

ROGER H. BATES

Airport Consultant

December 21, 2019

Mr. J'Maine Chubb
Chief Financial Officer
Houston Airport System
16930 JFK Boulevard
Houston, TX 77032

Re: 2020 Annual Rate Report—Consolidated Rental Car Facility

Dear Mr. Chubb:

Acting in the capacity of the City's designated Independent Rate Consultant, I am pleased to submit this Annual Rate Report for Calendar Year 2020 regarding the Consolidated Rental Car Facility (the Project or the Facility) at George Bush Intercontinental Airport / Houston (the Airport).

In March 2001, the City of Houston (the City) issued *\$130,250,000 City of Houston, Texas, Airport System Special Facilities Taxable Revenue Bonds (Consolidated Rental Car Facility Project), Series 2001* (the Bonds) to finance the Project. The Bonds are secured in large part by a pledge of CFC Revenues—revenues derived from a Customer Facility Charge imposed by the City and collected by the rental car operators (the Operators). The Operators have been collecting CFC revenues and forwarding those revenues to the Trustee since April 2001. The City imposed a \$3.00 Customer Facility Charge at the Airport as of April 1, 2001, and the CFC rate has subsequently been adjusted as follows:

- Increased to \$3.50 effective July 1, 2003,
- Reduced to \$3.25 effective April 1, 2005,
- Reduced to \$3.00 effective July 1, 2006,
- Increased to \$3.75 effective November 1, 2009,
- Increased to \$4.25 effective April 1, 2011,
- Reduced to \$4.00 effective April 1, 2013,
- Reduced to \$3.00 effective April 1, 2016, and
- Increased to \$4.00 effective April 1, 2017

In connection with the issuance of the Bonds, the City (as the Issuer of the Bonds) entered into a Trust Indenture, dated March 1, 2001, with Chase Manhattan Bank (now The Bank of New York Mellon Trust Company, N.A.) as Trustee. This Report is required under Section 7.2 of the Trust Indenture.

Requirements of the Trust Indenture

The specific requirements for the Rate Report are set forth in the Trust Indenture.

Section 7.2.a of the Trust Indenture states:

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 such calendar year equal to not less than:

(1) 125% of the debt service requirements on the Bonds for such calendar year;
and

(2) the amounts necessary to fund in each calendar year all transfers from the Revenue Fund as required by Article IV of this Indenture.

This provision is referred to as the Rate Covenant.

Section 7.2.b of the Trust Indenture goes on to state:

The Director [the City's Director of Aviation] 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.

The Trust Indenture defines "Rate Reports" as follows:

"Rate Reports" shall mean the written reports and recommendations of the Independent Rate Consultant...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.

The Houston Rental Car Operators

The Houston rental car market is served by four companies operating twelve brands: *Advantage Opco, LLC* (operating Advantage and EZ), *Avis Budget Group, Inc.* (operating Avis, Budget, Payless and Zipcar), *Enterprise Holdings Inc.* (operating Enterprise, Alamo and National) and *The Hertz Corporation* (operating Hertz, Dollar and Thrifty).

Recent Trends in Air Traffic Demand

Table 1 on the following page shows recent trends in air traffic activity at the Airport by month for calendar year 2018 and year-to-date 2019 (January through October), as obtained from HAS records.

For the first 10 months of 2019, passenger originations at the Airport (the driver of rental car activity) increased by 7.1% while total passenger enplanements (which include connecting passengers) increased by 3.7% compared to the same period of 2018.

Underlying air traffic demand at the Airport has been strong in 2019, although much of the growth occurred during the first five months of the year. Since June, the growth in passenger enplanements has tapered off quite a bit, averaging 1.3% over the last five months. However, the growth in passenger originations—the driver of rental car activity—has continued to be higher than historical averages, averaging 5.7% over the last five months.

This performance reflects a robust national and regional economy with sustained moderate economic (GDP) growth. In 2019, real gross domestic product (GDP) increased at an annual rate of 3.1% in the first quarter, 2.0% in the second quarter and 2.1% in the third quarter according to the Bureau of Economic Analysis:

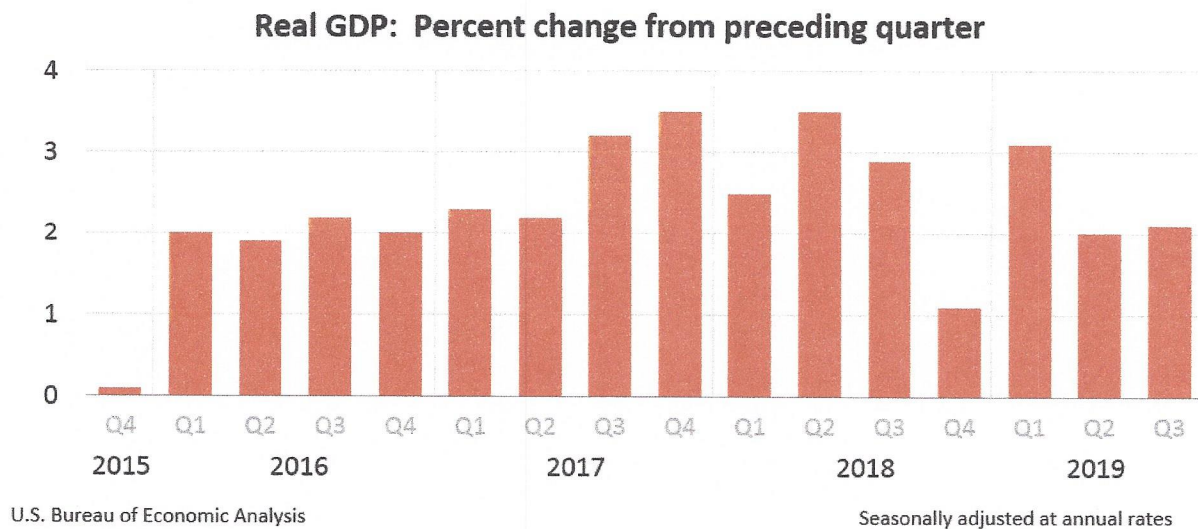


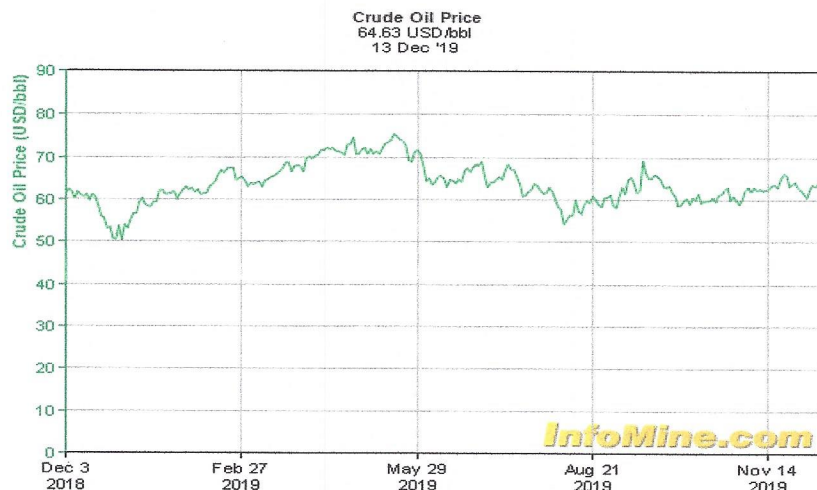
Table 1

RECENT TRENDS IN AIR TRAFFIC ACTIVITY
Calendar Years 2018 and 2017
George Bush Intercontinental Airport / Houston

Year / Month	Enplaned Passengers		Originating Passengers		
	Number	% Change from Prior Year	Number	% Change from Prior Year	% of Total Enplaned Passengers
2019					
Jan	1,754,411	9.2%	907,142	8.6%	51.7%
Feb	1,599,774	5.0%	835,744	6.4%	52.2%
Mar	1,971,680	7.1%	1,070,645	9.0%	54.3%
Apr	1,851,037	4.3%	1,010,416	8.1%	54.6%
May	2,001,019	6.0%	1,167,060	11.4%	58.3%
Jun	2,075,288	1.0%	1,218,096	6.1%	58.7%
Jul	2,105,804	-0.2%	1,238,326	6.8%	58.8%
Aug	1,943,226	2.1%	1,116,097	6.5%	57.4%
Sep	1,636,371	-0.2%	934,819	2.1%	57.1%
Oct	1,899,756	4.0%	1,066,050	6.3%	56.1%
	18,838,366	3.7%	10,564,395	7.1%	56.1%
Nov					
Dec					
Total 2019					
2018					
Jan	1,605,972	-2.4%	835,380	-0.7%	52.0%
Feb	1,524,115	3.2%	785,515	0.4%	51.5%
Mar	1,841,731	4.2%	982,567	3.9%	53.4%
Apr	1,774,853	7.8%	934,935	5.8%	52.7%
May	1,888,218	3.6%	1,048,005	2.2%	55.5%
Jun	2,053,835	5.9%	1,147,541	4.0%	55.9%
Jul	2,109,433	6.7%	1,159,653	3.9%	55.0%
Aug	1,903,924	27.9%	1,047,760	23.4%	55.0%
Sep	1,639,626	19.9%	915,942	19.2%	55.9%
Oct	1,826,245	8.1%	1,002,901	7.3%	54.9%
	18,167,952	8.0%	9,860,199	6.6%	54.3%
Nov	1,827,996	6.9%	1,015,260	9.6%	55.5%
Dec	1,917,921	3.4%	1,060,082	5.6%	55.3%
	3,745,917	5.1%	2,075,342	7.5%	55.4%
Total 2018	21,913,869	7.5%	11,935,541	6.8%	54.5%

Source: Houston Airport System

In Houston, both air traffic and rental car demand is particularly affected by economic conditions and business activity in the oil & gas industry. During 2019, the price of oil has ranged between \$50-\$75 a barrel, recently stabilizing in the middle of this range.



The recent stability is attributable in part to an agreement reached in late 2016, and renewed in 2018 and 2019, by the Organization of Oil Producing Countries (OPEC) and Russia establishing limits on oil production, with the hope of stabilizing oil prices at around \$60 a barrel. Going forward, with the oil & gas industry comprising a major segment of the area economy, local air traffic and rental car demand will continue to be affected by fluctuations in oil prices and economic trends in the oil & gas industry.

Recent Trends in Transaction Days and CFC Revenues

Tables 2A and 2B on the following page show (1) rental car transaction days and (2) CFC revenues, respectively, for the first 10 months of Calendar Years 2019 and 2018. Actual CFC revenues and transaction days for 2019 are then compared with the 2018 actual amounts and with the projections for 2019 prepared in December 2018.

The first 10 months of 2019, the total number of transaction days increased 2.5% over the same period of 2018. This growth was about a third of the rate of growth of originating passenger demand (7.1%), during the same period, suggesting that rental car demand at the Airport is likely being affected by the growth in passenger ride services (Uber and Lyft), a competitive ground transportation service.

Year to date, the total number of transaction days in 2019 are 1.5% behind the projection prepared in December 2018.

The CFC rate in 2019 was \$4.00 per transaction day.

During the first 10 months of 2019 CFC revenues increased by 2.5% over the same period of 2018 but are 1.5% behind the projection prepared in December 2018.

Table 2A

2019 TRANSACTION DAYS¹
Consolidated Rental Car Facility
George Bush Intercontinental Airport / Houston

Applicable Month	Month of Payment	Total Transaction Days		Increase (Decrease)	Percentage Change	2019 Projection	Actual 2019 vs. Projection	Percentage Change
		Actual 2019	Actual 2018					
Jan	Feb	319,041	313,639	5,402		340,000	(20,959)	
Feb	Mar	331,059	337,630	(6,571)		369,000	(37,941)	
Mar	Apr	407,095	398,690	8,405		421,000	(13,905)	
Apr	May	400,206	398,347	1,859		426,000	(25,794)	
May	Jun	427,931	411,280	16,651		418,000	9,931	
Jun	Jul	373,433	360,665	12,768		364,000	9,433	
Jul	Aug	363,067	341,535	21,532		350,000	13,067	
Aug	Sep	375,518	360,961	14,557		370,000	5,518	
Sep	Oct	330,749	326,425	4,324		330,000	749	
Oct	Nov	393,515	381,086	12,429		391,000	2,515	
		3,721,614	3,630,258	91,356	2.5%	3,779,000	(57,386)	-1.5%
Nov	Dec		372,630	(372,630)		414,000		
Dec	Jan		318,244	(318,244)		357,000		
		0	690,874	(690,874)		771,000		
			4,321,132	(4,321,132)		4,550,000		

1. Source: Derived from reported CFC revenues by dividing by the \$4.00 CFC rate.

Table 2B

2019 CFC REVENUES¹
Consolidated Rental Car Facility
George Bush Intercontinental Airport / Houston

		CFC Rate							
		2019	2018						
Jan - Mar		\$4.00	\$4.00						
Apr - Dec		\$4.00	\$4.00						

Month of Accrual	Month of Payment	Total CFC Revenues		Increase (Decrease)	Percentage Change	2019 Projection	Actual 2019 vs. Projection	Percentage Change
		Actual 2019	Actual 2018					
Jan	Feb	\$1,276,164	\$1,254,556	\$21,608		\$1,360,000	(\$83,836)	
Feb	Mar	\$1,324,236	\$1,350,520	(\$26,284)		\$1,476,000	(\$151,764)	
Mar	Apr	\$1,628,380	\$1,594,760	\$33,620		\$1,684,000	(\$55,620)	
Apr	May	\$1,600,824	\$1,593,388	\$7,436		\$1,704,000	(\$103,176)	
May	Jun	\$1,711,724	\$1,645,120	\$66,604		\$1,672,000	\$39,724	
Jun	Jul	\$1,493,732	\$1,442,660	\$51,072		\$1,456,000	\$37,732	
Jul	Aug	\$1,452,268	\$1,366,140	\$86,128		\$1,400,000	\$52,268	
Aug	Sep	\$1,502,072	\$1,443,844	\$58,228		\$1,480,000	\$22,072	
Sep	Oct	\$1,322,995	\$1,305,700	\$17,295		\$1,320,000	\$2,995	
Oct	Nov	\$1,574,060	\$1,524,344	\$49,716		\$1,564,000	\$10,060	
		\$14,886,455	\$14,521,032	\$365,423	2.5%	\$15,116,000	(\$229,545)	-1.5%
Nov	Dec		\$1,490,520	(\$1,490,520)		\$1,656,000	(\$1,656,000)	
Dec	Jan		\$1,272,976	(\$1,272,976)		\$1,428,000	(\$1,428,000)	
		\$0	\$2,763,496	(\$2,763,496)		\$3,084,000	(\$3,084,000)	
			\$17,284,528	(\$17,284,528)		\$18,200,000	(\$18,200,000)	

1. Source: As reported by the Operators to the Trustee and confirmed by the Operators' annual certification reports. CFC payments are required to be sent to the Trustee by the 20th day of the month following collection. Therefore, for example, the May payments to the Trustee represent CFC revenues accrued in April.

Projection of Air Traffic Activity and Rental Car Demand

Table 3, "Actual Rental Car Transaction Days and CFC Revenues—Calendar Year 2019," on the following page, shows relationships between air traffic activity, rental car transaction days and CFC revenues and CFC collections for the first 10 months of 2019 and develops projections of CFC revenues and CFC collections for the full year 2019.

In Table 3, CFC revenues are projected for the months of November and December based on assumptions regarding *passenger traffic growth*, the *percentage of originating passengers to total enplaned passengers*, and *transaction days per originating passenger* shown at the top of the table.

Total CFC revenues are projected to be \$17,874,000 in 2019—a 3.4% increase from actual CFC revenues in 2018 but 1.8% below the projection of 2019 CFC revenues made last December.

Total CFC collections are now projected to be \$17,747,000 in 2019—a 2.5% increase from actual CFC collections in 2018 but 2.3% below the projection of 2019 CFC collections made last December.

Availability of Funds for Upcoming Debt Service Payment

In September 2014, HAS refunded a portion of the outstanding Bonds in a financing transaction that generated material savings in annual debt service over the seven year period, 2014-2020. Projected CFC collections for November and December of 2019, together with moneys currently available in the Debt Service Account, are projected to be more than sufficient to provide for the debt service payments coming due on January 2, 2020:

Funds Available for January 2, 2020 Debt Service Payment

Balance in Debt Service Fund - October 31, 2019	\$6,645,888
Estimated CFC Collections	
November	\$1,574,000
December	\$1,588,000
Total funds estimated to be available	\$9,807,888

Debt service requirements--January 2, 2020

Remaining 2001 Bonds	
Principal	0
Interest	2,345,564
	\$2,345,564
New 2014 Refunding Bonds	
Principal	5,960,000
Interest	173,267
	\$6,133,267
Total Debt Service Payment--January 2, 2020	\$8,478,831

CFC collections generated in excess of annual operating and debt service requirements are being, and will continue to be, transferred monthly to the Facility Improvement Fund and reserved for future capital improvements and other needs.

Trends in Transaction Days per Originating Passenger

Table 4 shows historical patterns in monthly transaction days per enplaned passenger for calendar years 2017, 2018 and year-to-date 2019, and projected monthly transaction days per originating passenger for the last two months of 2019 and all of calendar year 2020. The data in Table 4 generally show a stable trend for average annual transaction days per originating passenger, though fractionally lower numbers in 2019 compared to 2018.

For the purposes of forecasting CFC revenues, it is assumed that the monthly transaction days per originating passenger in 2020 would remain the same as in 2019 with the same monthly demand patterns. These assumptions regarding transaction days per originating passenger are the principal drivers of the 2020 projection of transaction days and CFC revenues.

Table 4

**Trends in Transaction Days per Originating Passenger
Rental Car Market**

George Bush Intercontinental Airport / Houston

	Actual			Projected
	2017	2018	2019	2020
Jan	0.354	0.375	0.352	0.352
Feb	0.433	0.430	0.396	0.396
Mar	0.407	0.406	0.380	0.380
Apr	0.412	0.426	0.396	0.396
May	0.365	0.392	0.367	0.367
Jun	0.295	0.314	0.307	0.307
Jul	0.288	0.295	0.293	0.293
Aug	0.363	0.345	0.336	0.336
Sep	0.385	0.356	0.354	0.354
Oct	0.451	0.380	0.369	0.369
Nov	0.406	0.367	0.380	0.380
Dec	0.351	0.313	0.320	0.320
Annual Average	0.370	0.362	0.352	0.352
Percent Change	1.7%	-2.1%	-2.8%	0.0%

*assume no change
from prior year*

Projected CFC Revenues and Collections at the Current CFC Rate

Table 5, "Projected Rental Car Transaction Days and CFC Revenues—Calendar Year 2020," extrapolates the historical relationships shown in Table 3 to produce a projection of CFC revenues and CFC collections for 2020 *assuming continuation of the current \$4.00 CFC Rate*. The forecast of CFC revenues is also based on the following key assumptions:

- Overall air traffic activity (passenger enplanements) would increase by 2.0% in 2020, reflecting the recent tapering down of growth in passenger demand in the Houston market.
- Originating passengers would account for 56% of passenger enplanements in 2020, consistent with the average percentage experienced during the first 10 months of 2019.
- Monthly transaction days per originating passenger in 2020 would be the same as in 2019 and would be consistent with the seasonal patterns of the past year.

Assuming no change in the CFC rate, CFC revenues are projected to be \$18,256,000 and CFC collections are projected to be \$18,228,000 in 2020.

Although not shown in this report, the computed "breakeven" CFC rate for 2020 (the rate required to cover only debt service requirements and fund replenishments) is \$2.26, slightly more than half the current rate.

Recommended CFC Rate

Recent operating results and a projected 2020 "breakeven" CFC rate of only \$2.26 suggest that HAS could consider reducing the CFC rate in 2020.

However, the U.S. economy and that of the Houston region in particular face economic uncertainties, particularly with respect to importance of the oil & gas industry. These uncertainties include the recent slowdown in worldwide economic growth (particularly in the European Union and China), ongoing trade tensions, political risks such as the 2020 U.S. elections and the Brexit process, and ongoing tensions in the Middle East.

Also, new competition in ground transportation services has emerged at the Airport in the last few years in the form of *Uber and Lyft ride services*. Uber and Lyft compete primarily with taxis and other ground transportation services at the Airport but also, to a lesser undefined extent, with rental car companies, owing in part to the flexibility and convenience of such ride services. In July 2015, HAS instituted fees of \$2.75 at IAH and \$1.25 at HOU for each pick up by these ride services. During the period January to November 2019, the total amount of such fees collected at IAH increased by 34% over the same period in 2018, indicating that the market for such ride services continues to grow rapidly:

Ride Pick-Up Fees Collected from Uber and Lyft

January-November 2019	\$3,824,587
January-November 2018	<u>\$2,854,866</u>
Increase	\$ 969,721
Percent Increase	34.0%

Table 5

**PROJECTION OF RENTAL CAR TRANSACTION DAYS AND CFC REVENUES
Calendar Year 2020**

Consolidated Rental Car Facility
George Bush Intercontinental Airport / Houston

2020	Key Assumptions:	2.0%		56.0%		CFC Rate		% Change from Prior Year	CFC Collections	% Change from Prior Year		
		Enplaned Passengers	% Change from Prior Year	Originating Passengers	% Change from Prior Year	Jan-Mar Apr-Dec	% Change from Prior Year				CFC Revenues	% Change from Prior Year
Applicable Month	Actual or Projection					Transaction Days	Transaction Days per O.P.					
Jan	Projection	1,789,000		1,002,000		352,000	0.352		\$1,408,000			
Feb	Projection	1,632,000		914,000		362,000	0.396		\$1,448,000			
Mar	Projection	2,011,000		1,126,000		428,000	0.380		\$1,712,000			
Apr	Projection	1,888,000		1,057,000		419,000	0.396		\$1,676,000			
May	Projection	2,041,000		1,143,000		419,000	0.367		\$1,676,000			
Jun	Projection	2,117,000		1,186,000		364,000	0.307		\$1,456,000			
Jul	Projection	2,148,000		1,203,000		353,000	0.293		\$1,412,000			
Aug	Projection	1,982,000		1,110,000		373,000	0.336		\$1,492,000			
Sep	Projection	1,669,000		935,000		331,000	0.354		\$1,324,000			
Oct	Projection	1,938,000		1,085,000		401,000	0.369		\$1,604,000			
Nov	Projection	1,902,000		1,065,000		405,000	0.380		\$1,620,000			
Dec	Projection	1,995,000		1,117,000		357,000	0.320		\$1,428,000			
Total - 2020		23,112,000	2.0%	12,943,000	1.9%	4,564,000	0.353	2.1%	\$18,256,000	2.1%	\$18,228,000	2.7%

While these ride service operators compete primarily with taxi, limousine and shared ride services, they are likely having some impact on rental car demand as well, as suggested earlier in noting that year-to-date 2019 rental car demand at the Airport increased at only 35% of the rate of increase in originating passenger demand.

In addition, in the past the rating services have expressed concern about frequent CFC rate changes on debt service coverage margins and perceived credit worthiness, and as a result HAS now seeks rate stability as a goal, even where moderate rate reductions might otherwise be supportable.

Finally, and perhaps most significantly, HAS anticipates that a major expansion and renovation of the Facility will be required sometime in the next five to ten years. In part for that reason, HAS a kept the CFC rate at \$4.00 per transaction day—well above the breakeven rate—in order to accumulate reserves in the Facility Improvement Fund for that future expansion program. This strategy has also allowed HAS to maintain CFC rate stability and demonstrate debt service coverage margins well in excess of the minimum requirements of the Trust Indenture. The Operators and the Trustee have concurred with this policy.

For these reasons, HAS has decided to keep the current \$4.00 CFC rate in place in 2020. I concur with this decision.

Assuming no change in the CFC rate, projected monthly CFC collections in 2020 are summarized in Table 6 below:

Table 6

PROJECTED CFC COLLECTIONS
Calendar Year 2020
George Bush Intercontinental Airport / Houston

	Projected CFC Collections		
	100.0%	90.0%	80.0%
January	\$1,400,000	\$1,260,000	\$1,120,000
February	1,408,000	1,267,200	1,126,400
March	1,448,000	1,303,200	1,158,400
April	1,712,000	1,540,800	1,369,600
May	1,676,000	1,508,400	1,340,800
June	1,676,000	1,508,400	1,340,800
July	1,456,000	1,310,400	1,164,800
August	1,412,000	1,270,800	1,129,600
September	1,492,000	1,342,800	1,193,600
October	1,324,000	1,191,600	1,059,200
November	1,604,000	1,443,600	1,283,200
December	1,620,000	1,458,000	1,296,000
Total	\$18,228,000	\$16,405,200	\$14,582,400

Operating Cash Flow

Table 7 below shows the projected operating cash flow associated with the Consolidated Rental Car Facility in 2019 and 2020 assuming continuation of the current \$4.00 CFC rate in 2020. CFC collections, together with other available resources, are projected to be sufficient to cover all the funding requirements under the Trust Indenture and generate projected surplus cash flows of \$6.9 million in 2019 and \$7.3 million in 2020.

Table 7

PROJECTED ANNUAL CFC REQUIREMENT AND CASH FLOWS
For Calendar Years Ending December 31
Consolidated Rental Car Facility
George Bush Intercontinental Airport / Houston

	Estimated 2019	Projected 2020
CFC Rate:		
<i>Jan-Mar</i>	\$4.00	\$4.00
<i>Apr-Dec</i>	\$4.00	\$4.00
Projected CFC Collections (from Tables 3 and 5)	\$17,747,000	\$18,228,000
Transfers from CFC Rate Stabilization Account	0	0
Investment Income	173,000	200,000
Total Revenues and Transfers	\$17,920,000	\$18,428,000
Replenish Administrative Costs Account (to \$48,000)	40,000	40,000
Replenish CFC Rate Stabilization Account (to \$300,000)	0	0
Transfers to Debt Service Fund		
Principal	5,960,000	6,240,000
Interest	5,038,000	4,878,000
	<u>\$10,998,000</u>	<u>\$11,118,000</u>
Total Requirement	<u>\$11,038,000</u>	<u>\$11,158,000</u>
Projected surplus @ proposed CFC rate (= estimated transfer to Facility Improvement Fund)	<u>\$6,882,000</u>	<u>\$7,270,000</u>

Other Capital Needs

HAS and the Operators have developed a five-year (2020-2024) capital improvement program for the Consolidated Rental Car Facility. In addition, certain other projects are currently in progress (design phase). These capital projects are summarized in Table 8 below. The total cost of these projects is estimated by HAS to be approximately \$4.7 million over the six-year period, 2019-2024. All of these projects have been or are anticipated to be funded from the Facility Improvement Fund (internally generated cash flow).

Table 8

2020 - 2024 CAPITAL IMPROVEMENTS
Consolidated Rental Car Facility
George Bush Intercontinental Airport / Houston

Project	Estimated 2019	Projected					2019-2024 Total
		2020	2021	2022	2023	2024	
Projects Expected to be Completed in 2019							
- none -	\$0						0
Projects Planned for 2020-2024							
CSB Elevator Retrofit			309,000				309,000
Escalator Deflector Wall	25,000						25,000
Back-up Generators	45,000	1,700,000					1,745,000
Fire Alarm Panel Replacement		75,000					75,000
Chiller Replacement		338,000					338,000
BAS Controls Upgrade		74,000					74,000
Vehicular Wayfinding Signage	73,000	252,000					325,000
Bus Level HVAC/Entrance Upgrade						472,000	472,000
FIDS Monitors in Lobby Area of CSB				87,000			87,000
Bus/Vehicle Safety Barrier Wall (design only)				15,000			15,000
Replace RTU Unit #7 at Bus Maintenance Facility		95,000					95,000
Replace RTU Unit #5 at Bus Maintenance Facility		9,000					9,000
ADA Permanent Handicap Ramp		160,000					160,000
Flatwork Expansion - North			500,000				500,000
Flatwork Expansion - South					500,000		500,000
	\$143,000	\$2,703,000	\$809,000	\$102,000	\$500,000	\$472,000	\$4,729,000
Total	\$143,000	\$2,703,000	\$809,000	\$102,000	\$500,000	\$472,000	\$4,729,000

Source: CBRE (Rental Car Center facility operator) and Houston Airport System.

The balance in the Facility Improvement Fund (FIF) as of October 31, 2019 (approximately \$43.9 million) is more than sufficient to fund the currently anticipated capital needs of the Consolidated Rental Car Facility including the new 2020-2024 capital improvement program.

HAS has set aside \$150,000 in the Administrative Costs Account to fund a planning study of long-term Facility expansion needs and expects the study to be complete by the end of 2020. This study should define the broad parameters of future Facility needs and costs.

Status of the Facility Improvement Fund

As of October 31, 2019, the balance in the FIF was \$43.9 million. These funds represent moneys available for planned capital projects and for capital improvements, contingencies, debt retirement, or, if needed, rate stabilization.

Table 9 shows the projected flows in the FIF in 2019 and 2020. The balance in the FIF is projected to be approximately \$45.2 million at the end of 2019 and \$50.8 million at the end of 2020.

Table 9

PROJECTED CASH FLOWS IN THE FACILITY IMPROVEMENT FUND
Consolidated Rental Car Facility
George Bush Intercontinental Airport / Houston
For Years Ending December 31

	Actual YTD 2019	Estimated 2019	Projected 2020
<u>Facility Improvement Fund (FIF)</u>	<i>Actual as of 1/1/19</i>	<i>Actual as of 1/1/19</i>	
Beginning balance	\$37,833,662	\$37,833,662	\$45,211,000
Transfers in (from CFC Revenue Fund)	5,376,028	6,548,556	7,270,000
Capital Expenditures	(8,085)	(51,299)	(2,703,000)
Investment income	739,170	880,000	1,000,000
Ending Balance	\$43,940,775	\$45,210,919	\$50,778,000
	<i>Actual as of 10/31/19</i>		
	\$43,940,775		
	<i>per Trustee Statement</i>		

Other Account Balances

Under the Trust Indenture, two accounts were established in the Project Fund: the *Operators Account* used to construct the Operators' maintenance and storage facilities (referred to as the Operators Projects), and the *City Account* used to construct the site infrastructure, central facility, and rental car garage (referred to as the City Project). Both of these Projects are complete and the accounts have been closed out.

Projected Debt Service Coverage

Table 10 shows the calculation of debt service coverage on the 2001 Bonds and 2014 Refunding Bonds for actual 2017, actual 2018, estimated 2019, and projected 2020.

Pledged Revenues include CFC collections, investment income on certain funds and accounts, and transfers from the Rate Stabilization Account and the Coverage Account. Over the past three years, investment performance has improved significantly as market interest rates have increased.

Table 10

CALCULATION OF DEBT SERVICE COVERAGE
Consolidated Rental Car Facility
George Bush Intercontinental Airport / Houston
For Years Ending December 31

		Jan - Mar	\$3.00	\$4.00	\$4.00	\$4.00
		Apr - Jun	\$4.00	\$4.00	\$4.00	\$4.00
		Actual	Actual	Estimated	Projected	
		2017	2018	2019	2020	
CFC Rate:						
CFC Collections		\$15,369,389	\$17,311,972	\$17,747,000	\$18,228,000	
Additional Hertz CFC revenues received in 2018		300,368				
Investment Income		56,976	131,074	173,000	200,000	
Transfers from Rate Stabilization Account		0	0	0	0	
Transfers from Coverage Account		3,169,143	3,169,143	3,169,000	3,169,000	
Total Resources available for Debt Service	A	\$18,895,876	\$20,612,189	\$21,089,000	\$21,597,000	
Total Annual Debt Service ¹						
2001 Bonds		\$4,691,128	\$4,691,128	\$4,691,128	\$4,691,128	
2014 Refunding Bonds		\$6,074,080	\$6,193,893	\$6,306,534	\$6,426,389	
	B	\$10,765,208	\$10,885,021	\$10,997,662	\$11,117,517	
Debt Service Coverage Ratio	A / B	1.76	1.89	1.92	1.94	

1. Debt service is shown on an accrual basis. For example, 2019 debt service equals the sum of the July 2, 2019 and January 2, 2020 payments.

The Trust Indenture requires that Pledged Revenues provide at least 1.25x coverage of debt service each year. Debt service coverage is projected to be **1.92x in 2019** (based on extrapolating 10 months year-to-date actual results) and **1.94x in 2020**—ratios that substantially exceed the 1.25x Trust Indenture requirement.

* * * *

Mr. J'Maine Chubb
December 21, 2019

17

Recommendation

Based on the foregoing, I concur with HAS's decision to leave the CFC rate at the current \$4.00 per transaction day in 2020.

Respectfully submitted,

A handwritten signature in cursive script that reads "Roger H. Bates". The signature is written in dark ink and is positioned below the text "Respectfully submitted,".

Roger H. Bates