

City of Houston, Texas Airport System

\$835,000,000* Series 2020A-C
Investor Presentation

*Preliminary and subject to change



SEPTEMBER 9, 2020



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Except where noted, the information provided in the Investor Presentation is derived from the Preliminary Offering Memorandum and the appendices thereto.

MISSION, VISION & HAS OVERVIEW

HOUSTON AIRPORT SYSTEM (HAS)

MISSION AND VISION



MISSION

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

VISION

Establish Houston Airport System as a 5-star global air service gateway where the magic of flight is celebrated

HAS OVERVIEW

The Houston Airport System is an enterprise system of the City of Houston, and is currently comprised of the following facilities, each of which the City manages, owns and operates through the Houston Airport System: George Bush Intercontinental Airport/Houston, William P. Hobby Airport and Ellington Airport. Certain of the metrics and statistics of the Houston Airport System have been impacted by COVID-19. Please see “Impact of COVID-19 Pandemic on the Houston Airport System” in the Preliminary Official Statement dated September 9, 2020.

George Bush Intercontinental (IAH)

- 45.2 million passengers in 2019
- 178 Destinations: non-stop service to 112 domestic destinations and 66 international destinations (January 2020)
- Supports more than 141,000 local jobs and contributes more than \$27.3 billion to the local economy
- Provides service to all 6 inhabited continents
- 2nd busiest of United Airlines’ principal domestic airport hubs, the world’s second-largest airline
- 14th busiest airport in the United States based on enplaned passengers in CY2018 (per FAA)

William P. Hobby(HOU)

- 14.4 million passengers in 2019
- 58 Destinations: service to 51 domestic and 7 international destinations within U.S., Mexico, Latin America and the Caribbean (January 2020)
- Supports more than 36,000 local jobs and contributes more than \$5.8 billion to the local economy
- 1st in Texas to have biometric entry and exit
- Home to one of Southwest Airlines’ most important and active hubs
- 35th busiest airport in the United States based on enplaned passengers in CY2018 (per FAA)

Ellington (EFD)

- Became home to the nation’s 10th licensed commercial spaceport in June 2015
- Astronauts from the world-renowned Johnson Space Center receive ongoing space training at EFD
- Supports more than 13,000 local jobs and contributes more than \$3.3 billion to the local economy
- Accommodates more than 75,000 flight operations, offering 24/7 Air Traffic Control (ATC) service and three active runways
- Home to the regional headquarters of the United States Coast Guard
- Supports operations of U.S. Military, Homeland Security, NASA and general aviation

Jobs and economic financial contribution data come from a study performed for HAS by ICF in September 2019.

COVID-19 PANDEMIC IMPACTS AND RESPONSES

IMPACT OF COVID-19 PANDEMIC - REVENUES

HAS airline use and lease agreement charges airlines based on a compensatory cost allocation, whereby airline fees equal HAS's operating and capital costs allocable to the airlines based on aircraft landed weights, enplaned passengers, deplaned passengers and area occupied within the airport. Therefore, airline revenues increase or decrease based on changes in operating and capital costs rather than changes in passenger enplanements and did not change due to COVID-19.



(\$42M)

→ Non-airline revenues (i.e. Parking, Concessions, Ground Transportation) in 4Q FY20 declined by \$42M or 70% when compared to 4Q FY19

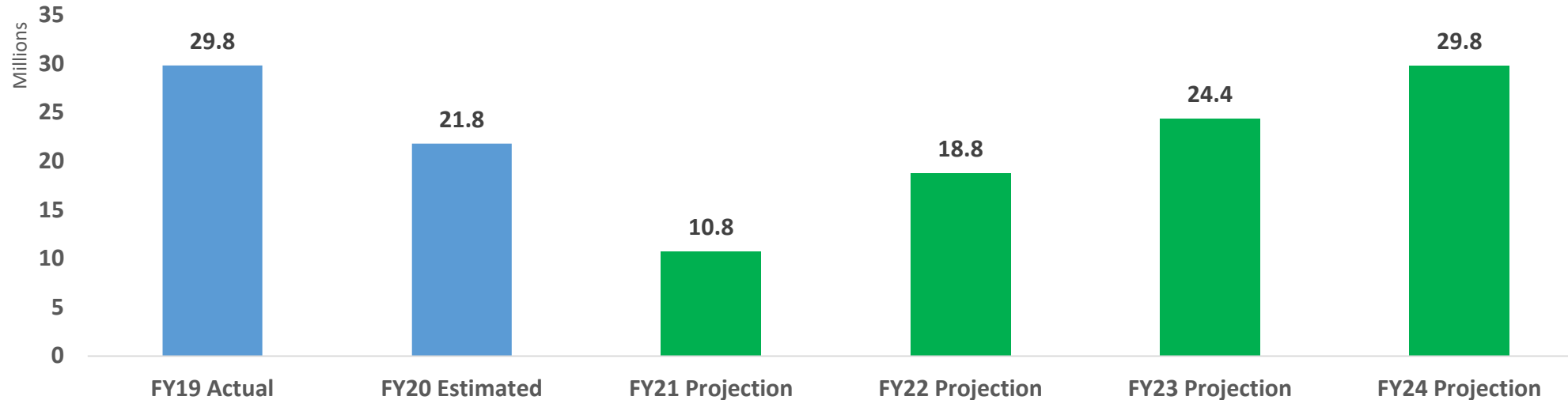


(\$18.7M)

→ PFC revenues in 4Q FY20 declined by \$18.7M or 63% when compared to 4Q FY19 (PFC revenues lag actual passenger levels for a given month)

HAS

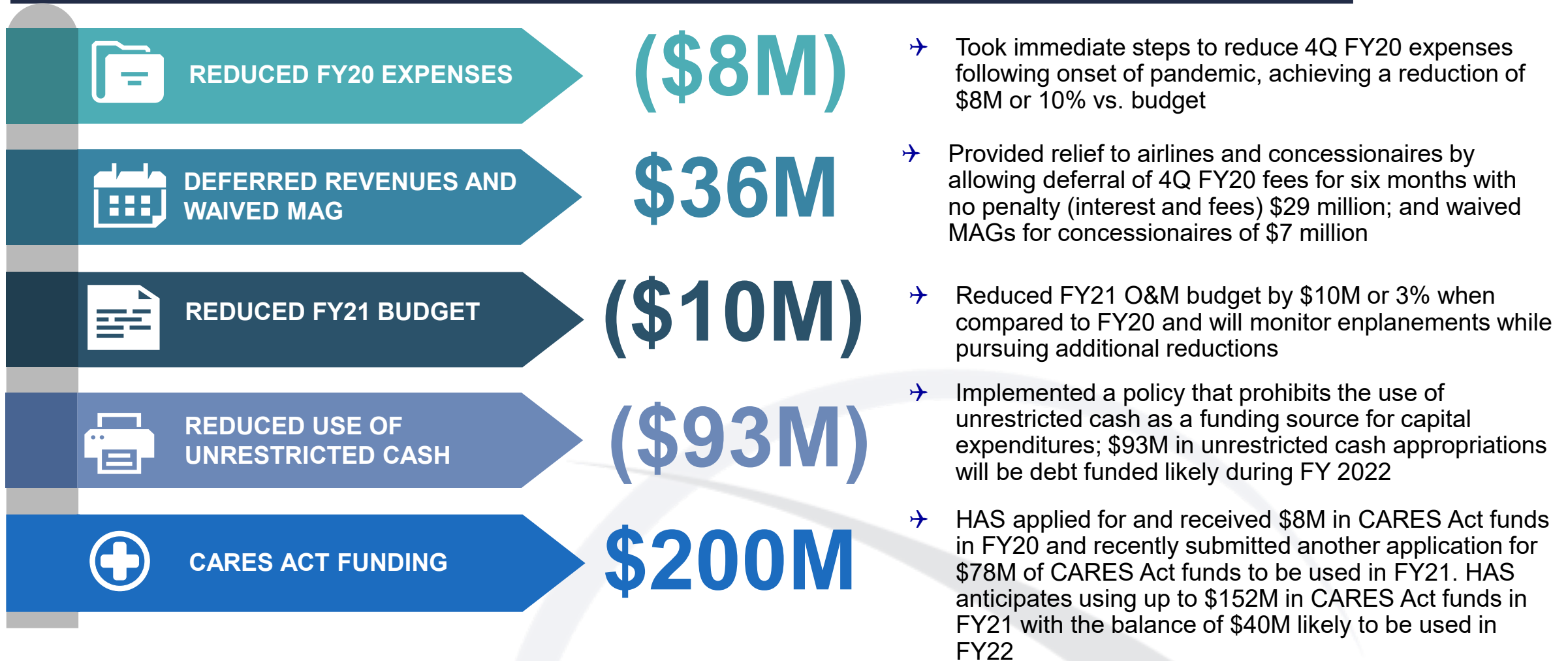
IMPACT OF COVID-19 PANDEMIC - ENPLANEMENTS



- HAS passenger traffic declined by 89% or 13.8M passengers in 4Q FY2020 when compared to 4Q FY2019
- HAS enplanement projections are largely based on analysis provided by IATA (International Air Transport Association), which projects, based on a number of assumptions, that passenger traffic will return to pre-COVID (2019) levels by the end of calendar year 2024
- HAS adopted these numbers to facilitate financial planning
 - We believe these projections provide a reasonable basis for planning operations and maintenance and capital spending levels as we operate during this pandemic.

HAS

RESPONSE TO COVID-19 PANDEMIC - FINANCIAL





- Created a COVID-19 webpage to keep the public up-to-date on new safety initiatives (fly2houston.com/covid-19)
- Implemented FlySafe Houston to convey to passengers our commitment to ensuring their safety and health as they arrive, depart and connect through George Bush Intercontinental (IAH) and William P. Hobby (HOU) airports (fly2houston.com/flysafe)
- Implemented major initiatives including touchless (biometric) boarding
- Made the Houston Clean Pledge, becoming a member of Houston Clean Task Force, a group of public and private entities that have pledged to maintain the highest standards of public safety and health across our city ([Houston Clean Task Force](#))

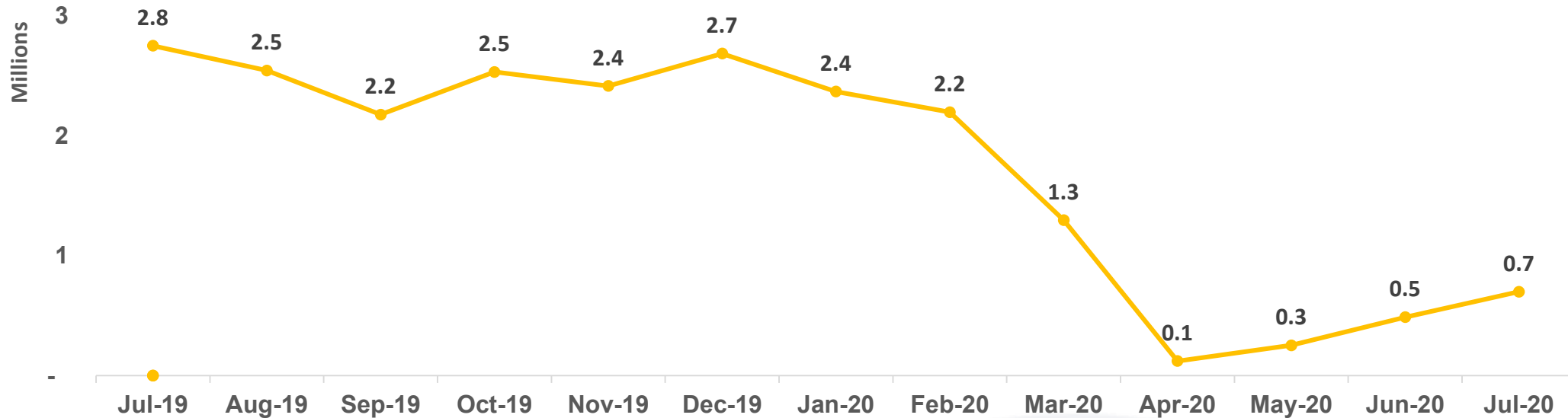
AIR SERVICE UPDATE

SCHEDULED FLIGHTS

- May 2020 saw the deepest scheduled flight reductions for HAS
 - 5,724 domestic flights and 198 international flights, which represented reductions versus May 2019 of 73% and 95%, respectively
- September 2020 scheduled flights are at 10,369 domestic flights and 1,435 international flights, which represent increases versus May 2020 of 81% and 625%, respectively
 - When compared to September of 2019, scheduled domestic flights are down 48% and scheduled international flights are down 59%

HAS

ENPLANED MONTHLY PASSENGER TREND



- In the 6 months preceding COVID-19's initial impact in the United States in March 2020, HAS averaged 2.4 million enplanements per month
- Enplanements decreased to 121,072 in April 2020
- July 2020 enplanements were 699,447, a 74.6% decrease from the prior year and a 43.8% increase when compared to the prior month (June 2020 enplanements were 486,450)

Source: HAS data

HAS

PASSENGER & REVENUE PROJECTIONS

(in millions)	FY19 (Actual)	FY20 (Estimate)	FY21 (Projection)	FY22 (Projection)	FY23 (Projection)	FY24 (Projection)
Airline Revenues	\$269.3	\$288.0	\$194.8	\$274.9	\$303.6	\$312.6
Non-Airline and Other Revenues	\$248.9	\$205.5	\$125.9	\$191.1	\$237.0	\$282.1
Gross Revenues	\$518.2	\$493.5	\$320.7	\$466.0	\$540.6	\$594.7
Enplanements	29.6	20.4	10.8	18.8	24.4	29.8

- FY21 and FY22 Airline Revenue are shown net of CARES Act offsets (\$90M and \$20M, respectively)
- Non-Airline and Other Revenues are projected to grow at an annual rate of 31% from FY21 to FY24
- Enplanements are projected to grow at an annual rate of 40% from FY21 to FY24 largely based on analysis released by IATA (International Air Transport Association) on July 28, 2020

MAJOR PROJECTS & CIP FUNDING

HAS

MAJOR CAPITAL PROJECTS



International Terminal – Central Processor

Budget - \$508M

Timeline – CY24

- Construct new facility where all foreign flag airlines and United international passengers arrive and depart
- Baggage improvements and modifications
- Arrivals/Departure curbside and roadway modifications
- Enabling projects (demolition, utilities, roadways, etc.)



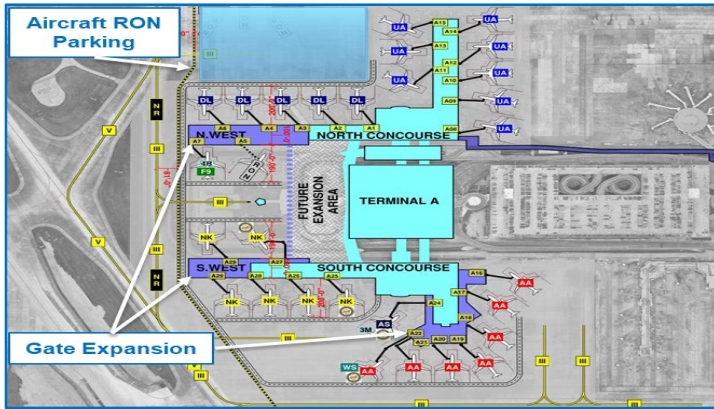
International Terminal – North Concourse

Budget - \$530M

Timeline – CY23

- Construct a new D-West Pier (Completed in CY22)
- Refurbish and Re-life system in Terminal D
- Construct arrivals corridor connecting the existing sterile corridors
- Enabling projects (demolition, apron works, utilities, etc.)

HAS MAJOR CAPITAL PROJECTS (CONTINUED)



Terminal A Modernization and Expansion Budget - \$583M Timeline – Planning commenced in FY20

- Expand South Concourse by 4 gates and the West Concourse by 5 gates
- Modernize Terminal A, including rehab of core building systems
- Terminal A Baggage Handling System Optimization
- Enabling works projects to correct several existing customer-level deficiencies (additional curbside lanes and RON parking)



Hobby West Concourse Expansion Budget - \$234M Timeline – CY23

- Southwest Airlines to plan, design and construct 7-9 additional gates on the existing West Concourse
 - international and domestic use gates
 - Southwest preferential lease of 5-6 gates
 - 2-3 gates available for other airlines
 - Southwest Airlines to pay costs upfront and receive reimbursement by the City (HAS)

Amounts presented reflect estimated total project costs and may include amounts already spent and/or appropriated prior to the Fiscal Year 2021-25 Capital Improvement Plan.

CAPITAL IMPROVEMENT PLAN FUNDING SOURCES

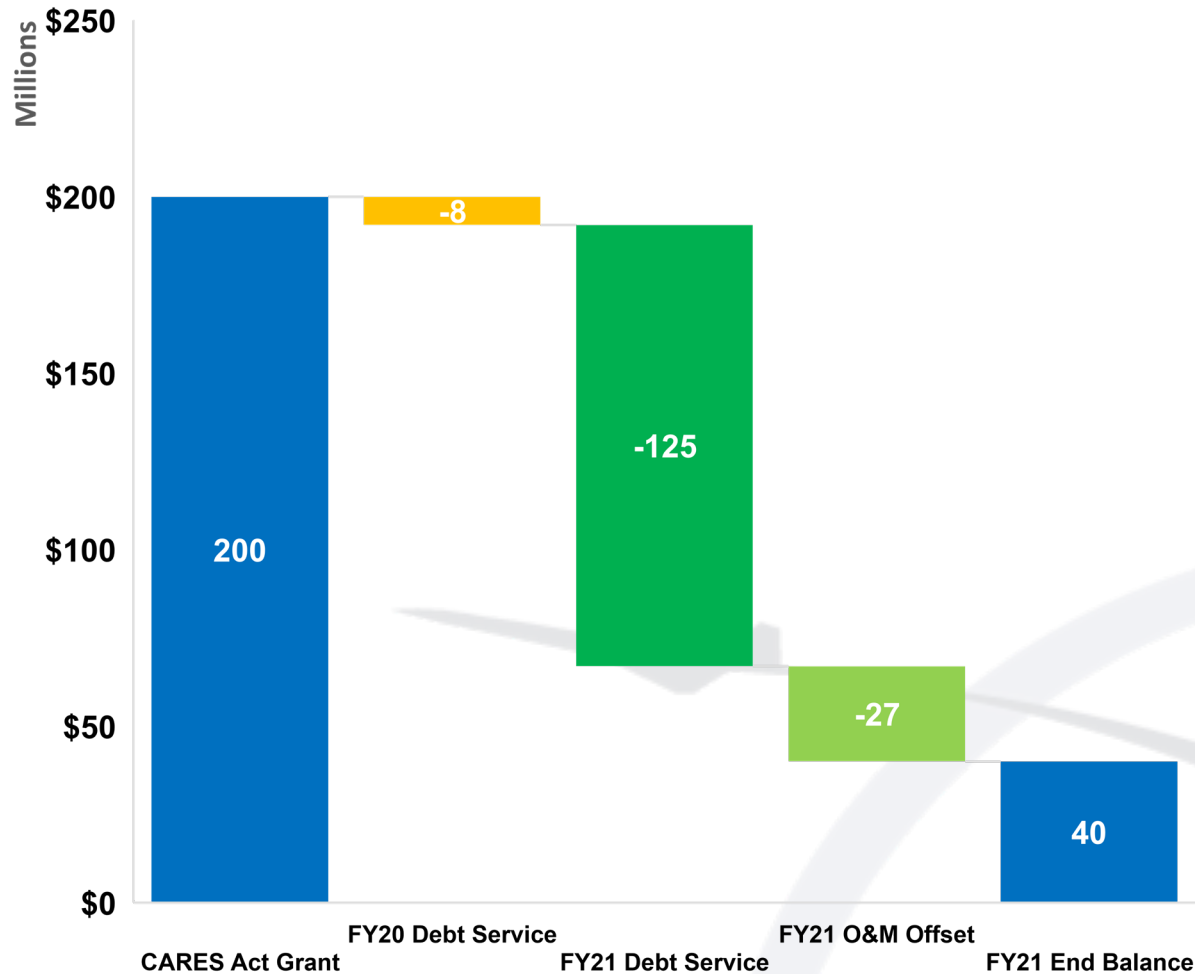
(\$'s in millions)	FY2021-2025
Airport Improvement Fund (AIF)	\$218.2
Renewal and Replacement Fund	\$40.4
Bonds/Commercial Paper	\$1,487.6
Pay-Go PFCs	\$406.8
AIP/FAA Grants	\$133.4
Special Facility Debt	\$203.7
Total CIP Spend	\$2,490.0

- CIP funding sources, as shown, are based on the adopted Capital Improvement Plan for FY 2021-2025
 - Funding sources are preliminary and subject to change
 - No appropriation for CIP spend will be made from the AIF in FY21 per temporary policy prohibiting cash CIP spend (estimated to be \$93M), however, those AIF moneys may be used in later years to fund CIP
 - Additionally, the level of appropriation and spending in FY21 and FY22 are likely to be reduced as a result of the COVID-19 pandemic
 - The City has not adopted a revised CIP for the Houston Airport System, but management expects to slow the rate of CIP spending through the end of Fiscal Year 2022

FINANCIAL UPDATE

HAS

USE OF \$200M CARES ACT GRANT FUNDING



- Houston Airports was awarded \$200M in CARES Act grant funding
- CARES Act funds treated as Grants, not as Revenues
- \$8 million was used to offset a portion of HAS' FY20 annual debt service requirement
- HAS plans to use \$152M in FY21
 - \$125M to offset subordinate lien debt service
 - \$27M to offset operating expenses (O&M)
 - Will result in a \$90M reduction of the costs allocated to airlines
 - Annual debt service requirement for Subordinate Lien Bonds, net of PFCs, will be paid by CARES Act reducing debt service requirements, as defined in master bond ordinance, to zero
- HAS has not yet allocated the use of approximately \$40M of the remaining CARES Act proceeds allowing for risk management

HAS

DEBT SERVICE COVERAGE RATIO TREND & PROJECTION

(\$'s in millions)	FY16	FY17	FY18	FY19	FY20 Estimate	FY21 Projected
Airline Revenues	\$274.9	\$280.9	\$287.9	\$269.3	\$288.0	\$194.8
Non-Airline and Other Revenues	\$220.9	\$229.6	\$234.5	\$248.9	\$205.5	\$125.9
Gross Revenues	\$495.8	\$510.5	\$522.4	\$518.2	\$493.5	\$320.7
Operations and Maintenance Exp.	\$314.7	\$254.5	\$326.9	\$326.9	\$325.5	\$298.5
Net Revenues	\$181.1	\$256.0	\$195.5	\$191.3	\$168.0	\$22.2
Gross Subordinate Lien Debt Service ¹	\$163.9	\$175.0	\$174.5	\$176.3	\$185.2	\$183.1
Less: Passenger Facility Charges	(\$42.3)	(\$54.7)	(\$50.6)	(\$60.6)	(\$54.0)	(\$57.7)
Less: Grants	(\$13.9)				(\$14.2)	(\$125.4)
Net Sub Lien Debt Service	\$107.7	\$120.4	\$123.8	\$115.7	\$117.0	\$0
Debt Service Coverage Ratio	1.68x	2.13x	1.58x	1.65x	1.44x	N/M²

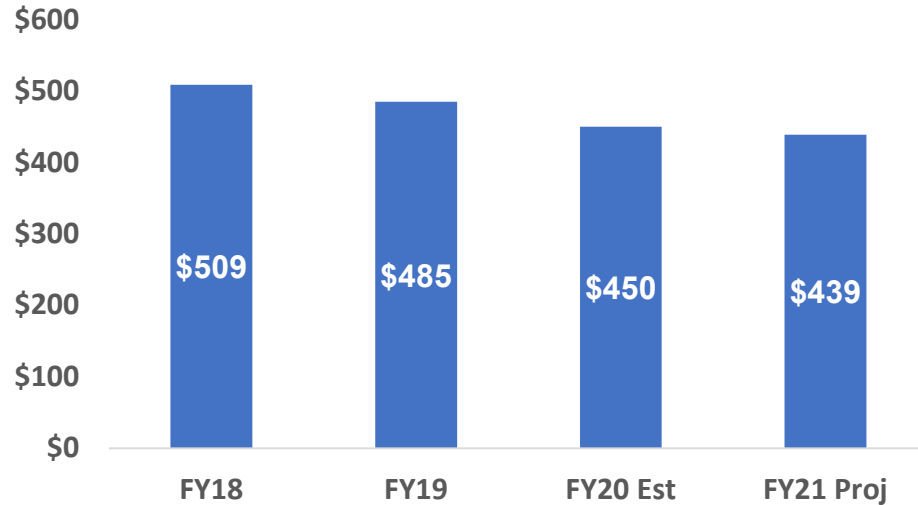
1 – There is currently no senior lien debt service outstanding

2 - Annual debt service requirement for Subordinate Lien Bonds, net of PFCs, will be paid by CARES Act thereby reducing debt service requirements, as defined in master bond ordinance, to zero.

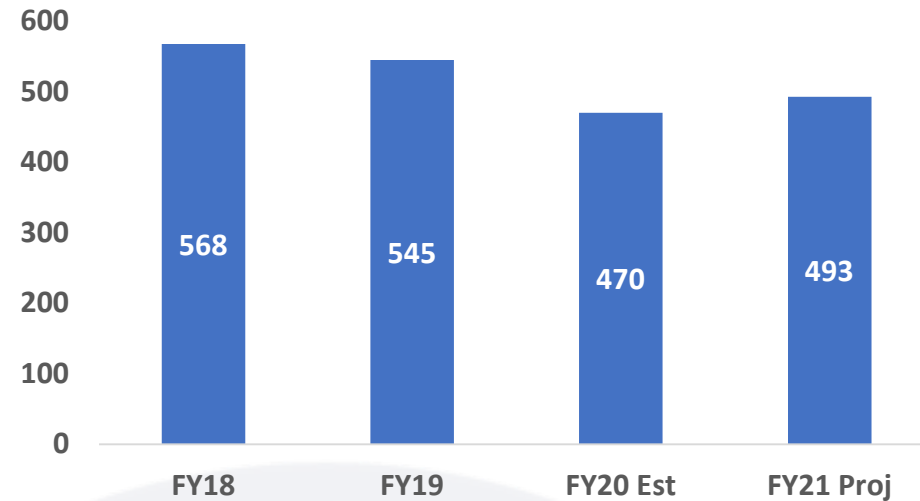
HAS

AVAILABLE CASH & DAYS CASH ON HAND

AVAILABLE CASH (in millions)



DAYS CASH ON HAND

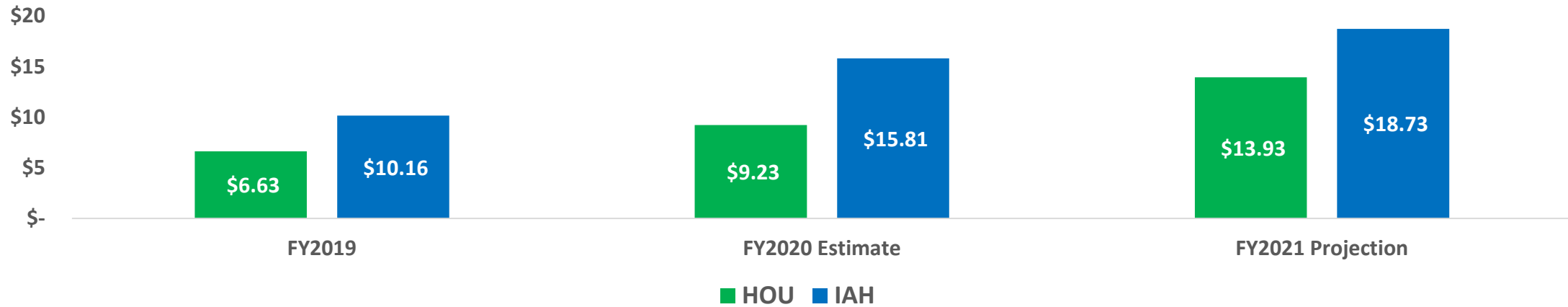


- ➔ Cash available for operations decreased by \$35 million FY19 to FY20, primarily due to airline payment deferrals caused by the COVID-19 Pandemic
- ➔ Days Cash on Hand declined in FY20 due to airline revenue deferrals and 4Q revenue impacts
 - ➔ Expected increase in FY21 Days Cash on Hand is due to CARES Act grant proceeds and collection of deferred payments

*Projections are preliminary and subject to change.

HAS

PROJECTED CPE BY AIRPORT



- HAS to use CARES Act proceeds to offset costs to the airlines in FY21 in the form of debt service and O&M expense reductions
- Airline costs at William P. Hobby Airport (HOU) were reduced from \$49M in the FY20 budget to \$37M (-24%) in the FY21 budget
- Airline costs at George Bush Intercontinental Airport (IAH) were reduced from \$236M in the FY20 budget to \$153M (-35%) in the FY21 budget
- The increase in costs per enplanement in FY21 are a result of an estimated 65% reduction in enplanements in the FY21 budget when compared to the FY20 budget

*Projections are preliminary and subject to change.

HAS

TRANSACTION SUMMARY

	Series 2020A (AMT)	Series 2020B (Non-AMT)	Series 2020C (Taxable)
Par Amount*:	\$135,000,000	\$75,000,000	\$625,000,000
Pricing*:	September 16 and 17, 2020*		
Closing*:	October 20, 2020*		
Security:	The Series 2020 Bonds are special obligations of the City which, together with the Outstanding Subordinate Lien Bonds and any Additional Subordinate Lien Bonds hereafter issued, are payable from, and equally and ratably secured by, a lien on the Net Revenues of the Houston Airport System, subject and subordinate to the prior and superior lien of Outstanding Senior Lien Obligations and Additional Senior Lien Obligations, if any, all as defined herein, and certain Funds established pursuant to the Ordinance		
Use of Proceeds:	(i) refund the 2020A Refunded Notes and (ii) pay related costs of issuance of the Series 2020A Bonds	(i) refund the 2020B Refunded Bonds and (ii) pay related costs of issuance of the Series 2020B Bonds	(i) refund the 2020C Refunded Bonds and (ii) pay related costs of issuance of the Taxable Series 2020C Bonds
Ratings:	S&P: A / Moody's: A1		
Call Feature*:	Par call on date TBD	Not subject to redemption prior to maturity	Par call on date TBD
Interest Payments*:	January 1 and July 1, commencing January 1, 2021		
Maturity Dates:	2025, 2027-2031, 2033 – 2047*	2026-2030*	2022-2032*
Tax Status:	Tax-Exempt, Subject to AMT	Tax-Exempt, Non-AMT(Private Activity Bonds)	Federally Taxable

Financing Highlights

- Subordinate Lien bonds, but no long term Senior Lien Bonds are outstanding
- Series 2020A: Approximately \$150M of outstanding Senior Lien Commercial Paper will be refunded as subordinate lien fixed rate debt (AMT)
- Series 2020B: The balance of the Series 2010 VRDO's (\$91.9 million) will be refunded as subordinate lien fixed rate debt to take advantage of low rates and eliminate letter of credit fees
- Series 2020C: Refunding existing maturities through 2032* as subordinate lien fixed rate debt to achieve present value savings, Refunding Bonds approximately \$625 million in par

*Preliminary, subject to change

HAS CONCLUSION

- Houston is the most populous city in Texas and the 4th most populous in the United States
- The City and HAS expect to be an integral part of the national economy
- The City and HAS entered COVID-19 in a strong financial position
- COVID-19 impacted HAS operations, reaching a low in April, but monthly activity through July trends toward recovery with pre-COVID-19 levels expected by FY2024
- \$200m of CARES Act funding coupled with budgetary actions and structured refunding savings will be financially beneficial to the System as it operates during the pandemic
- Strong management team
- Expects to maintain or increase liquidity position with days cash on hand in FY20 at 470 days and an anticipated increase to 493 days cash on hand in FY21



HAS

PRICING SCHEDULE AND CONTACT INFO

Financing Timetable

Event	Date
Release Series 2020ABC POS	September 9, 2020
Price Series 2020ABC Bonds	September 16 and 17, 2020*
Close Series 2020ABC Bonds	October 20, 2020*

Contact Information

Houston Airport System and City of Houston

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