

STATE OF THE AIRPORTS

Mario C. Diaz

Mayor Annise Parker, Controller Green, members of the Houston City Council, other elected officials, Greater Houston Partnership Chairman Tony Chase, President Moseley, other invited guests, and members of the Greater Houston Partnership, thank you for inviting me here today, good Afternoon to you all and welcome to the State of the Airports Address.

In today's address I will touch on three areas:

- First –I want to give an overview of the historic milestones we recorded in 2011.
- Then, I will talk for a moment about the essential nature for the existence of the Houston Airports, which we say is to help people—connect.
- Finally, I will discuss how we are reinventing Houston Airports for tomorrow.

PART ONE: A YEAR IN REVIEW: 2011

First, let's look at some of the major milestones for the past year –
Here are the top 10 in chronological order...

DREAMLINER

In February of 2011 – Houston welcomed the first landing of the Boeing 787 Dreamliner at George Bush Intercontinental Airport during a test flight here on its way back to the Boeing facilities in the State of Washington.

ECOPARK

Last March many of you will recall Mayor Anise Parker helped us unveil the new ecopark – economy parking brand as a green initiative using compressed natural gas. Houston Airports partnered with Apache Corporation to design and construct a Compressed Natural Gas fueling station at Intercontinental Airport. The Apache Corporation donated the station to the City. We have seen a growth in revenue from parking of 11 percent since we rebranded our economy parking. The environment is not the only thing “green” about this initiative. In addition to the extra revenue...we know that the 50% reduction in shuttle bus fuel cost saves us \$200,000 annually. The shuttle buses transport 676,000 people to and from the ecopark lot.

SPACE SHUTTLE CREW

We were part of history in July as Ellington welcomed the Space Shuttle Crew back to Houston with a “Big” Texas-sized crowd. Many on site were friends and relatives who played a part in supporting the space shuttle program from its beginning.

TRADE MISSIONS

Together with GHP and the Convention and Visitor's Bureau, we traveled the world seeking new air service.

- In early 2011, we traveled to Turkey to meet with Turkish Airlines about direct service between Istanbul and Houston. Ataturk Airport in Istanbul last year became the largest hub in Europe, beating out London, Paris and Frankfurt.
- In August – we completed a 10-day trade mission with both GHP and CVB to China, South Korea and Taiwan to meet with six carriers about potential air service between Beijing, Seoul, Taipei; and Houston.
- In between we visited Mexico City to address organizations there on the benefits of travel to Houston and the strengthening of air service between the two Cities.
- I want to thank our partners: the Greater Houston Partnership and the Greater Houston Convention and Visitors Bureau for their support of these missions. Jeff Moseley and Greg Ortale would you please stand. How about a nice round of applause for these two gentlemen.

MERGERS

Houston is in the unique position of operating two airports with corporate mergers among the two airlines each that drive our airports.

- United and Continental became one airline under one operating certificate at the end of last year.
- While at the same time, the Southwest and AirTran merger was approved by shareholders

UNITED LAUNCHES LAGOS FLIGHT

In November, United Airlines launched non-stop service from Houston to Lagos, Nigeria. It is the first and only commercial scheduled service offered from Texas directly to Africa. – Of course we also have the scheduled charter service from Houston to Luanda, Angola aboard the Houston Express, operated by SonAir. Please join me in a round of applause for this great contribution of service by United.

SUPPORTING LOCAL BUSINESSES

In the past year Houston Airports also were recognized by several community groups for our strong efforts ensuring local businesses have access to Houston Airports' contract and procurement opportunities. We are committed to a diverse and competitive business environment.--- Since July 2010 -
- Houston Airports awarded more than \$77 million to Certified Small, Minority, Women, and Disadvantaged Business Enterprises.

HOUSTON AIRPORTS' ECONOMIC IMPACT STUDY

In November, we announced the final results for our economic impact study. Houston airports make an annual impact on the gross area domestic product of \$27.5 billion:

- Intercontinental accounted for over 80 percent of the impact, resulting in almost 170,000 jobs and total direct and indirect earnings impact exceeding \$6.7 billion.
- Hobby was responsible for 51,000 jobs, with total earnings impact of \$1.7 billion.
- Ellington Airport supported 10,000 jobs in the regional economy with total earnings impact of more than \$300 million.

CARGO END OF YEAR TRAFFIC

Houston Airports set a new record for air cargo as Bush Intercontinental Airport with more air cargo in 2011 than it has had in any year since the airport opened in 1969. That would be 423,180 metric tons of cargo.

	Cargo Metric Tons	Diff	Δ%
IAH DOM	194,292	802	0.4%
IAH INT	<u>218,396</u>	<u>22,810</u>	<u>11.7%</u>
IAH TTL	412,688	23,612	6.1%
HOU TTL	10,492	(732)	(6.5%)

One of the keys to Houston's success is its strategic geographical location in the Americas with excellent reach to Latin America and major markets in the United States, 29 percent of all freight from Houston is destined for Asia, representing a trade value of \$3.5 billion annually. Cargo Lux, British Airways and Cathay Pacific are all flying the Boeing 747-8 to Houston.

TEXAS COMMERCIAL AIRPORTS ASSOCIATION

As our last milestone of 2011 that I will touch on – The Houston Airports teamed up with airports state-wide to become a charter member of a new association that will bridge an alliance with all Texas airports for future partnering on common goals.

WHY? Because according to a recent study conducted by Airports Council International -- TEXAS AIRPORTS – account for the FOURTH highest number of aviation jobs in the U.S. and together THE COMMERCIAL AIRPORTS IN TEXAS serve more than 135 MILLION PASSENGERS

AIRPORTS ARE THE ECONOMIC DRIVERS OF OUR ECONOMY

According to the Airports Council International, the airport trade association, nationally – the 400 commercial airports have a major impact on the American economy...they collectively generate 10.5 million jobs and have a \$1.2 trillion impact. Across the U.S., airports are responsible for about 8 percent of the U.S. gross domestic product and an estimated 7 percent of jobs.

WE EXIST TO CONNECT THE WORLD

Most businesses and organizations can tell you WHAT they do. Many can even tell you HOW they do it— what special advantage or core competence they possess that sets them apart from others. But few can offer an explanation for WHY they do what they do. Why they exist. Many it seems have forgotten or never understood this very important piece of strategy.

The Houston Airport System exists to CONNECT the people, businesses and cultures of the World to Houston. I want to cite a phrase from a magazine article in the December issue of Airline Business attributed to David Barger, CEO of JetBlue Airlines, who said,

“This is the age of personal computing and communications – we are more connected now than ever before in the history of humankind. And yet technology, in my opinion, merely bridges the gaps between true connectivity: person-to-person, face-to-face. We are in the business of connecting human beings to each other. The companies that fill the deep and essential need of every person on the planet to be seen, heard, acknowledged and appreciated – not settling to merely be the conduit for such connections – will lead our industry into our second century of flight.”

I couldn't agree more with this statement.

NEW DESTINATIONS FROM HOUSTON

And speaking about connections, we gained new destinations and frequencies in 2011 –

- Nine new routes were operated by United Airlines – two were international: Lagos and Montreal
- Three new destinations were operated by Southwest Airlines – with a fourth by its future partner, AirTran.
- Two new routes from Hobby are operated by Delta – --New York's JFK Airport and Cincinnati
- Frontier added new nonstop service from Hobby to Kansas City
- And, American Airlines launched one new route from Houston Los Angeles

Hobby and Bush both gained new routes in 2011. Most new service was heading to domestic cities. Houston gained a total of 17 direct routes. Hobby gained seven new direct destinations. Bush gained ten...with two of those being international – Lagos and Montreal

WHO ARE OUR TRADE PARTNERS

The top three trading partners of the United States are Canada, China and Mexico.

For Houston the top three trading partners are as shown on this next chart to be Mexico, Venezuela and Brazil. That is to say, Houston has a great and mutual trade dependency with the number one, two and three largest economies of Latin America. While the world is looking to emerging economies to pull out of the 2008 recession, signs are appearing that point to concerns in this area.

Brazil's economy grew at just 2.7 percent in 2011, down from 7.5 percent in 2010. This news follows the latest guidance from Asia that China had lowered its economic growth target to 7.5% for this year, down from an 8% target in each of the last seven years. Meanwhile, Mexico is expected to grow by 3.3% this year, according to the Economist magazine. Compare this with the expected growth rate in the U.S. of between 2.2 percent and 2.5 percent.

DOMESTIC TRAFFIC

In the past five years, domestic passengers declined and are now making a return to the air. Five years ago, before the economic downturn, Houston saw 44 million domestic passengers...we are not back to those levels, but we are now growing...in 2011 – the total domestic passengers at both Intercontinental and Hobby was at 41.3 million passengers for both enplanements and deplanements, representing a tad over one percent increase year-over-year.

INTERNATIONAL TRAFFIC

As an international gateway – We saw a growth year over year of 1.5 percent. in 2011 – which is 129,454 more international air travelers. From Intercontinental Airport, direct service is offered to 67 international markets. Five of those markets are to Western Europe: Amsterdam, London, Paris, Frankfurt, and Moscow. Two markets are covered in the Middle East and North Africa: Dubai and Doha; while one market is available to Sub-Saharan Africa: Lagos (we have another scheduled charter flight to Luanda, Angola). Then there's a single direct flight to Asia: Tokyo. But we offer direct service to no less than 58 destinations in Latin America, of which 29 are to Cities in Mexico.

TOTAL TRAFFIC FOR DOMESTIC AND INTERNATIONAL

When we combine all traffic, we continue to see growth – you can see here that we are making progress on our return to previous levels of traffic. George Bush Intercontinental retained its position as the seventh busiest airport in the United States based on passengers traffic.

GLOBAL ENTRY & ONESTOP

With increasing international traffic, we strive to work with our Federal Agency partners to become more efficient. Just this week we learned CBP has developed a staffing model for federal inspection services centers. Preliminary information confirms our intuition that IAH is understaffed as we have been arguing for a very long time to our congressional delegation as a member of the Gateway 13 (G13) an association of the largest international airports across the country.

Hopefully, working with the airport lobbyist group (Airports Council International) we now will have the data to convince members of the appropriations committee in Washington that more staffing is needed for Intercontinental. At the same time legislation is winding its way through congress that would permit airports to augment staffing at Federal Inspection centers by contributing to covering staffing cost over and above that which the new staffing model would suggest is needed to properly service an international gateway center. All of this looks very promising in helping airports like Intercontinental maintain the level of customer service we must provide to our international passengers.

GLOBAL ENTRY

HOUSTON LEADS NATION FOR ENROLLMENT & USAGE.

Houston was one of the first airports to launch Global Entry. Houston remains a national leader on how we offer innovative programs to enhance the customer experience. In 2011, we saw more than 129,000 passengers use the **Global Entry** kiosks at Intercontinental Airport. Enrollments have increased by over 86 percent in the past year.

Yet, the total number of Global Entry passengers remains below 9 percent annually. If we could improve the participation rate, the efficiency and throughput of the Federal processing center at IAH would increase dramatically, lowering wait times to all passengers significantly.

I urge each and every one of you sitting here in this room today, to sign up for Global Entry and use it next time you make an international trip. The program is instrumental in allowing business travelers to process in less than 60 seconds with no lines, no paperwork and no hassles, and at just \$100 for five years it is one bargain you shouldn't pass up.

ONESTOP

Meanwhile, a pilot program known as OneStop is making a big difference in wait times. If you are making a day or overnight trip to some destination in Latin America and are not checking in any baggage, OneStop is right for you. In 2011, 325,782 internationally arriving passengers and crew used OneStop lanes – this is a 46 percent increase from the previous year. OneStop not only decreases the wait time for the person who takes advantage of the program – it also further reduces the number of people in the regular line waiting to be processed by an officer.

I'd like to take a moment to recognize our local U.S. Customs and Boarder Protection officials. Would you please stand and be recognized. If Area Port Director Judson Murdock and Port Director Terry Estelle are here today would you please stand.

CONNECTIVITY

Now let's take a look at the major cities to which we believe Houston will need to be connected in the future.

This next image shows how the cities of the world with the most population are changing. United Nations demographic experts believe that the list you see here on the right is where the largest cities will be in 2025.

Note that in 1980 the number three and number four spots were occupied by Latin American countries, with three entries in the top ten. Europe had one entry in the top ten.

By contrast, in 2025 there are no European Cities in the top ten, Latin America has two and North America has just one. Note too that the smallest of these cities is expected to hold 19.1 Million people.

REINVENTING HOUSTON AIRPORTS

BUSH INTERCONTINENTAL

Reinventing Intercontinental

The changes we have coming in 2012 are dramatic

- We are renovating two terminals
- And we will welcome new, innovative aircraft: game changers in the industry

But before we do, we must assure that the existing infrastructure at all of our airports can sustain the existing traffic while supporting new growth. Our third strategic initiative: "Opening Day Fresh" reminds us of the need for attention to be paid to systems and facility components that have reached their useful lives and must be replaced. In this slide you see work being done to complete the replacement of the 31 inch chilled water lines, supplying chilled water to the Central Terminal Complex.

We have extended the above ground train system to Terminal A, and you see here we have rebranded it with an opening day fresh look.

TERMINAL B PROJECT

In partnership with United Airlines, we are in the middle of work to renovate Terminal B as the first phase of a multi-phase project.

- The \$160 million south concourse project will be nearly four times the size of the existing space, and will function as a regional jet center for United.
- The concessions area will provide 13,000 square feet of food, beverage and retail concessions; a 500 percent increase over the current facility.
- The view will be better too: you will see an updated concourse with 28 foot-high foot-to-ceiling glass windows, offering expansive tarmac views

TERMINAL D

We must also begin the renovation of Terminal D. This terminal was built in the mid-1980s, and is now functionally and economically obsolete. This terminal serves our foreign flag carriers. Terminal D was not designed to handle aircraft that can carry over 500 passengers.

The changes we are making will allow for the boarding of passengers on a double-decker jet...and provides passengers proper comfort and amenities – we will need larger public space areas as they await boarding, use restroom facilities and shop or dine before departure.

A380

Lufthansa will be the first airline to operate the A380 aircraft in Texas in August 2012 on its maiden voyage from Frankfurt, Germany. The A380 is today the largest passenger aircraft in the world, with 63 percent more cabin space than the next largest aircraft, the Boeing 747-400. The new jet as configured by Lufthansa will carry up to 526 passengers, It has eight seats in the First Class; 98 seats in Business Class on the upper deck and 420 seats in Economy on the lower deck.

HOBBY

Reinventing Hobby Airport

Hobby is now at the end of a major construction project... This work affects most of the nine million passengers. We began renovation on the entrance roadways at the ticketing level in 2011 and expect to finish the work later this year. In April – we will move the curbside check-in for Southwest Airlines back to its previous – pre-construction location along the west end of the upper-level roadway. We will also in April reopen the pedestrian walkway to the main lobby entrance. We are pleased to make these adjustments to ensure that our customers have easier access into the terminal.

Meanwhile ...we have plans for expanded parking at Hobby. We're designing a new 1,500 car parking deck to be built adjacent to the existing deck on the west side in what is today an economy parking lot.

ELLINGTON

Reinventing Ellington Airport

Ellington Airport has served Houston longer than any other airports in our city. It continues to add value to our lives. It is a center for military, space exploration and general aviation needs. A number of important projects are on the horizon....development of Ellington is important. It serves the aviation community and has always risen to the challenge....just 14 days ago...President Obama arrived at Ellington during his recent trip to Houston.

Embry-Riddle Aeronautical University

- By adding new master's degree programs in the fall of 2012, Embry Riddle has begun to form a foundation for our talented workforce to grow in support of technical jobs in the aviation and aerospace fields. *The new degrees will be valuable to companies such as The Boeing Company, Lockheed Martin Corporation, NASA, Jacobs Engineering, United Space Alliance and the Bay Area Houston Economic Partnership.*

Lone Star Museum

- Galveston's Lone Star Museum will move to Ellington. It will give the museum a larger space. About 50,000 people visit that attraction annually and as a tenant – this is an excellent fit.
- We expect to see construction begin on this project this year.

U.S. Coast Guard Headquarters

Just this past January the U.S. Coast Guard began construction on its new headquarters building after an agreement was reached and approved by City Council last year. The four-story structure is expected to house 350 employees

Ellington Space Port

We are studying the possibility of licensing Ellington as a commercial space port. Now, we are not proposing to allow traditional vertical launch vehicles like you see taking off from the Kennedy Space Center. Rather, we sit in this new century at very same place our predecessors found themselves at the cusp of creation of aviation in the 20th Century. -- In 1903 the Wright Brothers demonstrated heavier than air flight was possible. On October 4, 2004, the X PRIZE Foundation captured the world's attention when it awarded the largest prize in history, the \$10 million Ansari X PRIZE, to Scaled Composites for their craft SpaceShipOne. To win the prize, famed aerospace designer Burt Rutan and financier Paul Allen led the first private team to build and launch a spacecraft capable of carrying three people to 100 kilometers above the earth's surface, twice within two weeks. Spaceflight was no longer the exclusive realm of government. With that single flight, and the winning of the \$10 million Ansari X PRIZE, a new industry was born. The Ansari X PRIZE was modeled after the Orteig Prize, won by Charles Lindbergh in 1927 for being the first to fly non-stop from New York to Paris, and mirrored the hundreds of aviation incentive prizes offered early in the 20th century that helped create today's \$300 billion commercial aviation industry. Preliminary results are positive so we will keep you posted on developments.

THANK YOU

Thank you for your interest and support of our airports. We hope to see you flying soon.