Dear Stakeholder,

The Houston Airport System (HAS) is proud to serve the nation’s fourth-largest city and the country’s most dynamic economy and diverse population base. We continually strive to build stronger connections between the City of Houston and the people, businesses, cultures and economies of the world through our state-of-the-art facilities, our ever-expanding route network, our partnership with the local communities and our commitment to a responsible workforce.

This is an exciting time for Houston’s three airports. Both George Bush Intercontinental and William P. Hobby Airport are experiencing unprecedented passenger growth — adding six million passengers over the last 10 years alone. And this growth has not gone unnoticed in the aviation industry, with 10 international airlines adding service to Houston in the past two years, and the return of international service at Hobby Airport to Latin America and the Caribbean.

Ellington Airport, which just received its commercial spaceport license, is not to be overlooked either. Development is currently underway to partner with leaders in the aerospace and aviation industries to bring the Houston Spaceport to the forefront of aerospace technology and restore the City of Houston to its designation as “Space City” once again.

And of course through it all, the Houston Airport System remained diligent in its drive to establish itself as a “high performance organization.” This effort has taken on many different forms, from improving the lines of communication that exist between the airport system and its customers to improving the lines of communication that exist between the airport system’s own internal divisions.

Speaking on behalf of the 1,200 HAS employees, I can say with confidence that we are proud of where we’ve been and are eagerly looking ahead to where we will go under the leadership of the City of Houston.

Mario C. Diaz
Director, Houston Airport System

LETTER FROM THE DIRECTOR

“Houston added six million passengers over the last 10 years alone.”
The Houston Airport System (HAS) brings air service to the six million people living in the Houston area. Everything we do is inspired by our mission, vision and core values.

Mission
We exist to connect the people, businesses, cultures and economies of the world to Houston

Vision
Establish Houston as a five-star global air service gateway where the magic of flight is celebrated

Strategic priorities
1. Make the passenger happy
2. Maintain assets in opening day fresh condition
3. Build the platforms for future success
4. Grow the transportation network and strengthen relationships with our partners — we succeed with our partners

Core values

1. RELATIONSHIPS
We work together with integrity and treat every individual with courtesy and respect. We honor our commitments and behave in a manner that earns trust.

2. INNOVATION
We have the courage and willingness to consider new and unconventional ways of thinking.

3. SERVICE
We WOW our customers through a “can-do” attitude and respond quickly to meet and exceed their expectations. We find ways to bring fun and joy into our work and bring our customers along for the ride.

4. EXCELLENCE
We strive for quality and skillful execution without compromise.
The Houston Airport System does not use local tax dollars and is entirely self-supporting through user fees, leases and other agreements and federal grants. Most major airports in the U.S. routinely accept grants for capital improvements from the federal Airport Improvement Program (AIP), which is overseen by the Federal Aviation Administration (FAA).

Airports that accept AIP grants must agree to a set of conditions (commonly known as “grant assurances”) – one of which prohibits the use of airport revenue for non-airport purposes. In general, the FAA revenue diversion rules require that airport revenues be used only for projects that specifically benefit those airports.

Compliance with the FAA prohibition on revenue diversion is mandatory; an airport’s obligation to comply with the revenue diversion prohibition is a binding contractual commitment between the airport sponsor (the City of Houston) and the federal government. The FAA routinely audits airports that accept AIP funds, and there can be severe penalties for compliance violations.
The Houston Airport System (HAS) consists of three airport facilities:

- William P. Hobby Airport (HOU)
  - HOU is Houston’s oldest commercial airport and is home to predominantly low-cost air carriers.
  - HOU welcomed the return of international air service in October 2015 by Southwest Airlines, with a new five-gate concourse and federal inspection services facility (FIS).
  - HOU serves more than 50 domestic destinations and has added 10 new international destinations in 2015.
  - 12 million passengers traveled through Hobby in 2014, representing a 44 percent increase over the last 10 years.
  - HOU supports 52,000 local jobs and contributes $4.4 billion to the local economy.
  - In addition to commercial service, Hobby is a major regional center for corporate and private aviation.
Ellington Airport (EFD)

- Ellington is a joint-use airport that supports the operations of the United States Military, NASA and a variety of general aviation tenants.
- Approximately 100,000 flight operations are handled at Ellington each year, with the majority of those involving general aviation aircraft.
- Ellington received its commercial spaceport license in June 2015, making it the 10th commercial spaceport in the United States and the third in Texas.
- EFD has 600 acres of prime land available for lease and real estate development.
- EFD is a crucial part of the local, regional and national aviation infrastructure and supports disaster relief and recovery efforts, in addition to serving as part of the training schedule for several military/government operations including the Texas Army National Guard, the Texas Air National Guard, the 75th Reserve Division, the U.S. Coast Guard and NASA.
- EFD supports more than 10,000 local jobs and contributes $641 million to the local economy.

George Bush Intercontinental (IAH)

- IAH is Houston’s largest airport and is the premiere long-haul airport for the region, servicing almost 190 total destinations.
- Of the nearly 190 destinations, 71 are international and 118 are domestic.
- It is the eighth busiest airport in North America.
- More than 41 million annual passengers travel through the five-terminal, five-runway airport.
- 28 passenger airlines service IAH.
- IAH supports 170,000 local jobs and contributes more than $22 billion to the local economy.
CONNECTIONS

New International Service

Driven by a robust economy and the most diverse population of any large metropolitan area in the nation, the City of Houston has enjoyed unprecedented success in growing the amount of international air travel and in attracting new international service to the local market. Since April 2013, 10 new international air carriers have entered the Houston market:

- Turkish Airlines
- Air China
- Korean Air
- Interjet
- All Nippon Airways
- EVA Air
- Volaris
- WestJet
- Air New Zealand
- Vacation Express

Expanded Service

This rapid expansion has been felt across existing air carriers as well. In 2014 and 2015, 51 domestic and international routes were added by our existing carriers.

- United Airlines
- Southwest Airlines
- American Airlines
- Spirit Airlines
- Branson Air Express
- Aeromexico
- Frontier
- SeaPort
- VivaAerobus

International Passenger Growth

This rapid expansion has led to skyrocketing international passenger totals — a 56 percent increase in international travel from 2004 to 2014.

Total International Passengers

<table>
<thead>
<tr>
<th>Region</th>
<th>2004</th>
<th>2014</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia/Africa</td>
<td>240K</td>
<td>432K</td>
<td>80%</td>
</tr>
<tr>
<td>Europe</td>
<td>1.1M</td>
<td>1.6M</td>
<td>40%</td>
</tr>
<tr>
<td>Central/South America</td>
<td>1.7M</td>
<td>2.8M</td>
<td>65%</td>
</tr>
<tr>
<td>Europe</td>
<td>5.6M</td>
<td>8.9M</td>
<td>56%</td>
</tr>
</tbody>
</table>

Central / South America

<table>
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<td>5.6M</td>
<td>8.9M</td>
<td>56%</td>
</tr>
</tbody>
</table>
Where We Fly

Houston’s status as a “global gateway” is expanding as never before and the Houston Airport System (HAS) is proud to lead the way in this growth by expanding the city’s connectivity to the world and accommodating the ever-increasing amount of international air traffic stretching our global reach. Houston’s commercial airports currently serve:

118 Domestic destinations

71 International destinations

- 51 Latin American destinations
- 5 Canadian destinations
- 7 European destinations
- 2 Middle Eastern destinations
- 4 Asian destinations
- 1 African destination
- 1 Oceanic destination

In 2015, George Bush Intercontinental (IAH) became the only North American airport to offer nonstop flights to all six inhabited continental regions, with the addition of new nonstop service from Houston to Auckland, New Zealand in December.

HAS also offers more connectivity with Mexico than any other U.S. city and will soon offer even more thanks to the recent expansion into international service at Hobby by Southwest.

Both of HAS’ commercial airports serve as hubs for two airlines:

- United Airlines handles approximately 81 percent of all traffic at IAH
- Southwest Airlines handles approximately 92 percent of all traffic at HOU
Terminal C North

On May 11, 2015 United Airlines, in partnership with the Houston Airport System (HAS), broke ground on the airline’s new Terminal C North concourse. The $244 million project will create a 265,000-square-foot facility, more than 100,000 square feet larger than the existing Terminal C North, with 11 passenger boarding gates to accommodate a mix of United’s narrow, mid- and wide body fleet.

When construction on the new concourse is completed, the Houston Airport System will demolish the existing Terminal C North facility at Bush Intercontinental to enable the reconstruction of the Mickey Leland International Terminal D.

Terminal B South

Opened in 2013, this $97 million renovation doubled the amount of gates and modernized the look of the terminal. This 225,000-square-foot facility serves as the hub in Houston for United Express flights operated by regional partners ExpressJet, SkyWest, Trans States and Shuttle America. Together, they operate more than 300 daily flights from Bush Intercontinental Airport to business and leisure destinations in the United States, Canada, Mexico and the Caribbean. United Airlines opened Terminal B South with 30 gates and 15,000 square feet worth of food, beverage and retail concession space.
International Terminal Redevelopment Project (ITRP)

Terminal D, which serves international flights, is at capacity during peak hours and exceeds capacity four to five weeks of the year. Only minor cosmetic improvements have been made to the terminal since its opening in 1990, while the passenger traffic has almost quadrupled. In order to make room for a new international terminal at IAH, the existing Terminal D must be completely demolished and removed.

The new building will be more than 50 percent larger than its predecessor, covering more than 800,000 square feet. As before, the terminal will accommodate Houston operations for more than a dozen foreign flag carriers and United Airlines’ international service. All gates will accommodate international growth trends from air carriers, such as their need for gates that are capable of handling large Group VI aircraft. IAH is the nation’s eighth-busiest international gateway and the completion of ITRP will allow the airport to remain competitive with similarly sized airports.

The scope of the projects includes:
- New Terminal D
- New north terminal roadway
- New airside packages (ramp areas)
- Training Center
- Federal Inspection Station (FIS) rehabilitation
- New Terminal C North, Terminal B-D Connection, Terminal B ramp and apron to be handled by United Airlines
- Enabling projects: Program management office building, site utilities, aircraft parking hardstand replacement and Terminal D baggage handling system modifications.

Construction is scheduled to begin in 2017, and completion is slated for 2022.

Houston Area Construction Education Collaborative (HACEC)

On October 30, 2015, the Houston Airport System (HAS) broke ground on a new training center designed to enhance the skill safety and construction skills set of various employees working on HAS-designated construction projects. The HACEC training center is located off George Bush Intercontinental Airport and will provide mandatory training classes where OSHA and HAS safety and security guidelines and requirements are laid out in a detailed fashion. The 40,000-square-foot facility will feature a mix of classroom, laboratory and office spaces and provide a variety of construction craft skill training.

The collaborative creates a mutually beneficial partnership between HAS and the following institutions of higher learning: Lone Star College System, Houston Community College and San Jacinto College. The collaborative will result in reduced Owner’s Controlled Insurance Program (OCIP) premiums paid by HAS. A portion of the savings will help fund the HAS-specific aspects of the program. Funding for non-HAS specific training will be provided by HAS’ partner educational institutions as well as by companies and students.
On October 15, 2015, Hobby airport welcomed the return of international service after nearly 40 years. The new international concourse at Hobby is a $156 million project fully funded by Southwest Airlines. The terminal has five gates — four of which are preferential use for Southwest — and is expandable to 12 gates in the future. The new concourse covers approximately 280,000 square feet and features a new and expanded Southwest Airlines ticket counter and a Federal Inspection Services (FIS) facility with 16 primary inspection stations, Automated Passport Control (APC) kiosks and Global Entry kiosks all capable of processing 400 to 800 arriving passengers at any given time.

Since the arrival of commercial international air travel is expected to generate an additional one million passengers, other infrastructure projects at Hobby Airport are needed in addition to the new concourse.

On October 15, 2015, Hobby airport welcomed the return of international service after nearly 40 years.

**Parking Garage**
- Four levels
- 3,000 additional parking spaces
- Air-conditioned walkway connecting to the new concourse

**Roadway**
- Expanded the width of available lanes
- Upper-level of the roadway will connect to the new concourse
- Renovated signage to guide drivers
- Doubled passenger drop-off area

**Utility Center**
- Remote satellite utility plant
- New updated chill water and heating systems
- Increased efficiency and improved environmental impact
Ellington Airport (EFD)

The Houston Spaceport
On June 30, 2015, Ellington Airport received its license from the Federal Aviation Administration (FAA) to become a commercial spaceport. The spaceport is approved to operate Reusable Launch Vehicles (RLVs), which take off in a similar manner to commercial aircraft but would then become vertical once over the Gulf of Mexico and head to the closest reaches of outer space. Plans are also underway to develop a new Aerospace Design and Solutions lab which will be the focal point for aerospace innovation and operations, such as the launching of micro satellites, astronaut training, zero gravity experimentation, spacecraft manufacturing and a host of other potential activities.

Ellington currently has letters of intent with several companies to partner on the innovation center that will serve as the first phase of development for the spaceport. Companies include Catapult Technologies, Intuitive Machines and United Technologies, Inc.

Lone Star Flight Museum
The Lone Star Flight Museum is relocating from Galveston to Ellington Airport and opening a state-of-the-art 130,000-square-foot facility to be completed in 2016. The Lone Star Flight Museum will bring with it a host of vintage aircraft, an aviation learning center and the Texas Hall of Fame Flight Hangar. The museum will also offer a number of additional amenities for visitors to enjoy, from an aircraft restoration area showcasing the aircraft preservation process to a research library and archive facility offering visitors and researchers access to historic aviation information. The new facility will span across 13 acres at Ellington.

United States Coast Guard Headquarters
A new, 117,000-square-foot headquarters facility was completed in 2014 at Ellington and more than 300 Coast Guard personnel made the move from the Houston Ship Channel area to their new space. The new HQ at Ellington now houses the Sector’s command center, investigative services, electronic support, public affairs and the regional civil rights office.
Staff and industry awards and recognition over the last three years

2015

- Airports Council International-North America, Marketing and Communications Contest — Winner, Promotional Item
- Airports Council International-North America, Marketing and Communications Contest — Honorable Mention, Customer Service
- Airports Going Green Award honorable mention from the Chicago Department of Aviation
- Top 30 Influential Women of Houston by D-Mars.com

2014

- IAH named Routes Americas Airport Marketing Awards winner in the more than 20 million passenger airports category for rapid route development and ability to enhance airline relationships
- Public Official of the Year at third annual University of Houston Master of Public Administration (MPA) Program ceremony
- STEAM Role Model from the Greater Houston Women’s Chamber of Commerce
- Property Manager of the Year by Airport Revenue News (ARN)
- Woman of Distinction from the Texas Association of Mexican American Chambers
- Breakthrough Woman by the Greater Houston Women’s Chamber of Commerce
- Top 40 Under 40 by Airport Business Magazine

2013

- Airport Director of the Year by Airport Revenue News (ARN)
- Alumni of the Year by Texas Southern University
- International Leadership Empowerment Award by Texas Women’s Empowerment Foundation
Major accomplishments achieved over the last three years

- **November 2015** – Houston Airport System (HAS) and NASA entered into an agreement that will allow the Houston Spaceport to tap into the federal space agency’s assets expertise in the spaceflight industry.

- **November 2015** – HAS broke ground on the Houston Area Construction Education Collaborative (HACEC) training center, which will provide safety and construction education to employees working on HAS-designated construction projects.

- **September 2015** – IAH ranked second-fastest average public Wi-Fi download speeds among airports in the United States and ranked top 10 worldwide, according to a leading technology online site.

- **May 2015** – City Council approved funding for construction of ecopark II, which will bring an additional 2,200 covered parking spots to IAH.

- **March 2015** – Sierra Nevada Corporation’s (SNC) Space Systems and HAS announced a follow-on agreement to utilize Ellington Airport’s Spaceport as a future landing site for SNC’s Uncrewed Dream Chaser spacecraft.

- **February 2015** – City Council approved $1.6 billion in concessions contracts which will bring a wide variety of restaurants and shops to both airports to better meet the needs of the growing, diverse number of travelers.

- **September 2014** – HAS rolled out a much faster and free Wi-Fi network at both airports.

- **March 2014** – HAS unveiled new roadway signage at IAH to enhance way-finding to the terminals and parking areas.

- **October 2014** – HAS rolled out new seating that provides a relaxing space near the ticketing counters located at Terminal D. HAS purchased and installed area rugs and lounge seating with convenient outlets for charging devices.

- **November 2013** – HAS launched the Houston Friendly Service Standards — a set of standards to which all employees working at Houston Airports must adhere.

- **August 2012** – Lufthansa brought the first-ever Airbus A380 to Texas, operating at IAH.
Budget overview

The Houston Airport System (HAS) is a self-sustaining department of the City of Houston, generating on its own all revenues necessary to pay operating and maintenance expenses, debt service, and approximately $70 million annually for reinvestment into its airport facilities; HAS levies no property or other taxes.

HAS’ annual operating budget is approximately $500 million, approximate sources and uses are as follows (rounded numbers for ease of calculation):

<table>
<thead>
<tr>
<th>AMOUNT (000s)</th>
<th>SHARE OF TYPE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
</tr>
<tr>
<td>Airline</td>
<td></td>
</tr>
<tr>
<td>Landing fees</td>
<td>$90,000</td>
</tr>
<tr>
<td>Terminal rentals and use fees</td>
<td>185,000</td>
</tr>
<tr>
<td><strong>Subtotal airline revenues</strong></td>
<td>$275,000</td>
</tr>
<tr>
<td>Non-airline</td>
<td></td>
</tr>
<tr>
<td>Parking and ground transportation</td>
<td>$110,000</td>
</tr>
<tr>
<td>Terminal concessions</td>
<td>40,000</td>
</tr>
<tr>
<td>Rental car concessions</td>
<td>35,000</td>
</tr>
<tr>
<td>Land and building rentals</td>
<td>25,000</td>
</tr>
<tr>
<td>Other</td>
<td>15,000</td>
</tr>
<tr>
<td><strong>Subtotal non-airline revenues</strong></td>
<td>$225,000</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>$500,000</td>
</tr>
<tr>
<td><strong>Operating and maintenance (O&amp;M) expenses</strong></td>
<td></td>
</tr>
<tr>
<td>Personnel</td>
<td>$112,000</td>
</tr>
<tr>
<td>Services</td>
<td>175,000</td>
</tr>
<tr>
<td>Supplies</td>
<td>10,000</td>
</tr>
<tr>
<td>Non-capital outlay</td>
<td>3,000</td>
</tr>
<tr>
<td><strong>Total O&amp;M expenses</strong></td>
<td>$300,000</td>
</tr>
<tr>
<td><strong>Net revenues</strong></td>
<td>[E=C-D]</td>
</tr>
<tr>
<td><strong>Debt service net of PFCs</strong></td>
<td>[F]</td>
</tr>
<tr>
<td><strong>Deposit to Airports Improvement</strong></td>
<td></td>
</tr>
<tr>
<td>Fund/amounts available for reinvestment</td>
<td>[E-F]</td>
</tr>
</tbody>
</table>
HAS and its City of Houston partners

HAS is an important customer for City services, contracting with various City departments.

<table>
<thead>
<tr>
<th>AMOUNT (000s)</th>
<th>SHARE OF PAYMENTS TO CITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Houston Police Department</td>
<td>$26,000</td>
</tr>
<tr>
<td>Houston Fire Department</td>
<td>$19,000</td>
</tr>
<tr>
<td>Fleet Management</td>
<td>$5,000</td>
</tr>
<tr>
<td>Public Works and Engineering (drainage fee)</td>
<td>$4,000</td>
</tr>
<tr>
<td>Allocated indirect overhead and other</td>
<td>$2,000</td>
</tr>
<tr>
<td><strong>Total interfund payments by HAS</strong></td>
<td><strong>$56,000</strong></td>
</tr>
</tbody>
</table>

Airport revenues are categorized into two main groups: airline revenues (rates and charges paid by airlines for the use of terminal and airfield facilities) and non-airline revenues (parking fees, terminal concession privilege fees, rental car privilege fees, ground transportation privilege fees, and land and building rentals).

By federal law, airline rates and charges must be set to recover only properly allocated operating and capital costs; in this sense, airline revenues are cost recovery, and HAS cannot generate “profit” from these cost centers.

Various airline use and lease agreements at IAH and HOU specify the rate-making principles, cost centers, and cost accounting methodologies that provide the basis for the rates and charges paid by the airlines at HAS.

All “profits” generated by the airport enterprise are generated from non-airline revenues and must be re-invested into HAS airports by federal law; any allocations of City expenses to HAS must be properly allocated under a transparent and fair cost allocation plan whereby HAS is charged as any other City department and only to the extent HAS directly benefits from the services provided by the City.

HAS is a self-sustaining department of the City of Houston

$500 million
Key financial indicators

While the industry has many metrics for evaluating airport financial performance, there are two principal metrics that are used to evaluate relative airport financial health and affordability: debt service coverage and airline payments per enplaned passenger.

Debt service coverage is the ratio of net revenues (revenues less expenses) to debt service paid from net revenues (i.e., excluding that paid from passenger facility charges); the ratio can be simply stated as a dollar amount and interpreted as “HAS generates $X for every $1 of debt service to be paid from net revenues.”

Other things equal, lower debt service coverage ratios indicate more leverage or indebtedness and weaker relative financial health; higher ratios indicate more appropriate levels of leverage and stronger relative financial health.

The Houston Airport System (HAS) has an internal long-term financial planning goal to generate debt service coverage of at least 1.50.

HAS has improved debt service coverage from a low of 1.34 for FY 2011 (actual) to 1.62 (estimated) for FY 2015.

Debt outstanding and credit ratings

HAS is rated favorably compared with peer airports at the equivalent AA- (senior lien) and A+ (subordinate lien) levels.

HAS has three liens of debt: senior, subordinate and inferior, with amounts outstanding and credit ratings as of September 1, 2015 as follows:

<table>
<thead>
<tr>
<th>Lien Type</th>
<th>Amount outstanding (000s)</th>
<th>Share of total</th>
<th>Credit rating (S&amp;P/Moody’s/Fitch)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior lien</td>
<td>$499,885</td>
<td>23%</td>
<td>AA-/Aa3/NR</td>
</tr>
<tr>
<td>Subordinate lien</td>
<td>1,654,040</td>
<td>76%</td>
<td>A/AA1/A+</td>
</tr>
<tr>
<td>Inferior lien</td>
<td>12,155</td>
<td>1%</td>
<td>NR/NR/NR</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,166,080</strong></td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

NR=not rated

- All ratings have a stable outlook.