communications.

(h) Within reason, control the conduct, demeanor and appearance of its officers, agents, employees, invitees and of those doing business with it; and, upon reasonable objection from Director concerning the conduct, demeanor or appearance of any such person, immediately take all reasonable steps necessary to remove the cause of the objection.

(i) Commit no nuisances, waste or injury, and not do, or permit to be done, anything which may result in the creation, commission or maintenance of such nuisance, waste or injury on the Project Site or the Special Facilities.

(j) Not cause nor create, nor permit to be caused or created, upon the Project Site, any noxious odor, smoke, noxious gas or vapor. Odors emitted in the operation of Operators' authorized activities pursuant to Section 8.01 shall comply with the requirements of all generally applicable air pollution and nuisance statutes and ordinances.

(k) Subject to the Operators' rights to use City services on the same basis as other customers of the City, not do, nor permit to be done, anything which may interfere with the effectiveness or accessibility of the drainage system, sewerage system, fire protection system, sprinkler system, alarm system and fire hydrants and hoses, if any, installed or located on the Project Site or the Special Facilities.

(l) Collect all garbage, debris and waste material (whether solid or liquid) arising out of its occupancy of the Project Site, store same pending disposal in covered metal or other rigidly and sturdily constructed receptacles and dispose of same off the Airport at regular intervals, except for sewage which may be disposed of in the City's sewer system, all at Operators' expense, in the manner reasonably required by the Director.

(m) Provide luggage carts (or comparable devices), without cost to their customers, which shall be available for pick up or drop off at the Shuttle Bus drop off points at the Customer

Service Building and at multiple locations convenient to customers on each floor of the Parking Structure.

(n) Provide Shuttle Bus access or services to any persons traveling between the Airport terminal area and the Project Site, even though such persons may be customers of rental car companies not located in the Special Facilities.

(o) Refrain from picking up or dropping off customers in the terminal area of the Airport with any vehicles other than Shuttle Buses, except pursuant to the standards set forth in Exhibit J attached hereto and made a part hereof, as the same may be amended, revised or suspended from time to time by the Director.

Section 8.02 LLC; Operations and Maintenance. (a) The Operators have created and must maintain in existence throughout the term of the Agreement the LLC. Each Operator must (i) participate in such LLC and (ii) promptly pay all charges and assessments imposed by such LLC for the cost of carrying out its obligations under this Agreement and the LLC operating agreement. The Operators will cause the LLC to carry out all of the Operators' obligations to operate, repair and maintain the Project Site and Special Facilities (other than the Exclusive Use Ground Lease Area, the Maintenance/Storage Facilities, and the Exclusive Space which will be the obligation of the individual Operators which hold exclusive rights to them). The LLC shall be required to provide the City with a budget and a detailed historical report of operating and maintenance costs by component: Customer Service Building, Parking Structure, Infrastructure, Shuttle Buses and Shuttle Bus Maintenance Facility, Common Ground Lease Area and Restricted Use Area. All costs of operating and maintaining such properties will be allocated among the Operators as provided in the Cost Allocation Formulas in Exhibit C. No portion of any such costs or expenses shall be paid by the City or with proceeds of the CFC.

(b) To provide the necessary working capital to begin the aforementioned activities and the busing operation, the Operators will collectively provide the LLC through their corporate resources with funds and credit reasonably necessary for the Company to conduct such operations.

(c) The frequency of service of the busing operation will be determined by the Operators subject to the review and approval of the Director.

Section 8.06 City's Right To Maintain or Repair Special Facilities. In the event the LLC or any Operators fail (i) to commence within thirty (30) days after written notice from the Director to do any maintenance or repair work to the Special Facilities required to be done under the provisions of this Agreement, other than preventive maintenance; (ii) to commence such work within a period of ninety (90) days if such notice specifies that the work to be accomplished involves preventive maintenance only; or (iii) to diligently continue to completion any such work as required under this Agreement; then, the Director or the City may, at its option, and in addition to any other remedies which may be available to it, enter the Special Facilities, without such entering causing or constituting a cancellation of this Agreement or an interference with the possession of the Special Facilities, and repair, maintain, replace, rebuild or paint all or any part of the Special Facilities and do all things reasonably necessary to accomplish the work required, and the reasonable cost and expense thereof plus an administration fee of 15% of such cost shall be payable to the City by Operators on written demand in accordance with the most recent Allocation Formula applicable to such work; provided, however, if in the reasonable opinion of the Director or the City, the failure to perform any such repair or maintenance endangers the safety of the public, the employees or other tenants at the Airport, and the Director or the City so states same in its notice to Operators, the Director or the City may perform such maintenance at any time after the giving of such notice, and Operators agree to pay to City the reasonable cost and expense of such performance on demand in accordance with the most recent Allocation Formula applicable to such work, plus an administrative fee of 15% of such cost and expense. Furthermore, should the Director, the City, its officers, employees, agents, or contractors undertake any work hereunder, Operators hereby waive any claim for damages, consequential or otherwise, as a result therefrom. The foregoing shall in no way affect or alter the primary obligations of Operators as set forth in this Agreement, and shall not impose or be construed to impose upon the Director or the City any obligation to maintain the Project Site or the Special Facilities, unless specifically stated otherwise herein. In the event of the exercise by City of any repair work on the Special Facilities, City shall use all reasonable efforts to minimize any interference or interruption with Operators' business operations.

Section 8.07 Termination Procedures. Upon the expiration or termination of this Agreement pursuant to any terms hereof, Operators shall surrender the Special Facilities (or their interests therein) to the City in a good state of repair and preservation, excepting ordinary wear and tear and obsolescence in spite of repair.

[Remainder of page intentionally left blank.]

ARTICLE IX

LIABILITY, INSURANCE AND CONDEMNATION

Section 9.03 Insurance. With no intent to limit Operator's liability or the indemnification provisions set forth herein, Operator shall provide and maintain, or cause the LLC to provide and maintain, the insurance described in this section in full force and effect at all times during the Term of this Agreement and any extensions thereto. Such insurance is described as follows:

A. Risks and Limits of Liability. The insurance, at a minimum, must include the following coverages and limits of liability:

(Coverage)	(Limit of Liability)
Workers' Compensation	Statutory for Worker's Compensation.
Employer's Liability	Bodily Injury by accident $500,000 (each accident) Bodily Injury by Disease $500,000 (policy limit) Bodily Injury by Disease $500,000 (each employee)
Commercial General Liability: Including Broad Form Coverage, Contractual Liability, Bodily and Personal Injury, and Completed Operations	Bodily Injury and Property Damage, Combined Limits of $1,000,000 each Occurrence and $2,000,000 aggregate
ALL RISK covering Operator	80% of the value of Operator
Improvements, Fixtures, Removable Fixtures, and Equipment (including fire, lighting, vandalism, and extended coverage perils)	Constructed Improvements
Automobile Liability Insurance (for automobiles used by the Operator in the course of its performance under this Agreement, including Employer's Non-Ownership and Hired Auto Coverage)	$2,000,000 combined single limit per occurrence

Defense costs are excluded from the face amount of the policy.
Aggregate Limits are per 12-month policy period
unless otherwise indicated.

In connection with the design, construction, procurement and installation of the Special Facilities conducted by the Operators, each Operator shall contractually require its principal construction contractors and architects/engineers to carry the following additional coverages and limits of liability, unless Operator carries policies of insurance covering such risk; provided, however, if reasonable under the circumstances, Operator may, with the concurrence of the Director, require lower limits of liability:

Professional Liability (in the case of architects and engineers)	$2,000,000 per occurrence/aggregate
Builders Risk: (in the case of contractors)	Replacement value of the Special Facilities, but not less than the principal amount of Bonds Outstanding

(Aggregate limits are per 12-month period unless otherwise indicated.)

ARTICLE X

EVENTS OF DEFAULT AND REMEDIES

Section 10.01. Events of Default. The following shall be Events of Default as to each Operator under the Agreement:

(a) Failure by an Operator to collect and remit promptly to the Trustee the CFC required to be paid monthly under Article VI hereof.

(b) Failure by an Operator to pay any Ground Rentals or Restricted Use Fees due within fifteen (15) Business Days after being notified in writing by the City of such failure.

(c) An event of default by Operator under its Concession Agreement with HAS at the Airport, including covenants, conditions or agreements under the LLC members agreement and operating agreement, and the failure to cure the same within any applicable grace period or written notification by the LLC to the City that an event of default by Operator has occurred under its agreement with the LLC and the Operator has failed to cure the same within any applicable grace period.

(d) Failure by an Operator to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Agreement other than as referred to in subsection(a), (b) or (c) next above, for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, is given to such Operator by the City (except (i) if any insurance required to be maintained by such Operator is to be canceled or not renewed, such notice and the period for remedy by Operator shall be limited to the period ending on the date on which such cancellation or nonrenewal is scheduled to occur and (ii) where fulfillment of another obligation requires activity over a period of time, and the Operator shall commence to perform whatever may be required for fulfillment within thirty (30) days after the receipt of notice and shall diligently continue such performance without interruption, except for causes beyond its control).

(e) Any material lien shall be filed against the Operators' interest in the Special Facilities or the Project Site or any part thereof in violation of this Agreement by a party other than the City and shall remain unreleased for a period of sixty (60) days from the date of such filing unless within said period the Operators is contesting in good faith the validity of such lien in accordance with Section 8.03(d) hereof.

(f) Whenever an involuntary petition shall be filed against the Operator under any bankruptcy or insolvency law or under the reorganization provisions of any law of like import or a receiver of such Operator for all or substantially all of the property of Operator shall be appointed without acquiescence and such petition or appointment is not discharged within ninety (90) days after its filing.

(g) The dissolution or liquidation of an Operator or the filing by such Operator of a voluntary petition in bankruptcy, or failure by such Operator within ninety (90) days to lift any execution, garnishment or attachment of such consequence as will impair its ability to carry on its operations at the Special Facilities, or general assignment by the Operator for the benefit of its creditors, or the entry by the Operator into an agreement of composition with its creditors, or the approval by a court of competent jurisdiction of a petition applicable to the Operator in any proceeding for its reorganization or liquidation instituted under the provisions of the federal bankruptcy laws, or under any similar laws which may hereafter be enacted. The term "dissolution or liquidation of an Operator," as used in this subsection, shall not be construed to include the cessation of the corporate existence of the Operator resulting either from a merger or consolidation of the Operator into or with another corporation or a dissolution or liquidation of the Operator following a transfer of all or substantially all of its assets as an entirety, under the conditions permitting such actions contained in Section 12.01 hereof.

(h) Whenever the Operator shall fail to provide adequate assurance (i) that Operator will promptly cure all defaults hereunder, if any; (ii) that Operator will compensate, or provide adequate assurance that Operator will promptly compensate, the City for any actual pecuniary loss to the City resulting from any Event of Default hereunder; and (iii) of future performance by Operator of the terms and conditions of this Agreement, each within thirty (30) days after (1) the granting of an Order for Relief with respect to Operator pursuant to Title XI of the United States Code; (2) the initiation of a proceeding under any bankruptcy or insolvency law or the reorganization provisions of any law of like import; or (3) the granting of the relief sought in an involuntary proceeding against the Operator under any bankruptcy or insolvency law. As used in this Agreement, adequate assurance of future performance of this Agreement shall include, but shall not be limited to, adequate assurance (1) of the source of Net Rent and other consideration due hereunder and (2) that the assumption or assignment of this Agreement will not breach any provision, such as a use, management, or ownership provision, in this Agreement, any other material lease, any financing agreement, or master agreement relating to the Special Facilities.

Section 10.02 Remedies on Default. Whenever any Event of Default referred to in Section 10.01 hereof shall have happened and continue to exist, then the City must notify the chairperson of the LLC Managing Committee and may take any one or more of the following remedial steps as against the defaulting Operator:

(a) The City may, and upon a payment default shall, re-enter and take possession of the Operator's interest in the Special Facilities and Project Site without terminating this Agreement and use its best efforts to (i) complete construction and equipping of the Maintenance/Storage Facilities (and apply proceeds of the Bonds for such purpose) and (ii) sublease such Operator's interest in the Special Facilities and Project Site to another Operator on the same basis, all for the account of the Operator, holding the Operator liable for the difference between the rents and other amounts payable by the Operator hereunder and the charges received from rents and other amounts received from any sublessee with respect to the Special Facilities and Project Site. All proceeds derived from the CFC imposed by such Operator shall be remitted to the Trustee for application pursuant to the Trust Indenture.

(b) The City may terminate this Agreement, exclude the Operator from possession of the Special Facilities and Project Site and use its best efforts to (i) complete construction and equipping of the Maintenance/Storage Facilities (and apply proceeds of the Bonds for such purpose) and (ii) lease such Operator's interest in the same to another Operator on the same basis, all for the account of the Operator, holding the Operator liable for all rents and other amounts due under this Agreement and not received by the City from rents with respect to the Special Facilities and Project Site. All proceeds derived from the CFC imposed by such Operator shall be remitted to the Trustee for application pursuant to the Trust Indenture.

(c) The City may take whatever other action at law or in equity as may appear necessary or desirable to collect the rent then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Operator under this Agreement. The City shall use its best efforts to lease such Operator's interest in the Special Facilities to another Operator under the terms of this Agreement for the account of Operator as provided in clauses (a) and (b) above after an Event of Default by Operator, whether or not City retakes possession of the Special Facilities and Project Site or terminates this Agreement.

Section 10.03 Additional Remedy. In addition to the other remedies herein provided, the City may, in the case of an Event of Default under Section 10.01(c), enter the Operator's interests in the Special Facilities and Project Site (without such entering causing or constituting a termination of this Agreement or an interference with the possession of the Special Facilities and Project Site by Operator) and do all things reasonably necessary to cure such Event of Default, charging to Operator the reasonable cost and expense thereof and Operator agrees to pay to City upon demand such charge in addition to all other amounts payable by Operator hereunder.

Section 10.04 No Remedy Exclusive. No remedy herein conferred upon or reserved to the City is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or hereafter existing under law or in equity (to the extent not inconsistent with the terms hereof). No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the City to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice, unless such notice is herein expressly required or is required by law.

ARTICLE XI

ASSIGNMENTS, SUBLETTING AND TERMINATION BY AN OPERATOR

Section 11.01 Assignments and Subletting by any Operator. (a) This Agreement may not be assigned or otherwise transferred in whole or in part by any Operator (except pursuant to Section 12.01 hereof) without the prior written consent of the Director; provided, however, that, unless permitted by the Trust Indenture or Section 12.01 of the Agreement, the City will not consent to any assignment by an Operator of its rights hereunder without first obtaining a written agreement from the Operator that Operator shall remain primarily liable for all of its payment obligations hereunder. An Operator may sublet its interest in the Special Facilities and Project Site or any part thereof to any party, subject to the condition that the Operator first obtains the written consent of the Director to such subletting and all the terms thereof, unless such subletting is expressly authorized herein.

(b) If an Operator sublets all or any part of its interests in the Special Facilities and/or Project Site or if all or any part of its interest in the Special Facilities are occupied (pursuant to a written consent from the Director) by anyone other than Operator (including any subsidiary of Operator), the City may, if an Event of Default shall have occurred hereunder and be continuing, collect rent from such sublessee or occupant and the City shall apply the amount collected to the extent possible to satisfy the obligations of Operator hereunder, but no such collection shall be deemed a waiver by the City of the covenants contained herein or an acceptance by the City of any such sublessee, claimant or occupant as a successor Operator, nor a release of Operator by the City from the further performance by the Operator of the covenants imposed upon Operator herein.

(c) NOTWITHSTANDING ANYTHING CONTAINED HEREIN TO THE CONTRARY, SO LONG AS ANY BONDS REMAIN OUTSTANDING NO SUCH SUBLEASE OR ASSIGNMENT SHALL BE AUTHORIZED IF IN ANY WAY IT RELEASES AN OPERATOR FROM ITS PRIMARY OBLIGATIONS HEREUNDER, INCLUDING ITS OBLIGATION TO COLLECT AND REMIT THE CFC, UNLESS SUCH RELEASE IS EXPRESSLY AUTHORIZED BY THE TRUST INDENTURE.

Section 11.02 Termination of Agreement by Operator. An Operator shall not terminate the Agreement for any reason whatsoever as long as any of the Bonds remain Outstanding unless expressly permitted by the Trust Indenture.

[This page intentionally left blank.]

APPENDIX E – SELECTED PROVISIONS OF THE INDENTURE*

PLEDGE OF TRUST ESTATE

In consideration of the premises and the acceptance by the Trustee of the trusts created under the Indenture and of the purchase and acceptance of the Bonds from time to time issued under the Indenture by the Holders thereof and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, in order to secure the payment of the principal of and interest on such Bonds according to their tenor and effect and the performance and observance by the City of all the covenants expressed or implied herein, the City GRANTS, BARGAINS, CONVEYS, ASSIGNS, MORTGAGES and PLEDGES to the Trustee and its successors in trust, all of the City's right title and interest in and to the "Pledged Revenues" and "Pledged Funds" as hereinafter defined;

To have and to hold all the same, with all rights and privileges appurtenant thereto, unto the Trustee and its successors in trust forever, subject however, to all of the terms and provisions of the Indenture;

In trust, nevertheless, upon the terms and trusts set forth in the Indenture, for the equal and proportionate benefit and security of the Holders from time to time of the Bonds from time to time issued hereunder without preference, priority or distinction as to lien or otherwise of any such Bond by reason of priority in the time of the issue, sale or delivery thereof, or by reason of the date of maturity thereof or for any other reason whatsoever, except as herein otherwise expressly provided;

Provided, however, that if the City shall pay or cause to be paid the principal of and interest on the Bonds issued under the Indenture, or shall make provision for such payment as provided in the Indenture or in any other manner provided by law, then upon such final payment or provision therefor the Indenture, the rights, pledges and liens herein granted and all obligations created or arising under the Indenture shall thereby automatically cease, terminate and be discharged; otherwise this Indenture shall remain in full force and effect.

The aforesaid Pledged Revenues, Pledged Funds and the proceeds of all Bonds issued from time to time under the Indenture shall be dealt with and disposed of under, upon and subject to the terms, conditions, covenants, agreements, uses and purposes set forth in the Indenture.

ARTICLE IV

SOURCE OF PAYMENT FOR ALL BONDS;
SPECIAL FUNDS AND FLOW OF FUNDS

Section 4.1 Source of Payment for Bonds. The Bonds are special limited obligations of the City payable solely from, and secured by a lien on and pledge of, the Pledged Revenues and the Pledged Funds. The Bonds shall never constitute an indebtedness of the City within the

* This Appendix E includes only selected provisions and sections of the Indenture and is not intended to summarize in any other way such document. Certain Sections and Articles to the Indenture referenced in this Appendix may not be included herein.

meaning of any provisions of the Constitution or laws of the State of Texas or the City's Home Rule Charter and shall not be general obligations of the City. The Holders of the Bonds shall never have the right to demand payment thereof out of any funds raised or to be raised by taxation or any other revenues generally available to the City or the Airport System other than the Pledged Revenues and the Pledged Funds.

Section 4.2 Establishment of Special Funds and Accounts. (a) There are hereby created the following special funds, which shall be maintained with the Trustee:

(i) The "City of Houston, Texas, Airport System Special Facilities Taxable Revenue Bonds (Consolidated Rental Car Facility Project) Revenue Fund" (the "Revenue Fund");

(ii) The "City of Houston, Texas, Airport System Special Facilities Taxable Revenue Bonds (Consolidated Rental Car Facility Project) Debt Service Fund" (the "Debt Service Fund"), which may include one or more "Capitalized Interest Accounts," including specifically a "Series 2001 Bonds Capitalized Interest Account";

(iii) The "City of Houston, Texas, Airport System Special Facilities Taxable Revenue Bonds (Consolidated Rental Car Facility Project) Debt Service Reserve Fund" (the "Debt Service Reserve Fund");

(iv) The "City of Houston, Texas, Airport System Special Facilities Taxable Revenue Bonds (Consolidated Rental Car Facility Project) Debt Service Coverage Fund" (the "Coverage Fund");

(v) The "City of Houston, Texas, Airport System Special Facilities Taxable Revenue Bonds (Consolidated Rental Car Facility Project) Administrative Costs Fund" (the "Administrative Costs Fund");

(vi) The "City of Houston, Texas, Airport System Special Facilities Taxable Revenue Bonds (Consolidated Rental Car Facility Project) Facility Improvement Fund" (the "Facility Improvement Fund") which may include a "CFC Stabilization Account"; and

(vii) The "City of Houston, Texas, Airport System Special Facilities Taxable Revenue Bonds (Consolidated Rental Car Facility Project) Project Fund" (the "Project Fund"), which shall include an "Operators Account" and a "City Account."

All of such Funds may contain one or more accounts and subaccounts as may be necessary or desirable to carry out or administer the provisions of this Indenture.

(b) The Trustee shall be the custodian of such Funds, and shall keep them separate and apart from all other funds of the City. The Debt Service Fund, including the Capitalized Interest Account, the Debt Service Reserve Fund and the Coverage Fund shall constitute trust funds which shall be held in trust by the Trustee for the benefit of the Holders and shall be used solely as provided in this Indenture so long as any Bonds remain Outstanding. The other funds shall constitute trust funds which shall be applied and disbursed by the Trustee as provided in this Indenture.

Section 4.3 Revenue Fund. (a) The City shall deposit or cause to be deposited to the credit of the Revenue Fund all Special Facilities Rent and any other amounts paid or payable by the Operators pursuant to Section 6.02 of the Agreement.

(b) Amounts in the Revenue Fund shall be applied and transferred, as more fully set forth below, to the following funds and accounts in the following order of priority:

(i) First, to the Debt Service Fund, including the Capitalized Interest Account;

(ii) Second, to the Debt Service Reserve Fund;

(iii) Third, to the Coverage Fund;

(iv) Fourth, to the Administrative Costs Fund; and

(v) Fifth, to the Facility Improvement Fund.

Section 4.4 Debt Service Fund. Until the Capitalized Interest Account Requirement for the Series 2001 Bonds is satisfied, there shall be transferred from the Revenue Fund (i) to the Series 2001 Bonds Capitalized Interest Account in the Debt Service Fund an amount equal in each year to the interest scheduled to be paid in such year on the Series 2001 Bonds, (ii) to the Administrative Costs Fund an amount equal to the Administrative Costs Requirement for such year and (iii) to the Capitalized Interest Account, all amounts in the Revenue Fund until such Account shall have received (from any source including proceeds of the Series 2001 Bonds and interest income) an aggregate amount equal to the Capitalized Interest Account Requirement for the Series 2001 Bonds. Thereafter, commencing January 1, 2003:

(i) On or before the last Business Day of each month, an amount sufficient (after giving effect to amounts credited to the Capitalized Interest Account to accumulate, in approximately equal monthly installments, the amounts necessary to pay all interest scheduled to be payable on the next Interest Payment Date and all principal scheduled to be paid within the next twelve month period; and

(ii) Prior to each Interest Payment Date or other date on which principal on the Bonds is payable, any additional amounts necessary to increase the balance in the Debt Service Fund to be sufficient to make such payments.

(b) Moneys deposited to the credit of the Debt Service Fund shall be used solely for the purpose of paying principal of (either at maturity or prior redemption) and interest on the Bonds or reimbursing credit providers for amounts advanced for such purpose. Money in a Capitalized Interest Account may also be used to pay interest on the Bonds of a series for which the Capitalized Interest Account was created. The Trustee shall cancel all paid Bonds and provide the City with an appropriate certificate of cancellation.

Section 4.5 Debt Service Reserve Fund. (a) The City shall satisfy the Debt Service Reserve Fund Requirement at the time of the issuance of each series of Bonds. The City may satisfy the Debt Service Fund Requirement by depositing to the credit of the Debt Service Reserve Fund any combination from time to time of cash, Authorized Investments and/or one or more Debt Service Reserve Fund Surety Policies. The amounts necessary to replenish the Debt Service Reserve Fund shall be included in the next annual evaluation of the CFC and may be recouped by the Airport System through a proportionate increase in the CFC.

(b) In the event that the balance in the Debt Service Reserve Fund shall be less than the Debt Service Reserve Fund Requirement, then (i) on or before the last day of each month, after making all prior required transfers from the Revenue Fund, there shall be transferred to the Debt Service Reserve Fund from the Revenue Fund amounts sufficient to reestablish the Debt Service Reserve Fund Requirement within a period of no more than 12 months and (ii) to the extent necessary, the Customer Facility Charge shall be increased by the City as required in order to produce amounts in the Reserve Fund to be sufficient to make such transfers.

(c) At any time that there are insufficient funds available in the Debt Service Fund to make any required payment of interest on or principal of the Bonds, or to reimburse the credit providers for amounts advanced for such purpose, there shall be transferred from the Debt Service Reserve Fund to the Debt Service Fund such amounts as may be necessary for such purpose. In the event the Debt Service Reserve Fund contains one or more Debt Service Reserve Fund Surety Policy or Policies, the Trustee shall not draw on Debt Service Reserve Fund Surety Policy unless no other cash or investments are otherwise available in the Debt Service Reserve Fund. If more than one Debt Service Reserve Fund Surety Policy is held in the Debt Service Reserve Fund, the Trustee shall draw on such policies on a proportionate basis. Whenever amounts have been drawn on one or more Debt Service Reserve Fund Surety Policies, amounts subsequently transferred to the Debt Service Reserve Fund shall be used to reimburse the provider (or if more than one, to the providers on a proportionate basis) of such Debt Service Reserve Fund Surety Policies in accordance with the terms thereof, for the amounts advanced, interest thereon and any associated fees. The issuer(s) of such Debt Service Reserve Fund Surety Policy or Policies shall be secured with respect to such reimbursement obligations by a lien on the Pledged Revenues, subject and subordinate to the lien securing the Bonds and the required deposits to the Debt Service Fund, and shall further be secured by a lien on amounts from time to time on deposit in and required to be deposited to the Debt Service Reserve Fund.

(d) Amounts in the Debt Service Reserve Fund may be applied in any manner authorized under Texas law, including but not limited to making the final payment of principal and interest on the Bonds. Further, amounts in the Debt Service Reserve Fund, to the extent they are in excess of the Debt Service Reserve Fund Requirement, may be transferred at any time to the Debt Service Fund.

Section 4.6 Coverage Fund. (a) From the proceeds of the Series 2001 Bonds, there shall be deposited to the credit of the Coverage Fund an amount equal to the initial Coverage Fund Requirement.

(b) On the first Business Day of each calendar year, there shall be transferred to the Revenue Fund from the Coverage Fund an amount sufficient to equal the Coverage Fund Requirement.

(c) On or before the last Business Day of each month, after making all prior transfers from the Revenue Fund, there shall be transferred from the Revenue Fund to the Coverage Fund, (i) in the first month of each calendar year to the extent available in the Revenue Fund, an amount equal to the Coverage Fund Requirement and (ii) if required, in each succeeding month, an amount equal to one-twelfth (1/12) of the Coverage Fund Requirement until the Coverage Fund Requirement has been reestablished in the Coverage Fund.

(d) Amounts in the Coverage Fund shall be transferred to the Debt Service Fund to the extent required to pay principal and/or interest on Bonds as it becomes due and payable.

Section 4.7 Administrative Costs Fund. (a) On or before the last Business Day of each month after making all prior transfers from the Revenue Fund, there shall be transferred from the Revenue Fund to the Administrative Costs Fund an amount equal to one-twelfth of the Administrative Costs Requirement for the ensuing calendar year.

(b) Amounts on deposit in the Administrative Costs Fund shall be applied to pay, upon requisition by the Trustee, its fees and any other administrative fees required or contemplated by this Indenture, and, upon written requisition to the Trustee by the Independent Rate Consultant, auditor, bookkeeper or any other Person whose costs constitute an administrative cost requirement in the form attached as Exhibit A-4 (upon which the Trustee may rely without investigation or inquiry), the fees of such Independent Rate Consultant, auditor, bookkeeper or other Person.

Section 4.8 Facility Improvement Fund. (a) On or before the last Business Day of each month, after making all prior transfers from the Revenue Fund, any remaining amounts in the Revenue Fund shall be transferred to Facility Improvement Fund. In addition, there shall be deposited in the Facility Improvement Fund any amounts remaining in the Project Fund after all Capital Costs of the Project have been paid, as provided in Section 5.3(d) below.

(b) Amounts in the Facility Improvement Fund may be used for any of the following purposes, including the establishment of reserves for such purposes:

(i) Upon written requisition by the City to the Trustee in the form attached hereto as Exhibit A-5 (upon which the Trustee may rely without investigation or inquiry) and after City consultation with the Operators:

(A) To pay for the cost of any capital expenditures arising in connection with improvements, expansions, replacements or capital repairs of the Special Facilities as provided in the Agreement;

(B) To pay relocation or reallocation costs as a result of space reallocations required by the Agreement, including costs and expenses of signage, new roadway connections and ramps resulting from such reallocation; or

(C) To establish a CFC Stabilization Account, which may be funded only with amounts accumulated in the Facility Improvement Fund as a result of Customer Facility Charge collections over and above the amounts necessary to pay 100% of the Current Annual Debt Service Requirements on the Bonds, to pay current Administrative Costs or to replenish any other fund. Amounts in the CFC Stabilization Account may, at the direction of the City, be transferred to the Revenue Fund in order to avoid or delay changes in the Customer Facility Charge, and thereby stabilize the CFC.

(ii) Upon direction by the City (upon which the Trustee may rely without investigation or inquiry), to make transfers to the Revenue Fund in order to satisfy the Rate Covenant described within Section 7.2; or

(iii) The Trustee shall make transfers to the Debt Service Fund to prevent a default in the payment of principal of or interest on the Bonds.

Section 4.9 Security for Funds. So long as any of the Bonds remain Outstanding, all cash balances from time to time on deposit to the credit of any funds or accounts maintained under this Indenture, including money placed on time deposit, shall be secured by the Trustee in the manner required by law for City funds.

Section 4.9A 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 4.10 Investment of Funds. (a) Moneys from time to time credited to the funds and accounts hereunder may be invested by the Trustee in Authorized Investments, as directed in writing by the City. The Trustee may conclusively presume that all investments directed by the City constitute Authorized Investments. All investments shall belong to the fund or account from which such moneys were taken. The Trustee shall have the right to have sold in the open market a sufficient amount of such investments from any fund or account to meet its obligations from such fund or account if sufficient uninvested funds are not then on deposit therein. Neither the Trustee nor the City shall be responsible for any loss arising from investments made in accordance with this Section, or for any loss resulting from the redemption or sale of any such investments as authorized by this Section.

(b) All Authorized Investments made with moneys deposited to the credit of the Debt Service Fund, including the Capitalized Interest Account, shall mature on or before the last business day prior to the next Interest Payment Date on the Bonds to the extent there are not funds and investments already on deposit therein sufficient to provide for the payment of all amounts payable therefrom on such date.

(c) Excluding any interest earned on amounts contained within the Project Fund and the Facility Improvement Fund, all interest and income derived from the deposit or investment of moneys in any other fund or account shall be transferred to the Revenue Fund. All interest and earnings on moneys deposited in the Project Fund shall remain within the Project Fund until completion of the Project. All interest and earnings on moneys deposited in the Facility Improvement Fund shall remain within the Facility Improvement Fund so long as any Bonds remain Outstanding.

(d) On the last business day of each calendar year, all investments in all funds and accounts shall be valued based on then current market value, except for any amounts invested in United States Treasury obligations (State and local series), which shall continuously be valued at their par amount.

ARTICLE V

DISPOSITION OF PROCEEDS OF SERIES 2001 BONDS

Section 5.1 Disposition of Proceeds of Series 2001 Bonds. From the proceeds of the Series 2001 Bonds there are hereby appropriated the following amounts which shall be deposited as follows:

(i) To the Series 2001 Bonds Capitalized Interest Account, funds sufficient to cause the balance therein to equal to the interest to be accrued through July 1, 2001 on the Series 2001 Bonds;

(ii) To the Coverage Fund, funds sufficient to equal the Coverage Fund Requirement for the Series 2001 Bonds;

(iii) To the Debt Service Reserve Fund, funds sufficient to fund the Debt Service Reserve Fund Requirement or to pay the premium of any Debt Service Reserve Fund Surety Policy;

(iv) To the Debt Service Fund, all accrued interest;

(v) To the Project Fund, the balance of the proceeds.

Section 5.2 Capitalized Interest Account. On each Interest Payment Date, until the Series 2001 Bonds Capitalized Interest Account is depleted, the Trustee shall apply amounts therein to pay interest on the Series 2001 Bonds.

Section 5.3 Disbursements From Project Fund; Surplus. (a) Promptly after the delivery of the Series 2001 Bonds and in accordance with written instructions contained within a closing memorandum prepared by the City's financial advisor and approved by the City's Authorized Representative, the Trustee shall make disbursements from the Project Fund to pay all costs of issuance of the Series 2001 Bonds, including all fees of Trustee, co-bond counsel, other counsel, the City's financial advisor, any other costs incurred by the City in connection with the sale thereof and the financing, legal and feasibility study fees of the LLC, subject to the receipt of an appropriate Requisition Certificate in substantially the form set forth in Exhibit A-3.

(b) After payment of the costs described in subsection (a) above, the Trustee shall retain the remaining balance in the Project Fund, which shall be allocated as follows: (i) \$29,047,783.46 to the Project Fund–Operators Account and (ii) the balance to the Project Fund–City Account. Amounts in the Project Fund–Operators Account shall be allocated in accordance with Exhibit B hereto to pay Costs of the Project related to Maintenance/Storage Facilities and Exclusive Space (as defined in the Agreement), with such costs to be disbursed to the Operators for either "Design and Engineering Costs" or "Acquisition and Construction Costs," as provided in Exhibit B, upon receipt of Requisition Certificates in substantially the form set forth in Exhibit A-1 hereto executed by an officer of the respective Operator (upon which the Trustee may rely without investigation or inquiry). A copy of each Operator's Requisition Certificate along with all supporting documentation shall be sent to an Authorized Representative of the Department of Aviation which may audit and review such Requisition Certificate. Such right to audit the Operator's Requisition Certificate by the City shall not delay or otherwise restrain the prompt payment of the Operators. Amounts in the Project Fund–City Account shall be disbursed pursuant to the City Requisition Certificate in substantially the form set forth in Exhibit A-2 hereto executed by an Authorized Representative of the City, provided however, that such City Requisition Certificate for the costs of the Shuttle Buses (as defined in the Agreement), may be signed by the Operators' Authorized Representative in aggregate amounts up to \$6,890,000 and such additional amounts as may be approved for such purpose by the Authorized Representative of the City.

(c) All investment income on amounts held in any account of the Project Fund shall be transferred to the Project Fund–Operator's Account until an aggregate of \$33,900,000 (representing the initial deposit plus investment income) has been credited to such Account; thereafter, all investment income shall be transferred to the Project Fund–City Account.

(d) Notwithstanding anything herein to the contrary, unencumbered proceeds of the Series 2001 Bonds on deposit in the Project Fund may, to the extent amounts on deposit in the Debt Service Fund are insufficient to pay principal of and interest on the Bonds, be transferred to the Debt Service Fund for payment of the Bonds after all other available resources are first exhausted.

(e) When the Project has been completed and acquired by and properly conveyed to the City and when all Capital Costs of the Project shall have been paid, as provided in the Agreement, the Trustee, pursuant to written direction of the City, shall transfer all moneys remaining in the Project Fund, if any, to the Facility Improvement Fund.

ARTICLE VI

ADDITIONAL BONDS AND REFUNDING BONDS

Section 6.1 Additional Bonds and Refunding Bonds. For the purpose of paying any Costs of the Project and any other Special Facilities not fully funded with proceeds of the Series 2001 Bonds or for paying other Costs of the Project, as provided in the Agreement, the City reserves the right to issue one or more series of Additional Bonds payable from, and secured by a first lien on and pledge of, the Pledged Revenues and Pledged Funds, on a parity with the Series 2001 Bonds and any Refunding Bonds, or other Additional Bonds from time to time hereafter issued; provided, however, that no such Additional Bonds or Refunding Bonds shall be issued unless all of the following requirements are satisfied:

(i) The City and Trustee shall execute a supplement to this Indenture providing for the issuance of such Additional Bonds or Refunding Bonds and providing the means by which the Capitalized Interest Account Requirement, if any, the Coverage Account Requirement and the Debt Service Reserve Fund Requirement will each be satisfied upon the issuance of such Additional Bonds or Refunding Bonds.

(ii) The Director of the Department of Aviation of the City (or any successor to that function) shall execute a certificate stating that the City's right to issue Additional Bonds and the Operators' LLC's obligation to make payments under Section 6.02 of the Agreement to secure such Additional Bonds has not been altered, rescinded, amended or changed.

(iii) Either:

(A) The City Controller certifies that the Pledged Revenues for the prior calendar year or any twelve consecutive months out of the eighteen months prior to the authorization by the City of the Additional Bonds was equal to at least 125% of the Maximum Annual Debt Service Requirements on the Bonds that will be outstanding after the issuance of such series of Additional Bonds; or

(B) The Feasibility Consultant certifies that the Pledged Revenues estimated to be received in the three consecutive calendar years following the exhaustion of capitalized interest in any series of Additional Bonds will in each year be not less than 125% of the debt service in such calendar year on all Bonds that will be outstanding after the issuance of such Additional Bonds; or

(C) In the event such Additional Bonds are being issued for the purpose of completing the Project or any subsequent Special Facilities for which Additional Bonds are issued, such series of completion bonds may be issued in amounts not to exceed 15% of the series of bonds that were originally issued for such Project or Special Facilities upon certification by the Director that such Additional Bonds are required to fund the costs of such completion; or

(D) In the event Refunding Bonds are issued, upon certification by the City that either (i) debt service will not increase in any calendar year following the issuance of such Refunding Bonds or (ii) net present value savings will be realized or (iii) the issuance of such Refunding Bonds has been found to be in the best interests of the City and has been approved by the Bond Insurer.

Section 6.2 Refunding Bonds. In addition to the Additional Bonds authorized in Section 6.1 hereof, the City shall have the right in accordance with any applicable law to issue Refunding Bonds in any manner authorized by law to refund all or any part of any Outstanding Bonds provided that no Refunding Bonds shall be issued which will have a lien on Pledged Revenues prior and superior to any Bonds which will remain Outstanding after the refunding and provided further that, in the event less than all Bonds then Outstanding are refunded, such Refunding Bonds shall not be issued unless requirements in Section 6.1 hereof are satisfied.

Section 6.3 Subordinate Lien Bonds. The City reserves the right to issue, for any lawful purpose, bonds, notes or other obligations secured in whole or in part by liens on the Pledged Revenues that are junior and subordinate to the lien on the Pledged Revenues securing payment of the Bonds. Such subordinate lien obligations may be further secured by any other source of payment lawfully available for such purpose.

ARTICLE VII

COVENANTS OF THE CITY

Section 7.2 Rate Covenant. (a) The City shall cause the Customer Facility Charge to be calculated, established and imposed as herein provided so long as any Bonds remain Outstanding, and the City shall use diligence to cause the Customer Facility Charge to be collected by the Operators in accordance with the terms of the Agreement and deposited with the Trustee directly by the Operators. The Customer Facility Charge shall be established initially and reviewed and adjusted (if necessary) annually by the Director based upon the Rate Reports from the Independent Rate Consultant (or, with the consent of the LLC, by the City), at rates estimated to generate CFC revenues, along with other Pledged Revenues, in each calendar year equal to not less than:

(i) 125% of the debt service requirements on the Bonds for such calendar year; and

(ii) the amounts necessary to fund in such calendar year all transfers from the Revenue Fund as required by Article IV of this Indenture.

(b) The Director shall cause the Rate Reports to be prepared and to be filed with the Trustee prior to each calendar year, based upon the Transaction Day and other rental information required to be provided annually to the Independent Rate Consultant by the Operators pursuant to the Agreement. If at any time during such ensuing calendar year,

(i) the aggregate collections of Customer Facility Charge are less than 90% of the pro forma aggregate collections for the corresponding period as shown in the Rate Reports filed with the Trustee, the Director, following consultation with the Operators, may promptly increase the Customer Facility Charge without waiting for the next annual review; or

(ii) for four (4) consecutive months the monthly collections of the Customer Facilities Charge are less than 80% of the pro forma monthly collections for the corresponding periods as shown in the Rate Reports filed with the Trustee, the Director shall promptly direct the Independent Rate Consultant to review the Transaction Day and CFC collection history and to issue a new Rate Report recommending appropriate action with respect to the CFC rate (and which may include recommending the use of amounts in the CFC Stabilization Account and Facility Improvement Fund), which Rate Report recommendation shall be implemented as promptly as practicable; provided, that if such Rate Report is to be issued within the final three (3) months of a calendar year, it may also include recommendations for the ensuing calendar year, in which case no additional Rate Report for such ensuing calendar year will be required, except as may be required by this clause (ii).

(c) In the event the Rate Covenant shall not be satisfied in any calendar year, it shall not constitute an event of default so long as no payment default has occurred and the City promptly engages an Independent Rate Consultant to recommend a rate for the Customer Facility Charge that will enable the Rate Covenant to be satisfied and the City promptly causes the Customer Facility Charge to be imposed at the recommended rate.

(d) The Director shall file a certificate with the Trustee no less than annually setting forth the current Customer Facility Charge and stating whether the actions described within Section 7.2(b)(i) and (ii) above have been taken during the previous twelve (12) months.

Section 7.3 Collection of Special Facilities Rent. The City shall use diligence to cause the Special Facilities Rent payable by the Operators under the Agreement to be paid by Operators directly to Trustee in the amounts and at the times necessary to enable the Trustee to make all transfers to the Debt Service Fund and every other fund required herein and in the Agreement.

Section 7.4 Completion and Acquisition of Special Facilities. The City covenants and agrees to use its best efforts to cause the Project to be constructed, completed, acquired by and conveyed to the City and to cause the Operators to apply the proceeds of the Bonds allocated to them for such purpose.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES

Section 8.1 Events of Default. Each of the following occurrences or events for the purposes of this Indenture shall be and is hereby declared to be an "Event of Default," to wit:

(a) The failure to make payment of the principal of or any installment of interest on any of the Bonds when the same shall become due and payable;

(b) The City shall fail, refuse or neglect to enforce the payment by the Operators of Special Facilities Rent under the Agreement, the imposition, collection or remittance to the Trustee of Customer Facility Charges, or otherwise fail, refuse or neglect to enforce any other provisions of the Agreement in a manner which materially adversely affects the rights of the Holders of the Bonds, including, but not limited to, their prospect or ability to be repaid in accordance with the terms and provisions of this Indenture, and the continuation thereof for a period of thirty (30) days after notice of such failure shall have been given to the City and the Operators by the Trustee; and

(c) The City shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Bonds or in this Indenture on its part to be performed, and such default shall continue for thirty (30) days after written notice specifying such default and requiring the same to be remedied shall have been given to the City and the Operators by the Trustee.

Section 8.2 Remedies. Upon the happening and continuation of any Event of Default as provided in Section 8.1 hereof, the Trustee may, and upon the written request of the Holders of not less than 50% of the aggregate principal amount of the Bonds then Outstanding and upon indemnification as provided in Section 9.2 hereof, proceed against the City and/or the Operators for the purpose of protecting and enforcing the rights of the Holders of Bonds under this Indenture, by mandamus or other suit, action or special proceeding in equity or at law, in any court of competent jurisdiction, for any relief permitted by law, including the specific performance of any covenant or agreement contained herein, or thereby to enjoin any act or thing which may be unlawful or in violation of any right of the Holders of the Bonds hereunder or any combination of such remedies as the Trustee shall deem most effectual to protect and enforce any of its rights or the rights of the Holders of the Bonds. It is provided, however, that all such proceedings at law or in equity against the City and/or the Operators shall be strictly limited to the security and source of payment herein pledged to the Bonds, and shall be instituted and maintained for the equal benefit of all Holders of the Bonds. Each remedy, right or privilege herein provided shall be in addition to and cumulative of any other remedy, right or privilege available at law or equity, and the exercise of any remedy, right or privilege or the delay in or failure to exercise any remedy, right or privilege or the delay in or failure to exercise any remedy, right or privilege shall not be deemed a waiver of any other remedy, right or privilege hereunder.

ARTICLE IX

THE TRUSTEE

Section 9.1 Acceptance of Trusts. The Trustee, for itself and its successors, hereby accepts the trusts under this Indenture, but only upon the following terms and conditions set forth in this Article.

(a) The Trustee may execute any of the trusts or powers hereof and perform any duties required of it by or through attorneys or agents selected by it with reasonable care, and shall be entitled to advice of counsel concerning all matters of trust hereof and its duties hereunder, and may in all cases pay such reasonable compensation as it shall deem proper to all such attorneys and agents as may reasonably be required and employed in connection with the trusts hereof, and the Trustee shall not be responsible for the acts or negligence of such attorneys, agents or counsel, if selected with reasonable care.

(b) The Trustee shall not be responsible for any recitals herein or in the Bonds, except with regard to its acceptance of trusts under this Indenture. The Trustee may require of the City full information and advice as to the performance of the covenants, conditions and agreements contained in this Indenture. The recitals and statements of fact and warranties contained in this

Indenture and in the Bonds shall be taken as statements by the City and shall not be considered as made by or as imposing any obligation or liability upon the Trustee.

(c) The Trustee shall not be under any responsibility or duty with respect to the further disposition of Bonds delivered in accordance with this Indenture, or for the disposition, use or application of any monies disbursed from the Project Fund upon receipt of a proper Requisition Certificate.

(d) Except as otherwise provided in this Indenture, the Trustee shall not be bound to recognize any person as a Holder of any Bond or to take action at such person's request, unless such Bond shall be deposited with the Trustee, or submitted to it for inspection. Any action taken by the Trustee pursuant to this Indenture upon the request, authority or consent of any person who, at the time of making such request or giving such authority or consent, shall be conclusive and binding upon all future owners or Holders of such Bond.

(e) Prior to an Event of Default hereunder, and after the curing of any such Event of Default, (i) the Trustee shall not be liable for the performance of any duties, except such duties as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee, and (ii) in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely upon the truth, completeness and accuracy of acquisitions, the letters of instruction, statements, certificates, opinions, certified resolutions and other certified showings conforming on their face to the requirements of this Indenture. The Trustee shall be under no duty to investigate or make any inquiry as to any matter, document, direction, acquisition or request which, on its face, conformed to the requirements of this Indenture. In case of an Event of Default continuing for the period, if any, specified in Article VIII hereof, which Event of Default has not been cured, the Trustee shall exercise such of the rights and powers vested in it by this Indenture and shall use the same degree of care and skill in its exercise thereof as an ordinary corporate trustee would exercise or use under similar circumstances.

(f) Nothing herein contained shall relieve the Trustee from liability for its own negligent action or failure to act or its own willful misconduct, except that this subsection shall not be construed to limit the effect of subsection (e) of this Section 9.1. The Trustee shall not incur any liability (i) for any error of judgment made in good faith by a responsible officer or responsible officers thereof, unless it shall be proved that it was negligent in ascertaining the pertinent facts, or (ii) in respect of any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of the percentage of the Bonds specified herein relating to the time, method and place of conducting any proceeding, for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee under this Indenture.

(g) Except as otherwise expressly provided by the provisions of this Indenture, the Trustee shall not be obligated and may not be required to give or furnish any notice, demand, report, request, reply, statement, advice or opinion to any Holder of any Bond or to the City or any other person, and the Trustee shall not incur any liability for its failure or refusal to give or furnish same unless obligated or required to do so by express provision hereof.

(h) None of the provisions contained in this Indenture shall require the Trustee to advance, expend or risk its own funds or to otherwise incur financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if there is reasonable ground for believing that the repayment of such funds or liability is not reasonably assured to it by the security afforded to it by the terms of this Indenture. The Trustee shall not be required to give any bond or surety with respect to the execution of its trusts, powers, rights or duties under this Indenture.

(i) No personal recourse may be taken, directly or indirectly, against any incorporator, officer, director, agent or employee of the Trustee with respect to the obligations of the Trustee under this Indenture or any certificate or other writing delivered in connection therewith. The Trustee's immunities and protection from liability and its right to payment of compensation or indemnification in connection with the performance of its duties and functions under this Indenture shall extend to the Trustee's officers, directors, employees and agents and survive the Trustee's resignation or removal and the final payment of the Bonds.

(j) In the event the Trustee receives inconsistent or conflicting requests and indemnity from two or more groups of Holders of Bonds each representing less than a majority of the aggregate principal amount of Bonds then Outstanding, the Trustee, in its sole discretion, may determine what action, if any, shall be taken.

(k) In performing its duties under the Continuing Disclosure Agreement, the Trustee shall be entitled to all of the rights, protection and immunities accorded to it as Trustee under this Indenture.

(l) Except for information provided by the Trustee concerning the Trustee, the Trustee shall have no responsibility for any information in any offering memorandum or other disclosure material distributed with respect to the Bonds, and the Trustee shall have no responsibility for compliance with any state or federal securities laws in connection with the Bonds.

(m) In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Agreement, the Indenture or the existence, furnishing or use of the Project.

(n) The Trustee shall be under no liability for interest on any monies received by it hereunder except as provided herein or as the Trustee may otherwise specifically agree in writing.

(o) The Trustee is not required to take notice or deemed to have notice of any Event of Default hereunder, except an Event of Default under Section 8.1(a) hereof, unless the Trustee has received notice in writing of such Event of Default from the City or the Holders of at least 25% in aggregate principal amount of the Bonds Outstanding, which notice shall reference this Indenture and such Event of Default, and in the absence of any such notice, the Trustee may conclusively assume that no Event of Default exists.

(p) Except as provided in the Continuing Disclosure Agreement described in Section 12.1 hereof, or unless otherwise requested in writing, the Trustee shall have no responsibility for any registration, filing, recording, re-registration, refiling or rerecording of this Indenture, the Agreement, any of the other documents securing the Bonds or any financing statements relating thereto.

(q) The Trustee shall provide to the Airport System and the Operators' Authorized Representative an accounting of all funds held by the Trustee under this Indenture, upon any reasonable request, but in no event less than monthly.

Section 9.7 Removal of Trustee. The Trustee may be removed at any time by (i) the City, if no Event of Default is then continuing, by delivering notice thereof to the Trustee, or (ii) an instrument or concurrent instruments in writing, signed by the Holders of a majority in principal amount of the Bonds then Outstanding and delivered to the Trustee, with notice thereof given to the City.

Section 9.8 Resignation of Trustee. (a) Except as provided in subsection 9.8(b) hereof, the Trustee may at any time resign and be discharged from the trusts hereby created by giving written notice to the City and by publishing notice of its intended resignation at least ninety (90) days in advance thereof, which notice shall specify the date on which such resignation shall take effect and shall be given in writing to the Holders of all of the Bonds and such resignation shall take effect from the date specified in such notice, unless a successor to such Trustee shall have been appointed by the Holders of the Bonds or by the City as hereinafter provided, in which event such resignation shall take effect immediately upon the appointment and acceptance of a successor Trustee.

(b) Notwithstanding any provision to the contrary contained in Section 9.7 or subsection 9.8(a) above, no removal or resignation of a Trustee hereunder shall become effective until a successor Trustee is appointed under Section 9.9 hereof.

Section 9.9 Appointment of Successor Trustee. In case the Trustee hereunder shall resign, or shall be removed or dissolved, or shall be in the course of dissolution or liquidation, or shall otherwise become incapable of acting hereunder, or in case the Trustee shall be taken under control of any public officer or officers or a receiver appointed by a court, a successor may be appointed by the City after consultation with the LLC, if no Event of Default is then continuing, or in the absence of such an appointment by the City, be appointed by the Holders of a majority in principal amount of the Bonds then Outstanding, by an instrument or concurrent instruments in writing, signed by such Holders or their duly authorized representatives and delivered to the Trustee, with notice thereof given to the Operators; provided, however, that in any of the events above mentioned, the City, after consultation with the LLC, may nevertheless appoint a temporary Trustee to fill such vacancy until a successor shall be appointed by the Holders in the manner above provided, and any such temporary Trustee so appointed by the City shall immediately and without further act be automatically succeeded by the successor to the Trustee appointed by the Holders. The City shall promptly mail notice of the appointment of any successor Trustee to the Holders of the Bonds. Any successor Trustee or temporary Trustee shall be a state or national bank or trust company having combined capital and surplus of not less than $150,000,000.

In the event that no appointment of successor Trustee is made by the Holders or by the City pursuant to the foregoing provisions of this Section at the time a vacancy in the office of the Trustee shall have occurred, the Holder of any Bond issued hereunder or the retiring Trustee may apply to any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice as it shall deem proper, if any, appoint a successor Trustee.

ARTICLE X

SUPPLEMENTAL INDENTURES

Section 10.1 Supplemental Indentures Not Requiring Consent of Holders. The City and the Trustee may without the consent of, or notice to, any of the Holders enter into an indenture or indentures supplemental to this Indenture for any one or more of the following purposes:

(a) to cure any ambiguity, defect, omission or inconsistent provision in this Indenture or in the Bonds or make any other provision with respect to matters or questions arising under the Indenture or any supplemental Indenture; provided, however, that such action shall not, based upon an opinion of counsel, materially adversely affect the interests of the Holders;

(b) to grant to or confer upon the Trustee for the benefit of the Holders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Holders or the Trustee;

(c) to add to the covenants and agreements of the City contained in this Indenture 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 Indenture;

(d) to subject to the lien and pledge of this Indenture additional revenues, properties or collateral;

(e) to provide for the issuance, sale and delivery of Additional Bonds as provided in Article VI of this Indenture and, in connection therewith, to provide for (i) the deposit of the proceeds of such Additional Bonds, (ii) the disbursement of such proceeds in connection with any part of the facilities to be financed by means of such Additional Bonds, and (iii) the payment of the principal, interest and premium, if any, on such Additional Bonds;

(f) to provide for the issuance, sale and delivery of bonds, notes or other obligations secured in whole or in part by liens on the Pledged Revenues that are junior and subordinate to the lien on the Pledged Revenues securing payment of the Bonds;

(g) to provide for the issuance, sale and delivery of Refunding Bonds as provided in Article VI of this Indenture;

(h) to make any other change therein, unless in the judgment of the Trustee, based upon an opinion of counsel, such other change would materially adversely affect the interest of the Trustee or the Holders; and

(i) to comply with any state and/or federal securities law, including without limitations, any applicable regulation of the Securities and Exchange Commission.

When requested by the City, the Trustee shall, subject to Section 10.3 hereof, join the City in the execution of any such supplemental indenture.

Section 10.2 Supplemental Indentures Requiring Consent of Holders. (a) The City and the Trustee may, at any time, enter into one or more supplements to this Indenture amending, modifying, adding to or eliminating any of the provisions of this Indenture but, if such supplement is not of the character described in Section 10.1 hereof, only with the written consent of the City and the Holders of not less than 50% of the Bonds Outstanding hereunder at the time of the adoption of such amendatory Indenture (not including any Bonds then held or owned by the City); provided, however, that, without the consent of all Holders, no such Indenture shall have the effect of permitting:

(i) an extension of the maturity of any Bonds;

(ii) a reduction in the principal amount of any Bonds, the rate of interest thereon, or any redemption premium payable thereon;

(iii) the creation of a lien upon or pledge of any Pledged Revenues ranking superior to, or on parity with, the lien or pledge created hereby (except in connection with the issuance of Additional Bonds and Refunding Bonds);

(iv) a reduction of the principal amount of Bonds required for consent to amendments to the Indenture;

(v) the establishment of priorities among Bonds; or

(vi) a reduction in the aggregate principal amount of the Bonds required for consent to any other change in the Indenture, without the consent of the Holders of all the Bonds of the series of Bonds affected then Outstanding.

(b) If at any time the City shall request the Trustee to enter into any supplemental agreement for any of the purposes of this Section, the Trustee shall cause notice of the proposed execution of such supplemental agreement to be given in writing to the Holders of all of the Bonds. Such notice shall briefly set forth the nature of the proposed supplemental agreement and shall state that a copy thereof is on file at the office of the Trustee for inspection by all Holders.

(c) Whenever, at any time within one (1) year after the date of the first giving of such notice, the City shall deliver to the Trustee an instrument or instruments purporting to be executed by the Holders of not less than 50% in aggregate principal amount of the Bonds then Outstanding, which instrument or instruments shall refer to the proposed supplemental agreement described in such notice and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof referred to in such notice as on file with the Trustee, thereupon, but not otherwise, the Trustee may execute such supplemental agreement in substantially such form, without liability or responsibility to any Holder, whether or not such Holder shall have consented thereto.

(d) If the Holders of not less than 50% in aggregate principal amount of the Bonds Outstanding at the time of the execution of a supplemental agreement meeting the requirements of this Section 10.02 shall have consented to and approved the execution thereof as herein provided, no Holder shall have any right to object to the execution of such supplemental agreement, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the City from executing the same or from taking any action pursuant to the provisions thereof.

(e) Upon the execution of any supplemental agreement pursuant to the provisions of this Section, this Indenture shall be and be deemed to be modified and amended in accordance therewith, and the respective rights, duties, and obligations under this Indenture of the City and the Trustee and all Holders then Outstanding shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such modifications and amendments.

(f) Any consent given by a Holder pursuant to the provisions of this Section shall be irrevocable for a period of six (6) months from the date of the giving of the notice and shall be conclusive and binding upon all future Holders of the same Bond during such period. At any time after six (6) months from the date of giving notice, such consent may be revoked by the Holder who gave such consent or by a successor in title by filing notice of such revocation with the Trustee, but such revocation shall not be effective if the Holders of 50% of the Bonds Outstanding, prior to receipt by the Trustee of the attempted revocation, consented to and approved the amendatory agreement referred to in such revocation.

(g) The fact and date of the execution of any instrument under the provisions of this Section may be proved by the certificate of any officer in any jurisdiction, who by the laws thereof is authorized to take acknowledgments of deeds within such jurisdiction, that the person signing such instrument acknowledged before him the execution thereof; or such facts may be proved by an affidavit of a witness to such execution sworn to before such officer.

(h) With regard to any Bonds that are insured such that they bear the highest generic rating of each nationally recognized rating agency then rating the Bonds, the issuer of such insurance shall be authorized to exercise the rights of Holders of Bonds it insures for purposes of consenting to any supplemental or amendatory Indenture except for the matters detailed in clauses (i) through (vi) in Section 10.2(a).

Section 10.3 Rights of Trustee. Notwithstanding the foregoing provisions of this Article X, the Trustee shall not be required to enter into any supplement hereto, unless it shall have received an opinion of counsel (if reasonably requested under the circumstances), addressed to the Trustee, reasonably satisfactory to it that such supplement or amendment complies with the provisions of this Article X, that all conditions precedent to the execution and delivery of such supplemental indenture have been complied with, and that the execution and delivery of such supplemental indenture will not materially adversely affect the interests of the Owners of the Bonds. Moreover, the Trustee shall not be required to execute any supplement to this Indenture (except a supplement hereto providing for the issuance of Additional Bonds pursuant to Article VI hereof entitling the Trustee to the same rights, privileges and immunities in respect of such Additional Bonds as provided hereby in respect of the Bonds) if such supplement or amendment materially adversely affects its rights, duties or immunities hereunder, in which case the Trustee may, in its discretion, but shall not be obligated to, enter into or consent to such supplement or amendment.

Section 10.4 Approval by The Operators. Notwithstanding anything contained in the foregoing provisions of this Indenture to the contrary, so long as no Event of Default has occurred and is continuing (other than an Event of Default not attributable to the Operators' actions or failure to act) no supplemental indenture or agreement shall become effective unless and until the LLC's Authorized Representative delivers to the City and the Trustee a written consent to the terms of such supplemental indenture or agreement.

Section 10.5 Approval by City. The City shall not unreasonably withhold or delay its consent to a supplemental Indenture or agreement meeting the requirements of this Article X.

ARTICLE XI

DEFEASANCE

Section 11.1 Defeasance. (a) If the whole amount of the principal of and interest due on or to become due and payable upon all of the Bonds then Outstanding, if any, shall be paid or sufficient funds shall be held by the Trustee or the Trustee for such purpose, and provision shall also be made for paying all other sums payable hereunder by the City, together with all fees and charges of the Trustee and Trustee, and if any Bonds to be redeemed prior to maturity shall have been duly called for redemption or irrevocable instructions to call such bonds for redemption shall have been given by the City to the Trustee, then and in that case the right, title and interest of the Trustee herein shall thereupon cease, determine and become void, and the Trustee in such case, on demand of the City, shall release this Indenture and shall execute such documents to evidence such release as may be reasonably required by the City, and shall turn over to the City all balances remaining in all Funds created by this Indenture, other than funds held for redemption or payment of Bonds; otherwise this Indenture shall be, continue and remain in full force and effect.

(b) Any Bond shall be deemed to be paid and no longer Outstanding within the meaning of this Indenture when payment of the principal of on such Bond, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, upon redemption, or otherwise), either (i) shall have been made or caused to be made in accordance with the terms thereof, or (ii) shall have been provided by irrevocably depositing with the Trustee, pursuant to an escrow or trust agreement, a sufficient amount of cash and/or any obligation authorized under Texas law to be deposited for the payment or redemption of the Bonds, in principal amounts and maturities and bearing interest at rates which are certified by an independent certified public accountant to be sufficient to provide for the full and timely payment of the principal amount and redemption premium, if any, of such Bonds plus interest thereon to the date of maturity or redemption plus all fees and charges of the Trustee and Trustee in connection therewith; provided, however, that if any of such Bonds are to be redeemed prior to their respective dates of maturity, provision shall have been made for giving proper notice of redemption therefor.

(c) To accomplish defeasance the City shall cause to be delivered (i) a report of an independent firm of nationally recognized certified public accountants ("Accountant") verifying the sufficiency of the escrow established to pay the Bonds in full on the maturity or redemption date ("Verification"), (ii) an escrow agreement, and (iii) an opinion of nationally recognized bond counsel to the effect that the Bonds are no longer "Outstanding" under State law and this Indenture; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the City and the Trustee.

[Remainder of page intentionally left blank.]

APPENDIX F - FORM OF CO-BOND COUNSEL OPINION

[This page intentionally left blank.]

VINSON & ELKINS L.L.P.
2300 First City Tower
1001 Fannin Street
Houston, TX 77002-6760

BURNEY & FOREMAN
5445 Almeda
Suite 400
Houston, TX 77002

WE HAVE ACTED as co-bond counsel for the CITY OF HOUSTON, TEXAS (the "City") in connection with an issue of bonds (the "Series 2001 Bonds") described as follows:

> CITY OF HOUSTON, TEXAS, AIRPORT SYSTEM SPECIAL FACILITIES TAXABLE REVENUE BONDS (CONSOLIDATED RENTAL CAR FACILITY PROJECT), SERIES 2001, dated March 1, 2001, in the principal amount of \$130,250,000, maturing and bearing interest all as authorized by City of Houston Ordinance 2001-136 adopted February 7, 2001 (the "Ordinance") and as more fully provided in the Bonds and in the Trust Indenture (the "Indenture") dated as of March 1 2001, by and between the City and The Chase Manhattan Bank, Trustee (the "Trustee"). The Bonds are subject to redemption prior to maturity in the manner and upon the terms and conditions set forth in the Bonds and in the Indenture.

The proceeds of the Bonds are to be used to finance the construction, equipment and improvement of a certain consolidated rental car facility at George Bush Intercontinental Airport/Houston and other airport facilities (the "Project"), which Project has been leased to Signatory Rental Car Companies (the "Operators") pursuant to a Master Special Facilities Lease Agreement between the City and the Operators dated as of January 1, 2001 (the "Lease"). The Operators have agreed to pay, pursuant to the terms of the Lease, certain Special Facilities Rent for the Project, to be derived solely from the collection from their customers of certain Customer Facility Charges as provided in the Ordinance and established from time to time by the City in amounts which, together with other Pledged Revenues as provided in the Indenture, will be sufficient to pay principal of, premium, if any, and interest on the Bonds.

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 2001 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 Operators or the City or the disclosure thereof in connection with the offer and sale of the Series 2001 Bonds. Our role in connection with the City's Official Statement prepared for use in connection with the offer and sale of the Series 2001 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 2001 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 officers and representatives of the City, the Operators and the Trustee and other certified showings relating to the authorization, execution and delivery of the Ordinance, the Indenture, the Lease and the authorization and issuance of the Bonds. We have also examined executed counterparts of the Ordinance, the Indenture and the Lease and a specimen of the form of registered bonds.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT such transcript of certified proceedings evidences complete legal authority for the issuance of the Series 2001 Bonds in full compliance with the Constitution and laws of the State of Texas presently effective; that the Series 2001 Bonds constitute valid and legally binding special obligations of the City which are payable from and secured by a lien on and pledge of the Pledged Revenues, which include revenues derived from certain Customer Facility Charges to be collected and remitted by the Operators using the Project pursuant to the Lease and the Ordinance, and Pledged Funds, all as more fully defined and provided in the Indenture; and that provision has been made in the Indenture and the Lease for the payment by the Operators of Special Facilities Rent in amounts, which, together with other Pledged Revenues, are sufficient to pay the principal of, premium, if any, and the interest on the Series 2001 Bonds. Payment of the principal of and interest on the Series 2001 Bonds is not guaranteed by any of the Operators and no revenues, profits or property of the Operators are pledged as security for the Series 2001 Bonds. The Series 2001 Bonds do not constitute an indebtedness or general obligation of the City. Owners of the Series 2001 Bonds shall never have the right to demand payment of principal or interest out of any funds raised or to be raised by taxation or any other revenues generally available to the City or its Airport System, other than Pledged Revenues and Pledged Funds. The City's Obligations pursuant to the Ordinance and the Indenture and the Operators' obligations pursuant to the Lease are subject to limitation by applicable federal bankruptcy laws and any other similar laws affecting the rights of creditors generally.

THE CITY HAS RESERVED THE RIGHT TO ISSUE ADDITIONAL BONDS, subject to the restrictions contained in the Indenture, secured by liens on the Pledged Revenues and Pledged Funds that are on a parity with or junior and inferior to the lien on Pledged Revenues and Pledged Funds securing the Series 2001 Bonds.

Interest on the Bonds is not excludable from gross income for federal income tax purposes under existing law. We express no other opinion as to any federal, state, or local tax consequences resulting from the ownership of, receipt or accrual of interest on, or disposition of the Bonds.

This opinion speaks only as of its date and only in connection with the Bonds and may not be applied to any other transaction. Further, this opinion is specifically limited to the laws of the State of Texas.

Very truly yours,