OFFICIAL STATEMENT DATED JULY 17, 2018

NEW ISSUES – BOOK-ENTRY ONLY

RATINGS: Moody's: "A1"
Fitch: "A"
SEE "RATINGS" HEREIN

In the opinion of Co-Bond Counsel, under existing law, (i) interest on the Series 2018 Bonds is excludable from gross income for federal income tax purposes, except for any period during which a Series 2018 Bond is held by a person who is a "substantial user" of the facilities refinanced with the proceeds of the Series 2018 Bonds or a "related person" to such a "substantial user," each within the meaning of section 147(a) of the Internal Revenue Code, as amended, as described under "TAX MATTERS" herein, (ii) interest on the Series 2018C Bonds is an item of tax preference that is includable in alternative minimum taxable income for purposes of determining a taxpayer's alternative minimum tax liability, and (iii) pursuant to the American Recovery and Reinvestment Act of 2009, interest on the Series 2018D Bonds is not an item of tax preference that is includable in alternative minimum taxable income for purposes of determining a taxpayer's alternative minimum tax liability. See "TAX MATTERS" herein for a discussion of the opinion of Co-Bond Counsel.

$569,110,000
CITY OF HOUSTON, TEXAS
AIRPORT SYSTEM

$212,820,000
SUBORDINATE LIEN
REVENUE REFUNDING BONDS,
SERIES 2018C (AMT)

$356,290,000
SUBORDINATE LIEN
REVENUE REFUNDING BONDS,
SERIES 2018D (NON-AMT)

Interest Accrual Date: Date of Delivery **CUSIP Prefix: 442349** **Due: July 1, as shown on inside cover pages**

This Official Statement is provided to furnish information in connection with the offering by the City of Houston, Texas (the "City") of its Airport System Subordinate Lien Revenue Refunding Bonds, Series 2018C (AMT) (the "Series 2018C Bonds") and Subordinate Lien Revenue Refunding Bonds, Series 2018D (Non-AMT) (the "Series 2018D Bonds" and together with the Series 2018C Bonds, the "Series 2018 Bonds").

Proceeds of the sale of the Series 2018C Bonds will be used, along with other available funds, if any, to (i) refund certain Outstanding Airport System Subordinate Lien Bonds and (ii) pay related costs of issuance of the Series 2018C Bonds. Proceeds of the sale of the Series 2018D Bonds will be used, along with other available funds, if any, to (i) refund certain Outstanding Airport System Senior Lien Bonds and (ii) pay related costs of issuance of the Series 2018D Bonds. See "PURPOSE AND PLAN OF FINANCING" and SCHEDULE I – Refunded Bonds.

The Series 2018 Bonds will be issued in fully registered form in denominations of $5,000 or any integral multiple thereof. Interest on the Series 2018 Bonds will accrue from their Date of Delivery (as defined below) until maturity or prior redemption and is payable semi-annually on each January 1 and July 1, commencing January 1, 2019. The Bank of New York Mellon Trust Company, National Association (the "Paying Agent/Registrar") is the initial Paying Agent/Registrar.

The Series 2018 Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2018 Bonds, until DTC resigns or is discharged. The Series 2018 Bonds will be available to purchasers only in book-entry form. For as long as Cede & Co. is the exclusive registered owner of the Series 2018 Bonds, the principal of and interest on the Series 2018 Bonds will be payable by the Paying Agent/Registrar to DTC, which will be responsible for making such payments to DTC Participants for subsequent remittance to the owners of beneficial interests in the Series 2018 Bonds. The purchasers of the Series 2018 Bonds will not receive certificates representing their beneficial ownership interests therein.

The Series 2018 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 provided in any ordinance authorizing the issuance of such obligations, and certain Funds established pursuant to such ordinances. See "COVENANTS AND TERMS OF THE ORDINANCE."

THE SERIES 2018 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OR GENERAL OBLIGATION OF THE CITY. OWNERS OF THE SERIES 2018 BONDS SHALL NEVER HAVE THE RIGHT TO DEMAND PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2018 BONDS FROM ANY FUNDS RAISED OR TO BE RAISED BY TAXATION.

The Series 2018 Bonds are subject to redemption prior to maturity, as described herein. See "THE SERIES 2018 BONDS – Redemption."

SEE INSIDE COVER PAGES FOR MATURITY, PRICING SCHEDULES, AND CUSIP NUMBERS

This cover page is not intended to be a summary of the terms of, or the security for, the Series 2018 Bonds. Investors are advised to read the Official Statement in its entirety to obtain information essential to the making of an informed investment decision.

The Series 2018 Bonds are offered by the Underwriters listed below when, as and if issued by the City and accepted by the Underwriters, subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Bracewell LLP, Houston, Texas and West & Associates, LLP, Houston, Texas, Co-Bond Counsel for the City, as to the validity of the issuance of the Series 2018 Bonds under the Constitution and the laws of the State of Texas. Certain matters will be passed upon for the City by its Special Disclosure Counsel, Norton Rose Fulbright US LLP, Houston, Texas. Certain other legal matters will be passed upon for the Underwriters by its counsel, McCall, Parkhurst & Horton L.L.P, Houston, Texas, and Mahomes Bolden PC, Houston, Texas. The Series 2018 Bonds are expected to be available for delivery through the facilities of DTC on or about August 2, 2018 ("Date of Delivery").

Siebert Cisneros Shank & Co., L.L.C.

J.P. Morgan **Raymond James**

Hutchinson, Shockey, Erley & Co. **Mesirow Financial, Inc.** **SAMCO Capital Markets, Inc.**

MATURITY AND PRICING SCHEDULES

$212,820,000
CITY OF HOUSTON, TEXAS
AIRPORT SYSTEM
SUBORDINATE LIEN REVENUE REFUNDING BONDS, SERIES 2018C (AMT)

CUSIP PREFIX 442349[1]

Maturity (July 1)[2]	Principal Amount	Interest Rate	Initial Yield	CUSIP Suffix[1]
2019	$6,795,000	5.000%	1.610%	BU9
2020	11,165,000	5.000	1.800	BV7
2021	11,880,000	5.000	2.000	BW5
2022	12,745,000	5.000	2.160	BX3
2023	13,710,000	5.000	2.290	BY1
2024	14,535,000	5.000	2.480	BZ8
2025	15,585,000	5.000	2.650	CA2
2026	16,635,000	5.000	2.790	CB0
2027	17,695,000	5.000	2.890	CC8
2028	18,865,000	5.000	2.950	CD6
2029	20,155,000	5.000	3.000[3]	CE4
2030	21,530,000	5.000	3.050[3]	CF1
2031	15,275,000	5.000	3.100[3]	CG9
2032	16,250,000	5.000	3.130[3]	CH7

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data contained herein is provided by CUSIP Global Services, which is managed on behalf of the American Bankers Association by S&P Global Market Intelligence. This data is not intended to create a database and does not serve as a substitute for the CUSIP Services. CUSIP numbers are provided for convenience of reference only. None of the City, the Co-Financial Advisors, or the Underwriters are responsible for the selection or correctness of the CUSIP numbers set forth herein.
(2) The Series 2018C Bonds maturing on or after July 1, 2029, are subject to optional redemption by the City, in whole or from time to time in part, on or after July 1, 2028, at a redemption price of par plus accrued interest from the most recent interest payment date to, but not including, the redemption date.
(3) Yield to first optional redemption date.

MATURITY AND PRICING SCHEDULES

$356,290,000
CITY OF HOUSTON, TEXAS
AIRPORT SYSTEM
SUBORDINATE LIEN REVENUE REFUNDING BONDS, SERIES 2018D (NON-AMT)

CUSIP PREFIX 442349[1]

Maturity (July 1)[2]	Principal Amount	Interest Rate	Initial Yield	CUSIP Suffix[1]
2019	$10,250,000	5.000%	1.530%	CJ3
2020	11,730,000	5.000	1.670	CK0
2021	12,315,000	5.000	1.820	CL8
2022	9,930,000	5.000	1.930	CM6
2023	10,425,000	5.000	2.050	CN4
2024	10,950,000	5.000	2.190	CP9
2025	11,495,000	5.000	2.330	CQ7
2026	12,070,000	5.000	2.470	CR5
2027	12,675,000	5.000	2.560	CS3
2028	13,310,000	5.000	2.640	CT1
2029	16,975,000	5.000	2.720[3]	CU8
2030	17,820,000	5.000	2.840[3]	CV6
2031	18,715,000	5.000	2.900[3]	CW4
2032	19,650,000	5.000	2.940[3]	CX2
2033	20,630,000	5.000	2.980[3]	CY0
2034	21,665,000	5.000	3.030[3]	CZ7
2035	22,745,000	5.000	3.080[3]	DA1
2036	23,885,000	5.000	3.120[3]	DB9
2037	25,075,000	5.000	3.150[3]	DC7
2038	26,330,000	5.000	3.170[3]	DD5
2039	27,650,000	5.000	3.180[3]	DE3

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(2) The Series 2018D Bonds maturing on or after July 1, 2029, are subject to optional redemption by the City, in whole or from time to time in part, on or after July 1, 2028, at a redemption price of par plus accrued interest from the most recent interest payment date to, but not including, the redemption date.

(3) Yield to first optional redemption date.

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THE SERIES 2018 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACT. THE REGISTRATION OR QUALIFICATION OF THE SERIES 2018 BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAW OF THE STATES IN WHICH THE SERIES 2018 BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. THE SERIES 2018 BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

This Official Statement includes descriptions and summaries of certain events, matters and documents. Such descriptions and summaries do not purport to be complete and all such descriptions, summaries and references thereto are qualified in their entirety by reference to this Official Statement in its entirety and to each such document, copies of which may be obtained from the City. Any statements made in this Official Statement or the appendices hereto involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of such opinions or estimates will be realized.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, its respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

This Official Statement is delivered in connection with the sale of securities referred to herein and may not be reproduced or used, in whole or in part, for any other purposes. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2018 Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation, or sale. No dealer, salesperson, or other person has been authorized by the City to give any information or to make any representation other than those contained herein, and, if given or made, such other information or representation must not be relied upon as having been authorized by the City, the Underwriters, or any other person. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the matters described herein since the date hereof.

The prices and other terms respecting the offering and sale of the Series 2018 Bonds may be changed from time to time by the Underwriters after such Series 2018 Bonds are released for sale, and the Series 2018 Bonds may be offered and sold at prices other than the initial offering prices, including to dealers who may sell the Series 2018 Bonds into investment accounts.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2018 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM THE FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS.

City of Houston, Texas

ELECTED OFFICIALS

Sylvester Turner, Mayor

Chris B. Brown, City Controller

CITY COUNCIL

Council Member, District A	Brenda Stardig
Council Member, District B	Jerry Davis
Council Member, District C	Ellen Cohen
Council Member, District D	Dwight Boykins
Council Member, District E	Dave Martin
Council Member, District F	Steve Le
Council Member, District G	Greg Travis
Council Member, District H	Karla Cisneros
Council Member, District I	Robert Gallegos
Council Member, District J	Mike Laster
Council Member, District K	Martha Castex-Tatum
Council Member, At-Large Position 1	Mike Knox
Council Member, At-Large Position 2	David Robinson
Council Member, At-Large Position 3	Michael Kubosh
Council Member, At-Large Position 4	Amanda Edwards
Council Member, At-Large Position 5	Jack Christie, D.C.

APPOINTED OFFICIALS

City Attorney	Ronald C. Lewis
Deputy City Controller	Charisse Page Mosely
Director, Department of Finance	Tantri Emo
Director of Aviation, Houston Airport System	Mario C. Diaz
City Secretary	Anna Russell

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CONSULTANTS AND ADVISORS

Co-Financial Advisors	Hilltop Securities Inc. YaCari Consultants, LLC
Co-Bond Counsel	Bracewell LLP West & Associates, LLP
Special Disclosure Counsel	Norton Rose Fulbright US LLP

FINANCING WORKING GROUP MEMBERS

Houston Airport System	J'Maine Chubb Kenneth Gregg Cathy Vander Plaats Kedrick Winfield Susan Taylor
Office of the City Attorney	Gary L. Wood Joe Crawford Rahat Huq
Department of Finance	Melissa Dubowski Jaime Alvarez
Office of the City Controller	Alex Obregon Asha Patnaik Sharon Liu Vernon D. Lewis

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TABLE OF CONTENTS

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OFFICIAL STATEMENT

$569,110,000
CITY OF HOUSTON, TEXAS
AIRPORT SYSTEM

$212,820,000 **SUBORDINATE LIEN** **REVENUE REFUNDING BONDS,** **SERIES 2018C** **(AMT)**	**$356,290,000** **SUBORDINATE LIEN** **REVENUE REFUNDING BONDS,** **SERIES 2018D** **(NON-AMT)**

INTRODUCTION

This Official Statement, including the cover page, schedules and appendices hereto, is provided to furnish information in connection with the offer and sale by the City of Houston, Texas (the "City") of its Airport System Subordinate Lien Revenue Refunding Bonds, Series 2018C (AMT) (the "Series 2018C Bonds") and Airport System Subordinate Lien Revenue Refunding Bonds, Series 2018D (Non-AMT) (the "Series 2018D Bonds" and together with the Series 2018C Bonds, the "Series 2018 Bonds.") The Series 2018 Bonds are being issued pursuant to Chapters 1201, 1207, 1371 and 1503, Texas Government Code, as amended, a master ordinance adopted by the City Council of the City on November 9, 2016 (the "Master Ordinance"), a supplemental ordinance adopted by the City Council of the City on June 20, 2018 (the "Supplemental Ordinance"), and a pricing certificate (the "Officers Pricing Certificate") executed by the pricing officers pursuant to the Supplemental Ordinance; collectively, the Master Ordinance, the Supplemental Ordinance and the Officers Pricing Certificate are referred to herein as the "Ordinance."

The Houston Airport System, an enterprise system of the City, is currently comprised of the following facilities, each of which the City manages, owns and operates: George Bush Intercontinental Airport/Houston ("Intercontinental"), William P. Hobby Airport ("Hobby") and Ellington Airport ("Ellington"). United Airlines, Inc. ("United") is the largest air carrier operating at Intercontinental. Southwest Airlines, Inc. ("Southwest") is the largest air carrier operating at Hobby. For additional information about the Houston Airport System, see "THE HOUSTON AIRPORT SYSTEM."

The City is the fourth most populous city in the nation, the most populous city in Texas and has a land area of approximately 675 square miles. According to the U.S. Census Bureau, the City's population estimate was approximately 2.3 million in 2017, and the estimated population of the Houston – Sugar Land – The Woodlands Metropolitan Statistical Area was approximately 6.89 million in 2017, which is the fifth largest in the United States. Located on the coastal plain in Southeast Texas, approximately 50 miles from the Gulf of Mexico, the City is a major corporate and international financial center. Leading industries include energy, petrochemical, engineering and construction, real estate, aerospace, commerce, medicine and health care, transportation, biotechnology, and computer technology.

Descriptions and summaries of the Series 2018 Bonds, the Houston Airport System, and the Ordinance are included in this Official Statement. References herein to the Series 2018 Bonds and the Ordinance are qualified in their entirety, by reference to the Ordinance and the forms of Series 2018 Bonds contained in the Officers Pricing Certificate. Houston Airport System Fund financial statements for the Fiscal Years ended June 30 2016 and June 30, 2017 are included in APPENDIX A. Excerpts of the Ordinance and a glossary of defined terms is included as APPENDIX B-1, and, unless otherwise specifically defined, capitalized terms used herein have the meanings set out in APPENDIX B-1.

PURPOSE AND PLAN OF FINANCING

The Series 2018C Bonds

Proceeds of the sale of the Series 2018C Bonds will be used to (i) refund certain Outstanding Airport System Subordinate Lien Bonds, as more specifically described in SCHEDULE I (the "Series 2018C Refunded Bonds") and (ii) pay related costs of issuance of the Series 2018C Bonds.

The Series 2018D Bonds

Proceeds of the sale of the Series 2018D Bonds will be used to (i) refund certain Outstanding Airport System Senior Lien Bonds, as more specifically described in SCHEDULE I (the "Series 2018D Refunded Bonds," and together with the Series 2018C Refunded Bonds, the "Refunded Bonds") and (ii) pay related costs of issuance of the Series 2018D Bonds.

The Refunded Bonds

A portion of the proceeds of the Series 2018 Bonds, together with other available funds, if any, will be used to purchase a portfolio of obligations (the "Escrowed Securities") authorized under Texas law and the ordinances authorizing the Refunded Bonds to be deposited, along with certain uninvested proceeds of the Series 2018 Bonds, in one or more escrow funds or accounts (collectively, the "Escrow Fund") with The Bank of New York Mellon Trust Company, National Association, as escrow agent (the "Escrow Agent"), pursuant to one or more escrow agreements between the City and the Escrow Agent (the "Escrow Agreement"). The maturing principal of and interest on the Escrowed Securities will be sufficient, together with other funds deposited to the Escrow Fund, to pay, when due, the principal of and interest on the Refunded Bonds.

Prior to or simultaneously with the issuance of the Series 2018 Bonds, the City will give, or provide irrevocable instructions to the paying agent(s) for the Refunded Bonds to give notice of redemption to the owners of the Refunded Bonds in accordance with the respective ordinances authorizing the Refunded Bonds. The Refunded Bonds will be redeemed on dates prior to their stated maturities, on which dates money held in the Escrow Fund will be available to redeem the Refunded Bonds, subject to the conditions, if any, described in such notices of redemption.

Grant Thornton LLP, a firm of independent certified public accountants, will verify the accuracy of the mathematical computations as to the adequacy of the Escrowed Securities, together with other available funds, to provide for the payment of the Refunded Bonds when due. See "VERIFICATION OF MATHEMATICAL ACCURACY."

In the opinion of Co-Bond Counsel, by making the escrow deposits required by the Ordinance and the Escrow Agreement, the City will have made firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds pursuant to the provisions of Chapter 1207, Texas Government Code, as amended, and other authorizing law. Thereafter, the Refunded Bonds will be deemed to be fully paid and no longer outstanding and the lien on and pledge of Net Revenues of the Houston Airport System securing such Refunded Bonds will be deemed to have been defeased pursuant to the terms of the ordinances authorizing the issuance of the Refunded Bonds, except for the purpose of being paid from the funds provided therefor pursuant to the Escrow Agreement.

SOURCES AND USES OF FUNDS

The following table summarizes the estimated sources and uses of proceeds of the Series 2018C Bonds and the Series 2018D Bonds:

	Series 2018C Bonds	Series 2018D Bonds	Total
SOURCES:			
Par Amount	$212,820,000.00	$356,290,000.00	$569,110,000.00
Original Issue Premium	30,097,696.95	56,145,860.55	86,243,557.50
Issuer Contribution	2,776,437.50	1,878,965.43	4,655,402.93
TOTAL SOURCES(1)	$245,694,134.45	$414,314,825.98	$660,008,960.43
USES:			
Deposit with the Escrow Agent(2)	$244,615,767.29	$412,403,030.43	$657,018,797.72
Costs of Issuance(3)	1,078,367.16	1,911,795.55	2,990,162.71
TOTAL USES	$245,694,134.45	$414,314,825.98	$660,008,960.43

(1) In addition to the sources of funds listed in this table, upon the delivery of the Series 2018 Bonds and the defeasance of the Series 2018D Refunded Bonds, the balance of funds in the Senior Lien Bond Reserve Fund in the amount of $33,095,993.76 will be deposited to the Subordinate Lien Bond Reserve Fund Participant Account, which is the common reserve for all Outstanding Subordinate Lien Bonds, and will be held therein in accordance with the terms of the Master Ordinance. See "SECURITY FOR THE SERIES 2018 BONDS – Debt Service Reserves" and "RESERVE FUNDS AND RESERVE FUND SURETY POLICIES," and SCHEDULE I – Refunded Bonds.
(2) Includes proceeds of the Series 2018 Bonds and a portion of the Issuer Contribution.
(3) Includes underwriters' discount, legal fees, rating agency fees, and Paying Agent/Registrar fees, Escrow Agent fees, and other costs of issuance, inclusive of rounding amounts, if any.

THE SERIES 2018 BONDS

General

The Series 2018 Bonds are Subordinate Lien Bonds that, together with all other Subordinate Lien Bonds from time to time Outstanding, are payable from, and equally and ratably secured by, a lien on the Net Revenues of the Houston Airport System. The lien on Net Revenues securing Subordinate Lien Bonds is subordinate and junior to the superior lien on the Net Revenues securing the Senior Lien Obligations. Upon the issuance of the Series 2018 Bonds and the refunding of the Refunded Bonds, there will be no Senior Lien Bonds Outstanding. See SCHEDULE I – Refunded Bonds for a description of the Senior Lien Bonds being refunded with the proceeds of the Series 2018D Bonds. As of the date hereof, the City does not expect to issue additional long-term Senior Lien Bonds. The City maintains a Senior Lien commercial paper program in the aggregate principal amount of $150,000,000, and, as of July 1, 2018, $21,473,000 of Senior Lien Notes were Outstanding. Additionally, the lien on Net Revenues securing Subordinate Lien Bonds is senior to the lien securing Inferior Lien Bonds, of which none are Outstanding. See "Schedule 8: Houston Airport System Outstanding Debt."

The Series 2018 Bonds will mature in the principal amounts and on the dates indicated on the inside cover pages of this Official Statement. The Series 2018 Bonds will accrue interest from the Date of Delivery, as set forth on the cover page hereof. Interest on the Series 2018 Bonds is payable each January 1 and July 1, commencing January 1, 2019, until maturity or prior redemption. Interest on the Series 2018 Bonds will be calculated on the basis of a 360-day year composed of twelve 30-day months from the later of their issuance date or the most recent Interest Payment Date to which interest has been paid or provided for. The Bank of New York Mellon Trust Company, National Association, is the initial paying agent/registrar (the "Paying Agent/Registrar") for the Series 2018 Bonds. The Series 2018 Bonds will be issued in fully registered form in denominations of $5,000 or any integral multiple thereof ("Authorized Denominations").

Principal of the Series 2018 Bonds is payable when due upon presentation and surrender thereof at the principal office of the Paying Agent/Registrar, which is currently located in Houston, Texas. Interest on the Series 2018 Bonds will be payable to the Registered Owner whose name appears in the registration books for the Series 2018 Bonds (the "Register") maintained by the Paying Agent/Registrar at the close of business on the 15th day of the calendar month immediately preceding the applicable interest payment date (the "Record Date") and shall be payable by the Paying Agent/Registrar (i) by check or draft sent by United States mail, first class postage prepaid, or (ii) by such other method acceptable to the Paying

Agent/Registrar requested by, and at the risk and expense of, the Registered Owner. Accrued interest payable at maturity of the Series 2018 Bonds will be paid upon presentation and surrender of such Series 2018 Bonds at the principal payment office of the Paying Agent/Registrar.

Redemption

Optional Redemption

The Series 2018 Bonds maturing on or after July 1, 2029, are subject to optional redemption by the City prior to stated maturity, in whole or from time to time in part, on or after July 1, 2028, at a price equal to the principal amount of the Series 2018 Bonds to be redeemed, plus accrued interest to (but not including) the redemption date.

Partial Redemption

The Series 2018 Bonds may be redeemed in part within a maturity only in integral multiples of $5,000. If a Series 2018 Bond subject to redemption is in a denomination larger than $5,000, a portion of such Series 2018 Bond may be redeemed, but only in integral multiples of $5,000. Upon presentation and surrender of any Series 2018 Bond for redemption in part, the Paying Agent/Registrar, in accordance with the provisions of the Ordinance, shall authenticate and deliver in exchange therefor Series 2018 Bonds of like maturity and interest rate in an aggregate principal amount equal to the unredeemed portion of the Series 2018 Bonds so presented and surrendered.

Selection of Bonds to be Optionally Redeemed

In the case of any optional redemption in part of the Series 2018 Bonds, the stated maturity of Series 2018 Bonds to be redeemed shall be selected by the City. If less than all the Series 2018 Bonds of a stated maturity shall be called for redemption, the particular Series 2018 Bonds to be redeemed shall be selected by the Paying Agent/Registrar, in such manner as the Paying Agent/Registrar deems fair and appropriate and consistent with the requirements provided in the Series 2018 Bonds.

Notice of Redemption

If the Series 2018 Bonds are called for optional redemption, the Paying Agent/Registrar shall give notice, in the name of the City, of the redemption of such Series 2018 Bonds, which notice shall (i) specify the Series 2018 Bonds to be redeemed, the redemption date, the redemption price and the place or places where amounts due upon such redemption will be payable (which shall be the designated principal corporate trust office of the Paying Agent/Registrar) and, if less than all of the Series 2018 Bonds are to be redeemed, the portions of the Series 2018 Bonds to be redeemed, (ii) state any condition to such redemption and (iii) state that on the redemption date, and upon the satisfaction of any such condition, the Series 2018 Bonds to be redeemed shall cease to bear interest. CUSIP number identification shall accompany all redemption notices. Such notice may set forth any additional information relating to such redemption. Such notice shall be given by mail, postage prepaid, at least 30 days but not more than 60 days prior to the date fixed for redemption to each Registered Owner of Series 2018 Bonds to be redeemed at its address shown on the registration books kept by the Paying Agent/Registrar; provided, however, that failure to give such notice to any Registered Owner or any defect in such notice shall not affect the validity of the proceedings for the redemption of any of the other Series 2018 Bonds.

Any notice given as provided herein shall be conclusively presumed to have been duly given, whether or not the Registered Owner or Beneficial Owner receives such notice. When the Series 2018 Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as provided in the Series 2018 Bonds and in the Ordinance, the Series 2018 Bonds or portions thereof to be so redeemed shall no longer be regarded as Outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest that would otherwise accrue after the redemption date on any Series 2018 Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

Ownership

The City, the Paying Agent/Registrar, and any other person may treat the person in whose name any Series 2018 Bond is registered as the absolute Owner of such Series 2018 Bond for the purpose of making and receiving payment of the principal thereof and premium, if any, thereon, and for the purpose of making and receiving payment of the interest thereon, and for all other purposes, whether or not such Series 2018 Bond is overdue, and neither the City nor the Paying Agent/Registrar shall be bound by any notice or knowledge to the contrary. All payments made to the person deemed to be the Owner of any Series 2018 Bond in accordance with the Ordinance shall be valid and effectual and shall discharge the liability of the City and the Paying Agent/Registrar upon such Series 2018 Bond to the extent of the sums paid.

Transfers and Exchanges

Beneficial ownership of the Series 2018 Bonds registered in the name of The Depository Trust Company, New York, New York ("DTC"), will initially be transferred as described under APPENDIX F – DEPOSITORY TRUST COMPANY.

So long as any Series 2018 Bonds remain Outstanding, the Paying Agent/Registrar shall keep the Register at its designated corporate trust office in which, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of the Series 2018 Bonds in accordance with the terms of the Ordinance. A copy of the Register shall be maintained at an office of the Paying Agent/Registrar in Texas.

Each Series 2018 Bond shall be transferable only upon the presentation and surrender thereof at the designated corporate trust office of the Paying Agent/Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner or his authorized representative in form satisfactory to the Paying Agent/Registrar. Upon due presentation and surrender of any Series 2018 Bond for transfer, the Paying Agent/Registrar is required to authenticate and deliver in exchange therefor, within 72 hours after such presentation and surrender, a new Series 2018 Bond or Series 2018 Bonds, registered in the name of the transferee or transferees, in Authorized Denominations and of the same series, maturity and aggregate principal amount and bearing interest at the same rate as the Series 2018 Bond or Series 2018 Bonds so presented and surrendered.

If the Series 2018 Bonds are not in the DTC book-entry-only registration system, all Series 2018 Bonds shall be exchangeable upon the presentation and surrender thereof at the designated corporate trust office of the Paying Agent/Registrar for a Series 2018 Bond or Series 2018 Bonds of the same series, maturity and interest rate and in any Authorized Denomination, in an aggregate principal amount equal to the unpaid principal amount of the Series 2018 Bond or Bonds presented for exchange.

Each Series 2018 Bond delivered in accordance with the Ordinance shall be entitled to the benefits and security of the Ordinance to the same extent as the Series 2018 Bond or Series 2018 Bonds in lieu of which such Series 2018 Bond is delivered.

The City or the Paying Agent/Registrar may require DTC or any subsequent Registered Owner of any Series 2018 Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Series 2018 Bond. Any fee or charge of the Paying Agent/Registrar for such transfer or exchange shall be paid by the City.

The Paying Agent/Registrar shall not be required to transfer or exchange any Series 2018 Bond during the 45-day period prior to the date fixed for redemption; provided, however, that such restriction shall not apply to the transfer or exchange by the Registered Owner of the unredeemed portion of any Series 2018 Bond called for redemption in part.

SECURITY FOR THE SERIES 2018 BONDS

The Series 2018 Bonds are special obligations of the City that, together with the Outstanding Subordinate Lien Bonds and any Additional Subordinate Lien Bonds hereafter issued, are payable from and are equally and ratably secured by a lien on the Net Revenues of the Houston Airport System, the Subordinate Lien Bond Interest and Sinking Fund, and the Subordinate Lien Bond Reserve Fund Participant Account, all as defined and provided in the Ordinance. See APPENDIX B-1. The lien on Net Revenues securing the Series 2018 Bonds and other Subordinate Lien Bonds is (i) junior and subordinate to the lien on Net Revenues securing the Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued and (ii) senior to the lien on Net Revenues securing any Inferior Lien Bonds, none of which are currently outstanding.

The Series 2018 Bonds do not constitute a general obligation of the City. Owners of the Series 2018 Bonds shall never have the right to demand payment of principal of, interest on or any redemption premium on the Series 2018 Bonds from any funds raised or to be raised by taxation.

In addition to the definitions described below, see APPENDIX B-1 for excerpts of the Master Ordinance, which further details the security for the Series 2018 Bonds.

Net Revenues. Net Revenues means that portion of the Gross Revenues remaining after the deduction of the Operation and Maintenance Expenses of the Houston Airport System.

Gross Revenues. Subject to the exclusions noted below, Gross Revenues means all income and revenues derived directly or indirectly by the City from the operation and use of and otherwise pertaining to the Houston Airport System, or any part thereof, whether resulting from extensions, enlargements, repairs, betterments or other improvements to the Houston Airport System, or otherwise, and includes, except to the extent hereinafter expressly excluded, all revenues received by the City from the Houston Airport System, including, without limitation, all rentals, rates, fees and other charges for the use of the Houston Airport System, or for any service rendered by the City in the operation thereof, interest and other income realized from the investment or deposit of amounts credited to any fund, except as set forth below, required to be maintained pursuant to the Ordinance or any other ordinance authorizing the issuance of Senior Lien Obligations, Subordinate Lien Bonds, or Inferior Lien Bonds (collectively, the "Airport Obligations").

Gross Revenues expressly exclude: (1) proceeds of any Airport Obligations; (2) interest or other investment income derived from proceeds of Airport Obligations deposited to the credit of any construction fund, or applied to fund capitalized interest, or interest or investment income required to be retained in the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Reserve Fund, the Inferior Lien Bond Reserve Fund, the Operation and Maintenance Reserve Fund or any escrow fund in order to accumulate therein any amount or balance required to be accumulated or maintained therein pursuant to any ordinance authorizing any series of Airport Obligations; (3) any moneys received as grants, appropriations, or gifts, the use of which is limited by the grantor or donor to the construction or acquisition of the Houston Airport System facilities, except to the extent any such moneys shall be received as payments for the use of the Houston Airport System facilities; (4) any revenues derived from any Special Facilities that are pledged to the payment of Special Facilities Bonds; (5) insurance proceeds other than loss of use or business interruption insurance proceeds; (6) the proceeds of any passenger facility charge or other per-passenger charge as may be authorized under federal law including, but not limited to, those revenues defined as Passenger Facility Charge ("PFC") Revenues; (7) sales and other taxes collected by the Houston Airport System on behalf of the State of Texas and any other taxing entities; (8) Federal Payments received by the Houston Airport System unless the City first receives an opinion from nationally recognized bond counsel to the effect that such payments, if included in Gross Revenues, would not cause the interest on the Airport Obligations to be includable within the gross income of the Owners thereof for federal income tax purposes; (9) the net proceeds received by the City from the disposition of any Houston Airport System property; (10) any Excluded Fee and Charge Revenues; and (11) any Taxable Bond Credit Revenues.

Operation and Maintenance Expenses. Subject to the exclusions noted below, Operation and Maintenance Expenses means all reasonable and necessary current expenses of the City, paid or accrued, of operating, maintaining and repairing the Houston Airport System including, without limitation, reasonably allocated City overhead expenses relating to the administration, operation and maintenance of the Houston Airport System; insurance and fidelity bond premiums; payments to pension and other funds and to any self-insurance fund not in excess of premiums that would otherwise be required for such insurance; any general and excise taxes or other governmental charges imposed by entities other than the City; costs of contractual and professional services, labor, materials and supplies for current operations, including the costs of such direct City services rendered to the Houston Airport System as are requested from the City by the Houston Airport System and as are reasonably necessary for the operation of the Houston Airport System; costs of issuance of Airport Obligations (except to the extent paid from the proceeds thereof); fiduciary costs; costs of collecting and refunding Gross Revenues; utility costs; any lawful refunds of any Gross Revenues; and all other administrative, general and commercial expenses. Operation and Maintenance Expenses include only those current expenses due or payable within the next 30 days.

The following expenses are specifically excluded from the definition of Operation and Maintenance Expenses: (1) any allowance for depreciation; (2) costs of capital improvements; (3) reserves for major capital improvements, Houston Airport System operations, maintenance or repair; (4) any allowance for redemption of, or payment of interest or premium on, Airport Obligations; (5) any liabilities incurred in acquiring or improving properties of the Houston Airport System; (6) expenses of lessees under Special Facilities Leases and operation and maintenance expenses pertaining to Special Facilities to the extent they are required to be paid by such lessees pursuant to the terms of the Special Facilities Leases; (7) any charges or obligations incurred in connection with any lawful Houston Airport System purpose, including the lease, acquisition, operation or maintenance of any facility or property benefiting the Houston Airport System, provided that the payment of such charges or obligations is expressly agreed by the payee to be payable solely from proceeds of the Airports Improvement Fund; (8) liabilities based upon the City's negligence or other grounds not based on contract; and (9) so long as Federal Payments are excluded from Gross Revenues, an amount of expenses that would otherwise constitute Operation and Maintenance Expenses for such period equal to the Federal Payments for such period.

Perfection of Security Interest in Revenues. The Ordinance provides that pursuant to Chapter 1208, Texas Government Code, as amended, the lien on Net Revenues created under the Ordinance is valid, effective, and perfected.

Bondholders' Remedies

The Ordinance provides that if the City defaults in the payment of principal of or interest on any Subordinate Lien Bonds, including the Series 2018 Bonds, or the performance of any duty or covenant provided by law or in the Ordinance, Owners of such Subordinate Lien Bonds, including the Series 2018 Bonds, may pursue all legal remedies afforded by the Constitution and the laws of the State of Texas to compel the City to remedy such default and to prevent further default or defaults.

The Ordinance neither appoints nor makes any provision for the appointment of a trustee to protect the rights of Owners of the Series 2018 Bonds. Furthermore, the Ordinance does not provide for acceleration of maturity of the Series 2018 Bonds or for foreclosure on Net Revenues or possession of Net Revenues by a trustee or agent for Owners of the Series 2018 Bonds or for operation of the Houston Airport System by an independent third party in the event of default.

No lien has been placed on any of the physical properties comprising the Houston Airport System to secure the payment of or interest on the Series 2018 Bonds. Moreover, in the event of default, the Owners of the Series 2018 Bonds have no right or claim under the laws of the State of Texas against the Houston Airport System or any property of the City other than their right to receive payment from Net Revenues and certain Funds maintained pursuant to the Ordinance. Owners of the Series 2018 Bonds have no right to demand payment of principal of or interest or premium, if any, on the Series 2018 Bonds from any funds raised or to be raised by taxation or from any funds on deposit in any of the special Funds described in the Ordinance, except the Subordinate Lien Bond Interest and Sinking Fund, and the applicable account of the Subordinate Lien Bond Reserve Fund. Further, unless sovereign immunity is expressly waived by the Texas Legislature or it is determined that the provision of airport services is a proprietary rather than a governmental function of the City, local governmental immunity would be available as a defense against suits for money damages against the City or the Houston Airport System in connection with the Series 2018 Bonds. The City will not waive sovereign immunity against suit in connection with the issuance of the Series 2018 Bonds. Accordingly, the only practical remedy in the event of a default may be a mandamus proceeding to compel the City to increase rates and charges reasonably required for the use and service of the Houston Airport System or perform its other obligations under the Ordinance, including the deposit of the Gross Revenues into the special Funds provided in the Ordinance and the application of such Gross Revenues and such special Funds in the manner required in the Ordinance. Such remedy may need to be enforced on a periodic basis because maturity of the Series 2018 Bonds is not subject to acceleration. In addition, the City's ability to comply with the Rate Covenant will be limited by contractual and competitive supply and demand constraints. See "COVENANTS AND TERMS OF THE ORDINANCE – Rate Covenant."

The enforcement of a claim for payment of principal of or interest on the Series 2018 Bonds and the City's other obligations with respect to the Series 2018 Bonds are subject to the applicable provisions of the federal bankruptcy laws and to any other similar laws affecting the rights of creditors of political subdivisions generally. The City may seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"); however, Chapter 9 recognizes a security interest in a specifically pledged source of revenues, such as the Net Revenues. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders against an entity that seeks protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce any other remedies available to the registered owners, other than for the pledge of Net Revenues securing the Series 2018 Bonds, would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the U.S. Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it.

Flow of Funds

Below is a presentation of the application of revenues under the Master Ordinance. For more information about the Houston Airport System's revenues, see "SECURITY FOR THE SERIES 2018 BONDS" and APPENDIX B-1.

Revenue Fund
Deposit all Gross Revenues

←

LESS

1 **Operation and Maintenance Expenses**
Pay all Current Operation and Maintenance Expenses

= NET REVENUES

2 **Senior Lien Bond Interest and Sinking Fund** ←
Pay Debt Service Requirements on Senior Lien Bonds and Senior Lien Notes

3 **Senior Lien Bond Reserve Fund**(1)
Reestablish Senior Lien Bond Reserve Fund Requirement

4 **Subordinate Lien Bond Interest and Sinking Fund** ←
Pay Debt Service Requirements on Subordinate Lien Bonds

5 **Subordinate Lien Bond Reserve Fund**(1)
Reestablish Subordinate Lien Bond Reserve Fund Requirement

6 **Inferior Lien Bond Interest and Sinking Fund**(2)
Pay Debt Service Requirements on
Inferior Lien Bonds (if any)

7 **Inferior Lien Bond Reserve Fund**(1)
Reestablish Inferior Lien Bond Reserve Fund Requirement

8 **Operation and Maintenance Reserve Fund**
Maintain reserve of two months' current Operation and Maintenance Expenses

9 **Renewal and Replacement Fund**
Replenish Fund to meet Renewal and Replacement Requirement

10 **Airports Improvement Fund**
May be used for any lawful Houston Airport System purpose

PFC Funds (Intercontinental and Hobby)
Accumulate and expend PFC Revenues for Approved PFC Projects(3) →
Apply certain PFC Revenues to pay debt service on Airport Obligations

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(1) Interest income on funds on deposit in the Senior Lien Bond Reserve Fund, Subordinate Lien Bond Reserve Fund, and Inferior Lien Bond Reserve Fund may be transferred to the related Interest and Sinking Fund, or such other funds as may be permitted by federal tax law.

(2) On November 5, 2015 the City entered into a forward bond purchase agreement for the issuance of up to $450 million of Airport System Inferior Lien Revenue Bonds with Royal Bank of Canada, which replaced the $150 million Airport System Inferior Lien Commercial Paper Notes, Series C. The City annually reauthorizes such forward bond purchase agreement. No amounts have been issued pursuant to the forward bond purchase agreement, and as of the date hereof, no amounts are expected to be issued pursuant thereto.

(3) PFC Revenues are not pledged to pay debt service on any Outstanding Airport Obligations, including the Series 2018 Bonds, but may be pledged or otherwise committed, consistent with FAA regulations. Periodically, the Houston Airport System irrevocably commits PFC Revenues to the Senior Lien and Subordinate Lien Bond Interest and Sinking Funds for the purpose of paying eligible debt service attributable to approved PFC projects. See "THE HOUSTON AIRPORT SYSTEM – Capital Improvement Program."

Debt Service Reserves

The Master Ordinance establishes a Subordinate Lien Bond Reserve Fund for all Subordinate Lien Bonds and requires to be maintained therein a balance equal to the Reserve Fund Requirement.

Reserve Fund Requirement for Reserve Fund Participants. Within the Subordinate Lien Bond Reserve Fund, there is a Subordinate Lien Bond Reserve Fund Participant Account (i.e. the common subordinate lien reserve account), which constitutes trust funds and held in trust for Owners of the Subordinate Lien Bonds that are secured thereby (the "Reserve Fund Participants"). All Subordinate Lien Bonds Outstanding as of the date hereof have been declared and designated to be Reserve Fund Participants; the Series 2018 Bonds will be declared and designated to be Reserve Fund Participants in the Officers Pricing Certificate. With respect to those Subordinate Lien Bonds that are Reserve Fund Participants (i.e., all Outstanding Subordinate Lien Bonds), the Reserve Fund Requirement is equivalent to the maximum annual Debt Service Requirements on such bonds, which amount shall be computed and recomputed upon the issuance of each series of Subordinate Lien Bonds that are Reserve Fund Participants and on each date on which such bonds are paid at maturity or optionally or mandatorily redeemed. See "RESERVE FUNDS AND RESERVE FUND SURETY POLICIES" herein.

Reserve Fund Non-Participants. The Master Ordinance also provides that any issue of Subordinate Lien Bonds may be secured by a lien on an account of the Subordinate Lien Bond Reserve Fund that is created and held for the sole benefit of such series of Subordinate Lien Bonds, referred to in the Master Ordinance as "Reserve Fund Non-Participants." No Outstanding Subordinate Lien Bonds are Reserve Fund Non-Participants, therefore no such account has been created within the Subordinate Lien Bond Reserve Fund.

Draws on the Subordinate Lien Bond Reserve Fund Participant Account. The Subordinate Lien Bond Reserve Fund Participant Account is required to be used to pay the principal of and interest on the Subordinate Lien Bonds that are Reserve Fund Participants at any time when there is not sufficient money available in the Subordinate Lien Bond Interest and Sinking Fund for such purpose (with the requirement that all cash and investments on deposit in such account be depleted before drawing upon any Subordinate Lien Bond Reserve Fund Surety Policies allocable to the Subordinate Lien Bond Reserve Fund Participant Account) and to repay amounts drawn under any Subordinate Lien Bond Reserve Fund Surety Policy allocable to the Subordinate Lien Bond Reserve Fund Participant Account for such purpose, together with interest thereon, in accordance with the terms of the City's reimbursement obligations incurred in connection with such Subordinate Lien Bond Reserve Fund Surety Policies. The Subordinate Lien Bond Reserve Fund Participant Account may also be used to make the final payments for the retirement or defeasance of all Subordinate Lien Bonds then Outstanding that are Reserve Fund Participants.

Funding the Reserve Fund Requirement. Each increase in the Reserve Fund Requirement resulting from the issuance of Additional Subordinate Lien Bonds is required to be funded at the time of issuance and delivery of such series of bonds. The Reserve Fund Requirement may be satisfied by depositing to the credit of the appropriate account of the Subordinate Lien Bond Reserve Fund either (1) proceeds of such Additional Subordinate Lien Bonds or other lawfully appropriated funds or (2) one or more Subordinate Lien Bond Reserve Fund Surety Policies.

Deficiencies in the Subordinate Lien Bond Reserve Fund. In any month in which any account of the Subordinate Lien Bond Reserve Fund contains less than the applicable Reserve Fund Requirement, the City shall transfer from the Revenue Fund, after making all required payments of Operation and Maintenance Expenses and after making all required transfers to the (i) Senior Lien Bond Interest and Sinking Fund, (ii) the Senior Lien Bond Reserve Fund, and (iii) the Subordinate Lien Bond Interest and Sinking Fund, on a pro rata basis into the Subordinate Lien Bond Reserve Fund Participant Account and other designated non-participant accounts, if any, such amounts as shall be required to permit the City to pay all reimbursement obligations under the Subordinate Lien Bond Reserve Fund Surety Policies allocable to the Subordinate Lien Bond Reserve Fund Participant Account or such other designated non-participant accounts, as applicable, within a twelve-month period, and such additional amounts as shall be sufficient to enable the City within a twelve-month period to reestablish the Reserve Fund Requirement in the Subordinate Lien Bond Reserve Fund Participant Account or such other designated accounts, as applicable.

See APPENDIX B-1 for further details regarding the Subordinate Lien Bond Reserve Fund. For a discussion regarding the surety policies the City previously acquired in order to satisfy its obligations with respect to the Reserve Fund Requirement for the Outstanding Subordinate Lien Bonds and Outstanding Senior Lien Obligations, see "RESERVE FUNDS AND RESERVE FUND SURETY POLICIES."

Additional Reserves and Other Funds

The Master Ordinance also provides for maintenance of an Operation and Maintenance Reserve Fund and a Renewal and Replacement Fund. The Operation and Maintenance Reserve Fund is required to be funded in an amount at least equal to two months' current Operation and Maintenance Expenses (which amount shall annually be redetermined by the Director of Aviation for the Houston Airport System at the time such official submits the proposed annual Houston Airport System budget based upon either such official's recommended budget for Operation and Maintenance Expenses or estimate of actual Operation and Maintenance Expenses for the then-current Fiscal Year). The amount required by the Master Ordinance to be maintained in the Renewal and Replacement Fund is $10,000,000 (or any greater amount required by any supplemental ordinance authorizing any series of additional Airport Obligations). Unappropriated funds in the Operations and Maintenance Reserve Fund and the Renewal and Replacement Fund may be used to pay operations and maintenance expenses, if needed, among other purposes. See APPENDIX B-1 and "Schedule 8A: Cash and Liquidity."

RESERVE FUNDS AND RESERVE FUND SURETY POLICIES

Reserve Fund for the Subordinate Lien Bonds

Reserve Fund Requirement. As of April 30, 2018, the Reserve Fund Requirement for the Subordinate Lien Bonds that are Reserve Fund Participants was approximately $149,653,613, which includes all of the Outstanding Subordinate Lien Bonds. The Series 2018 Bonds will be issued as Reserve Fund Participants. Upon the issuance of the Series 2018 Bonds, the Reserve Fund Requirement for the Subordinate Lien Bonds that are Reserve Fund Participants will be $187,375,506.26.

As of April 30, 2018, the Subordinate Lien Bond Reserve Fund Participant Account was funded with cash (and allowable investments) totaling approximately $35,864,009 and certain Subordinate Lien Bond Reserve Fund Surety Policies, as described in the table below, totaling approximately $150,627,476. Upon the issuance of the Series 2018 Bonds and the refunding of the Refunded Bonds, all amounts on deposit in the existing Senior Lien Bond Reserve Fund account attributable to the System's Senior Lien Revenue and Refunding Bonds, Series 2009A will be released, as all such bonds will be refunded and defeased in connection with the issuance of the Series 2018D Bonds. Accordingly, upon the issuance of the Series 2018 Bonds, cash in the approximate amount of $33,095,993 will be transferred from the Senior Lien Bond Reserve Fund and deposited into the Subordinate Lien Bond Reserve Fund Participant Account (i.e. the common subordinate lien reserve account) and held therein in accordance with the Master Ordinance. Additionally, upon the issuance of the Series 2018 Bonds, the Syncora Guarantee reserve fund surety policy in the approximate amount of $15,756,228 (as further described in the table below) will terminate in accordance with its terms. See SCHEDULE I – Refunded Bonds for a description of the Refunded Bonds.

Net of transfers and the termination of the Syncora Guarantee reserve fund surety policy, the amount on deposit in the Subordinate Lien Bond Reserve Fund Participant Account will be $203,831,251.87 upon the issuance of the Series 2018 Bonds, which will satisfy the Reserve Fund Requirement for the Subordinate Lien Bonds that are Reserve Fund Participants.

All amounts credited to the Subordinate Lien Bond Reserve Fund Participant Account are pledged and available to pay debt service on all Subordinate Lien Bonds that are Reserve Fund Participants (i.e. all of the Outstanding Subordinate Lien Bonds). To the extent that such amounts are needed to fund Debt Service Requirements, the City has covenanted to use all of the cash deposits before drawing on the Subordinate Lien Bond Reserve Fund Surety Policies, and any such draws would be on a pro rata basis among such Subordinate Lien Bond Reserve Fund Surety Policies.

The Houston Airport System has never utilized any amounts or drawn upon any surety policies in the Subordinate Lien Bond Reserve Fund to pay Debt Service Requirements.

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Subordinate Lien Bond Reserve Fund Surety Policies. As shown in the table below, the Reserve Fund Requirement for Subordinate Lien Bonds that are Reserve Fund Participants (i.e. all of the Outstanding Subordinate Lien Bonds) is partially funded by the following Subordinate Lien Bond Reserve Fund Surety Policies: (1) National Public Finance Guarantee Corporation ("National"), formerly Financial Guaranty Insurance Corporation ("FGIC"), (2) Assured Guaranty Municipal Corp. ("AGM"), as successor to Financial Security Assurance ("FSA"), and (3) a Syncora Guarantee ("Syncora"), as successor to XL Capital Assurance, Inc.

Outstanding Subordinate Lien Reserve Fund Surety Policies(1)

Reserve Fund Policy Issuer	Moody's Credit Rating(2)	Termination Date	Maximum Amount
National (formerly FGIC)(3)	Baa2	July 1, 2022	$ 24,477,885.00
		July 1, 2028	32,050,000.00
		July 1, 2030	43,269,100.00
		July 1, 2032	3,152,880.00
AGM (formerly FSA)	A2	Earlier of July 1, 2032, or the date that no Series 2002A and 2002B Bonds are Outstanding	31,921,383.50
Syncora (formerly XL Capital Assurance Inc.)(4)	Rating Withdrawn	Earlier of July 1, 2032, or the date that no Series 2002C and 2002D Bonds are Outstanding(4)	15,756,228.00(4)
TOTAL COVERAGE OF ALL OUTSTANDING POLICIES:			$150,627,476.50

(1) As of April 30, 2018, except for credit ratings, which are as of the date of this Official Statement.
(2) See general disclosure related to credit ratings under "RATINGS" herein.
(3) Effective August 19, 2013, FGIC transferred the Reserve Fund Policies listed above to National by novation. Pursuant to the novation, National was irrevocably designated the successor in interest to, and substituted in the place and stead of, FGIC, as if National were the original surety provider.
(4) This policy will terminate upon the issuance of the Series 2018 Bonds.

Reserve Fund Accounts for the Senior Lien Obligations

Reserve Fund Account for the Senior Lien Bonds. The City has maintained a separate reserve account within the Senior Lien Bond Reserve Fund for the Outstanding Senior Lien Bonds, all of which are being refunded by the Series 2018D Bonds. See SCHEDULE I – Refunded Bonds. As of April 30, 2018, the Reserve Fund Requirement for the Outstanding Senior Lien Bonds was fully funded by cash (or allowable investments) in the approximate amount of $33,095,993. Upon the issuance of the Series 2018 Bonds and the defeasance of the Refunded Bonds, no Senior Lien Bonds will remain Outstanding, and all funds in the Senior Lien Bond Reserve Fund will be deposited to the Subordinate Lien Bond Reserve Fund Participant Account, which secures all of the Outstanding Subordinate Lien Bonds, including the Series 2018 Bonds. See "SOURCES AND USES OF FUNDS" and " – Reserve Fund for Subordinate Lien Bonds."

Reserve Fund Account for the Senior Lien Notes. The City also maintains a separate reserve account within the Senior Lien Bond Reserve Fund for the Senior Lien Notes. As of April 30, 2018, the Reserve Fund Requirement for the Senior Lien Notes was fully funded by three surety policies from National in an aggregate maximum amount of approximately $12,374,996. Two of the surety policies securing the Senior Lien Notes, in an aggregate maximum amount of approximately $6,374,996, terminate on October 25, 2023. The third surety policy, in the maximum amount of approximately $6,000,000, terminates on July 1, 2030.

COVENANTS AND TERMS OF THE ORDINANCE

The following section describes certain covenants and other terms of the Ordinance. Capitalized terms used in this section but not otherwise defined have the meanings given to such terms in APPENDIX B-1. Certain proposed amendments to the Master Ordinance were adopted as part of the Supplemental Ordinance and shall be binding upon all Owners of the Series 2018 Bonds. See APPENDIX B-2 for a description of the proposed amendments and "—Proposed Amendments to the Master Ordinance" below for a discussion of when and how such amendments will become effective.

Rate Covenant

The City has covenanted in the Ordinance that it will at all times fix, charge, impose and collect rentals, rates, fees and other charges for use of the Houston Airport System, and, to the extent it legally may do so, revise the same as may be necessary or appropriate, in order that in each Fiscal Year the Net Revenues will at all times be at least sufficient to equal the larger of either: (1) all amounts required to be deposited in such Fiscal Year to the credit of the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Reserve Fund, the Inferior Lien Bond Interest and Sinking Fund and the Inferior Lien Bond Reserve Fund or (2) an amount not less than 125% of the Debt Service Requirements for the Outstanding Senior Lien Obligations for such Fiscal Year, plus 110% of the Debt Service Requirements for the Outstanding Subordinate Lien Bonds for such Fiscal Year, plus 100% of the Debt Service Requirements for the Outstanding Inferior Lien Bonds for such Fiscal Year. (Such covenant is referred to herein as the "Rate Covenant.")

Debt Service Requirements do not include any interest on Airport Obligations to the extent that provision for the payment of such interest has been made by (1) appropriating for such purpose amounts sufficient to provide for the full and timely payment of such interest either from the proceeds of Airport Obligations, from interest earned or to be earned thereon, from other Houston Airport System funds other than Net Revenues, or from any combination of such sources, (2) depositing such amounts (except interest to be earned, which will be deposited as received) into a fund or account for capitalized interest, the proceeds of which are required to be transferred as needed into the Senior Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Interest and Sinking Fund, or the Inferior Lien Bond Interest and Sinking Fund, as the case may be, or (3) by irrevocably committing funds other than Net Revenues including, but not limited to, PFC Revenues or Excluded Fee and Charge Revenues to be paid by the Houston Airport System.

If the Net Revenues in any Fiscal Year are less than the amounts specified above, the City, promptly upon receipt of the annual audit for such Fiscal Year, must request an Airport Management Consultant to make its recommendations, if any, as to a revision of the City's rentals, rates, fees and other charges, its Operation and Maintenance Expenses or the method of operation of the Houston Airport System in order to satisfy as quickly as practicable the foregoing requirements. Copies of such request and the recommendations of the Airport Management Consultant, if any, shall be filed with the City Secretary. So long as the City substantially complies in a timely fashion with the recommendations of the Airport Management Consultant, the City will not be deemed to have defaulted in the performance of its duties under the Ordinance even if the resulting Net Revenues are not sufficient to be in compliance with the Rate Covenant, so long as there is no other default under the Ordinance.

For further description of the Rate Covenant, see APPENDIX B-1.

Other Factors Affecting Rate Covenant. The City's ability to comply with the Rate Covenant may be limited in that, among other things, (1) a significant portion of the Gross Revenues of the Houston Airport System are derived pursuant to contracts that cannot be adjusted unilaterally by the City, (2) the most important contracts, Use and Lease Agreements with the airlines, provide for recovery of certain operating and capital costs attributable to certain facilities and do not include a debt service coverage factor, (3) parking and other sources of Gross Revenues, which are not derived under contracts, are subject to competitive supply and demand constraints, and (4) certain city charter tax and revenue limitations, voter-approved propositions and ongoing litigation involving such limitations and propositions could have an impact on the operations of the Houston Airport System. See "THE CITY AND CITY FINANCIAL INFORMATION – City Charter Tax and Revenue Propositions."

Additional Airport Obligations

The Master Ordinance permits the City to issue, for any lawful Houston Airport System purpose, Additional Subordinate Lien Bonds, Additional Senior Lien Obligations and Inferior Lien Bonds, if certain conditions are satisfied. For detailed information relating to the issuance of additional Airport Obligations, see APPENDIX B-1.

Amendments to Ordinance

The Ordinance provides that it may be amended either with or without the consent of Owners under certain circumstances.

Amendments of Ordinance without Consent. The City may, without the consent of or notice to the Owners of the Airport Obligations, amend the Ordinance for any one or more of the following purposes: (1) to cure any ambiguity, defect, omission or inconsistent provision in the Ordinance or in the Airport Obligations; or to comply with any applicable provision of state or federal law or regulation of federal agencies; provided, however, that such action shall not adversely affect the interests of the Owners of the Airport Obligations; (2) to change the terms or provisions of the Ordinance to the extent necessary to prevent the interest on the Airport Obligations from being includable within the gross income of the Owners thereof for federal income tax purposes; (3) to grant to or confer upon the Owners of the Airport Obligations any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Owners of the Airport Obligations; (4) to add to the covenants and agreements of the City contained in the Ordinance other covenants and agreements of, or conditions or restrictions upon, the City or to surrender or eliminate any right or power reserved to or conferred upon the City in the Ordinance; (5) to subject to the lien and pledge of the Ordinance additional Net Revenues that may include revenues, properties or other collateral, (6) to add requirements or incorporate modifications the compliance with which is required by a rating agency in connection with issuing or confirming a rating with respect to any series of Airport Obligations; (7) to authorize any series of Additional Senior Lien Bonds, Additional Senior Lien Notes, Additional Subordinate Lien Bonds or additional Inferior Lien Bonds, and, in connection therewith: (i) to specify and determine the terms, forms and details thereof and (ii) to create such additional funds and accounts and to effect such amendments of the Ordinance that may be necessary for such issuance, provided in each case that no such amendment or supplement shall be contrary to or inconsistent with the limitations set forth in the Ordinance; (8) to evidence any sale, transfer or encumbrance of the Houston Airport System in accordance with the Ordinance; (9) to make any other modification, amendment or supplement that shall not materially adversely affect the interests of the Owners of the Airport Obligations; (10) to cure or correct any technical defect in connection with the terms, conditions or procedures relating to the variable rate provisions contained in any Supplemental Ordinance; provided, however, that such action shall not adversely affect the interests of the owners of the Airport Obligations; and (11) prior to the conversion of any variable rate Airport Obligations to a different interest rate mode, to change the terms, conditions or procedures relating to the new interest rate mode.

Amendments of Ordinance with Consent. The City may at any time adopt one or more ordinances amending, modifying, adding to or eliminating any provisions of the Ordinance, but, if such amendment is not of the character described in the preceding paragraph, only with the consent given in accordance with the Ordinance of the Owner or Owners of not less than a majority in aggregate unpaid principal amount of the Airport Obligations then Outstanding and affected by such amendment, modification, addition or elimination; provided, however, no such amendment, modification, addition or elimination shall permit (1) an extension of the maturity of the principal of or interest on any Airport Obligations issued under the Ordinance, (2) a reduction in the principal amount of any Airport Obligations or the rate of interest on any Airport Obligation, (3) a privilege or priority of (a) any Senior Lien Obligation(s) over any other Senior Lien Obligation(s), (b) any Subordinate Lien Bond(s) over any other Subordinate Lien Bond(s), or (c) any Inferior Lien Bond(s) over any other Inferior Lien Bond(s), or (4) a reduction in the aggregate principal amount of the Airport Obligations required for consent to such amendment, unless the Owner or Owners of 100% in aggregate principal amount of the Airport Obligations shall consent to any of such changes.

Proposed Amendments to the Master Ordinance

The City has determined to amend the Master Ordinance in the form set forth in APPENDIX B-2 (such amendments are collectively referred to as the “Proposed 2016 Amendments”). The following summarizes the changes made to the Master Ordinance by the Proposed 2016 Amendments.

Short-Term/Demand Obligations. The Master Ordinance provides that the aggregate principal amount of Short Term/Demand Obligations Outstanding at any time may not exceed the greater of $150,000,000 or 30% of the aggregate principal amount of Senior Lien Obligations and Subordinate Lien Bonds Outstanding at the time of issuance of the last series of Short Term/Demand Obligations. The City has determined to amend the Master Ordinance to delete this limitation on the total aggregate principal amount of Short-Term/Demand Obligations that may be Outstanding at any time. Additionally, the City has determined to amend the definition of “Short-Term/Demand Obligations” to delete the requirement that an obligation must be secured by a credit or liquidity facility to qualify as a Short-Term/Demand Obligation.

Released Revenues. The City has determined to amend the Master Ordinance to allow the City to remove a specific, identifiable portion of the income and revenues from the definition of “Gross Revenues” once certain conditions are met, including meeting a debt service coverage test, the delivery of an opinion of bond counsel and ratings confirmations from each rating agency rating the Airport Obligations affected thereby. See APPENDIX B-2 for a full description of such conditions.

Reserve Fund Requirement for Reserve Fund Non-Participants. The Master Ordinance requires all Reserve Fund Non-Participants to maintain a Reserve Fund Requirement equal to the maximum annual Debt Service Requirements for all Airport Obligations that are secured thereby. The City has determined to amend the definition of Reserve Fund Requirement for Reserve Fund Non-Participants to be any amount set forth in the supplemental ordinance that authorizes the issuance of such Reserve Fund Non-Participants. There is no effect on the Reserve Fund Requirement for Reserve Fund Participants, including the Series 2018 Bonds.

Qualified Hedge Agreements. The City has determined to amend the Master Ordinance to allow a financial institution that has long-term credit ratings in one of the two highest rating categories by a single nationally recognized rating service to qualify as a qualified hedge counterparty. The Master Ordinance currently requires such an institution to have such long-term credit ratings from two nationally recognized rating services.

The Proposed 2016 Amendments were adopted as part of the Supplemental Ordinance and shall be binding upon all Owners of the Series 2018 Bonds. The City intends to include the Proposed 2016 Amendments in each future supplemental ordinance until the Proposed 2016 Amendments are incorporated into the Master Ordinance, and the City has authorized the amendment of each of its prior ordinances pursuant to which Airport Obligations are Outstanding, subject to satisfying the conditions required in order to amend such prior ordinances.

The Proposed 2016 Amendments (or any portion thereof) shall not become effective and amend the Master Ordinance until the date on which the Proposed 2016 Amendments (or portions thereof) have become incorporated or deemed incorporated into every ordinance pursuant to which Airport Obligations are then Outstanding (the "Amendment Effective Date"). Although the Proposed 2016 Amendments have been incorporated into (1) the Series 2018 Bonds, (2) the Houston Airport System's Senior Lien Commercial Paper Notes, Series A and Series B, and (3) the Houston Airport System's Subordinate Lien Revenue and Refunding Bonds, Series 2018A and Series 2018B, the City may not exercise its rights under any portion of the Proposed 2016 Amendments until the Amendment Effective Date. The Master Ordinance will not be deemed to be amended by the Proposed 2016 Amendments until the Amendment Effective Date.

Prior Proposed Amendment relating to Ellington Airport. In ordinances adopted by the City in 2011 and 2012, the City proposed an amendment to the definition of "Airport System" that excluded Ellington Airport. In the Supplemental Ordinance, the City has determined that such proposed amendment is not effective in regards to the Master Ordinance, the Supplemental Ordinance, or any future ordinance relating to Airport Obligations.

THE HOUSTON AIRPORT SYSTEM

The Houston Airport System

The Houston Airport System is an enterprise fund of the City. The Houston Airport System is comprised of three airports -- Intercontinental, Hobby and Ellington. Intercontinental is the nation's 14th busiest airport (as measured by enplaned passengers in calendar year 2016) and is classified as a "large hub airport" by the Federal Aviation Administration ("FAA"). It serves as an international gateway airport and a primary connecting point in the national air transportation system and was the second busiest hub for United in calendar year 2016. Additionally, Intercontinental is the primary air cargo airport for the region. Hobby is the nation's 34th busiest airport (as measured by enplaned passengers in calendar year 2016) and is classified as a "medium hub airport" by the FAA. Hobby is a primary station for Southwest, which offers domestic service and international service to destinations in Mexico, Central America, and the Caribbean. Ellington is currently used for general aviation, military, Coast Guard, and NASA operations, but has no commercial passenger service. The Houston Airport System is moving forward with plans to repurpose Ellington. See "—Ellington Airport."

Hurricane Harvey

The City of Houston experienced a substantial natural disaster on August 23 – 27, 2017, resulting from Hurricane Harvey, when up to 50 inches of rain in the Houston area caused flooding in portions of the City. Intercontinental was closed to commercial traffic for two days and the airlines resumed normal operating capacity by September 5, 2017. Operations at

Hobby were stopped for three days and airlines resumed normal operations by September 7, 2017. Enplanements for August and September were lower by approximately 616,000 or 3.1% when compared to the same period for the previous year.

The Houston Airport System sustained water damage to various buildings and components of the airfields at all three airports. The estimate of the total damage to facilities owned by the Houston Airport System is approximately $4 million. The Houston Airport System also incurred disaster-related expenses for debris removal, protective measures, and the costs of emergency personnel overtime. Houston Airport System management anticipates most of these will be covered by insurance and grants from the Federal Emergency Management Agency ("FEMA") and the State of Texas.

Shortly after the storm, the Houston Airport System established a "Disaster Recovery O&M Fund" in its accounts to serve as an appropriation source for disaster related expenses, pending insurance and reimbursement by FEMA. The Houston Airport System has transferred $5 million from the Airport Improvement Fund to the Disaster Recovery Operations and Maintenance Fund following the approval of City Council.

The Houston Airport System continues to evaluate the cost of damages from the storm and will submit additional requests for reimbursement to FEMA and its insurance carriers, if necessary.

Additionally, the City has received various claims related to Hurricane Harvey, none of which have become a lawsuit, alleging that the City released water from reservoirs flooding nearby residential and commercial properties and vehicles. The claims consist of both requests for compensation for loss from individual claimants and claims from insurance companies for their insured's losses. The claims allege either a constitutional taking under the Texas Constitution, a nuisance claim, or simply allege the City released the water causing harm to the claimants' property. The City intends to defend itself vigorously against all such claims; however, the City's liability with respect to these claims cannot be predicted.

Houston Airport System Facilities

George Bush Intercontinental Airport/Houston

Intercontinental is situated on 10,080 acres of land approximately 22 miles north of downtown Houston. Opened in 1969, it is the Houston area's busiest commercial airport.

Intercontinental's passenger terminal facilities currently consist of five terminal buildings and related concourses – Terminals A, B, C, D and E – with a total of 128 aircraft gates and seven hardstand positions. The facilities provide public parking for approximately 24,000 automobiles in multi-story garages and surface lots, an automated underground inter-terminal train system (the "Subway") that connects (pre-security) the existing five terminals and the Marriott Hotel, and an above-ground level automated people mover system (the "Skyway") that connects (post-security) all five terminals and a central federal customs and immigration inspection services building (the "Central FIS Facility") accommodating international arrivals from Terminals D and E.

Terminal A contains 20 aircraft gates including seven hardstand positions and is used by various airlines (including United Express affiliates) for domestic and precleared international aircraft operations. Foreign-flag airlines operate international operations out of Terminal D, which contains 12 aircraft gates. Additionally, Terminal D is used by United Express affiliates and Spirit Airlines for some international arrivals. Terminals B, C, and E are used exclusively by United and its United Express affiliates. Terminal B, containing 42 aircraft gates, is used by United Express for regional jet operations. United is in the process of redeveloping Terminal B. Opened in May 2013, Phase 1 of the redevelopment consisted of the construction of a new South Concourse building containing 30 ground-level loading positions for regional jet operations. Terminal C contains 31 aircraft gates and primarily accommodates United and United Express domestic operations. Terminal E, containing 23 gates, is used by United for mainline international arrivals and departures and some domestic arrivals and departures and by United Express for some international arrivals. The Central FIS Facility is located between Terminal D and Terminal E and has the capacity to process approximately 4,500 arriving international passengers per hour.

Intercontinental has five runways interconnected by a system of taxiways. The longest runway is 12,000 feet long; two are approximately 10,000 feet long; and the remaining two are at least 9,000 feet long. The runways are equipped with instrument landing systems, lighting systems, and other navigation aids and are configured to permit the simultaneous use of the three east-west runways for aircraft landings in most weather conditions.

Also located on Intercontinental property are multiple air cargo buildings providing nearly one million square feet of space and a fuel farm that currently provides approximately 13 million gallons of storage capacity for jet fuel. Two fixed base operators provide airline, corporate and general aviation aircraft operations support. The Marriott Hotel is located between Terminals B and C, has 573 rooms and underwent a substantial renovation completed in January 2016. United operates facilities for aircraft maintenance, catering, flight attendant training, and other support functions, and is constructing a new 270,000-square-foot technical operations center to accommodate a hangar for widebody aircraft maintenance and is improving and expanding other aircraft maintenance and support facilities. The new and expanded facilities are expected to be completed in 2019. ExpressJet operates a flight training center. A consolidated rental car facility opened in August 2003 and was financed by the proceeds of certain bonds issued in 2001 that are not obligations of the City or United and that are secured by and payable from a customer facility charge assessed on rental car customers at the airport.

Hobby Airport

Hobby is located on 1,500 acres approximately 11 miles southeast of downtown Houston. It has two terminal buildings with two concourses. The Central Concourse, completed in 2008, contains 25 gates and is used primarily for domestic arrivals and departures. The West Concourse opened in October 2015, contains five gates, all connected to the federal immigration and customs inspection services building, which can accommodate up to approximately 800 arriving passengers per hour. Southwest's ticketing facilities are located in the West Terminal, while ticketing facilities for other airlines are located in the Central Terminal. All domestic baggage claim facilities are located in the Central Terminal. The entire terminal complex includes over 910,000 square feet of space. Hobby has four runways in total: two runways are approximately 7,600 feet long, one runway is 6,000 feet long and one runway is approximately 5,150 feet long. The runways are equipped with instrument landing systems, lighting systems, and other navigation aids to permit use in most weather conditions.

Additional facilities at Hobby include approximately 6,500 public parking spaces, rental car facilities, an underground fuel distribution system, a cargo building, several aircraft maintenance facilities and some corporate hangars. Five fixed-base operators support Hobby's significant corporate and general aviation operations. Southwest Airlines maintains a maintenance facility and hangar at Hobby and is constructing a new 240,000 square foot hangar at Hobby.

Ellington Airport

Ellington is located approximately 15 miles southeast of downtown Houston on approximately 1,900 acres. The joint use agreement with the federal government under which it operates expired in September 2007, but is currently being held over on a month-to-month basis. It has no scheduled commercial flights and its non-governmental operations are for general aviation. The Texas Air National Guard, NASA, and the Coast Guard also currently use Ellington. Ellington has three runways: one is 9,000 feet long, another is approximately 8,000 feet long and the third is approximately 4,600 feet long.

Ellington has one fixed-based operator leasing two fixed-base operating facilities, approximately 90 T-hangars, and three corporate-base operators that allow it to relieve Hobby of general aviation traffic. Lone Star Flight Museum opened a new facility at Ellington in September 2017 to replace its prior facility in Galveston.

The Houston Airport System was granted a Launch Site License from the FAA in June 2015 that enables Ellington to establish itself as a launch site for Reusable Launch Vehicles ("RLV"), making it the 10th commercial spaceport in the United States. RLVs launch horizontally, not vertically, similar to commercial aircraft. The Houston Airport System is proceeding with plans to establish the required infrastructure and facilities to support spaceport operations. In October 2015, the Houston Airport System acquired a 53,000-square-foot aerospace engineering building and land adjacent to Ellington to establish a business incubator facility for commercial spaceflight and other high-technology companies. No spaceflight operations are currently scheduled.

Management

The management of the Houston Airport System is the responsibility of the Director of Aviation, who is appointed by the Mayor and confirmed by the City Council of the City (the "City Council"). The Director of Aviation has a staff of approximately 1,200 employees. The Houston Airport System is categorized as an enterprise fund of the City, under the administrative control of the Mayor. The City Controller, as the Chief Financial Officer of the City, maintains the books of account, prepares financial statements and with the Mayor co-signs all warrants, contracts and orders for payment of any public funds or money relating to the Houston Airport System.

Following is selected biographical information for certain principal administrative officers and airport staff of the Houston Airport System:

Mario C. Diaz was appointed Director of the City of Houston Department of Aviation in May 2010. He is responsible for the overall management of the Houston Airport System's three aviation facilities. Prior to his appointment as Director of Aviation, beginning in 1999, Mr. Diaz served as the deputy general manager for Hartsfield-Jackson Atlanta International Airport where he was responsible for the daily operational activities of the world's busiest airport, including operations, business, finance and capital development. He has been one of the industry's leading authorities in aviation technology as well as the study of future developments in commercial aviation. Prior to 1999, Diaz was the manager of business, properties and commercial development for New Jersey Airports, a post he held for four years. In this role, he managed the division responsible for all business and lease negotiations at Newark International Airport as well as the day-to-day oversight management of Teterboro Airport, one of the nation's premier general aviation airports and a major reliever airport for Newark International. Before that, Mr. Diaz served for 17 years with the Port Authority of New York and New Jersey. Beginning in 1981, Mr. Diaz held key management positions in leasing, finance, marketing, operations and properties. During this period, Diaz also served 18 months as the assistant director of the redevelopment program at John F. Kennedy Airport. A native of Barranquitas, Puerto Rico, and a licensed private pilot with instrument certification, Diaz earned his Bachelor of Arts degree from Rutgers University in Newark, New Jersey. He also earned a Master of Business Administration in finance from Rutgers Graduate School of Business Administration in New Jersey.

Jesus H. Saenz Jr., IAP, Chief Operating Officer, oversees strategic and business plan development, business process re-engineering, implementing of technologically complex projects and airport operations. Previously, Mr. Saenz was the General Manager for Hobby and was responsible for leading Hobby to earning a Skytrax 4-star international rating in 2016. While at Hobby, he was also responsible for directing the day-to-day management of the airport, as well as for establishing policies, procedures, guidelines and project schedules for Hobby. In addition, he coordinates the preparation, implementation and monitoring of the budget and expenditures for Hobby, among other duties. Prior to his current position, Mr. Saenz served as Assistant Director – Activation Team / Operational Readiness and Airport Transfer Team. He has held a wide range of positions, including Assistant Director of Administration and Customer Service at Intercontinental, Assistant Director of Transportation at Intercontinental, Acting Assistant Director of Operations at Intercontinental, Senior Superintendent, Superintendent and Customer Service Manager. During his nearly 20-year aviation career he has become an accredited executive of the Global ACI-ICAO Airport Management Professional Accreditation Program (AMPAP-IAP). He is designated as an International Airport Professional. He is also an active member of the Airports Council International Facilitation Team and AAE member. Mr. Saenz obtained his Bachelor of Arts degree in Social Sciences from University of Houston-Downtown.

Robert Barker, Chief Development Officer of the Infrastructure Division, is responsible for overseeing the administration of design and construction contracts, managing long-term and short-term airport projects, analyzing operations and implementing best practice policies and procedures for the Houston Airport System. Mr. Barker is a retired U.S. Navy engineering officer and certified facility manager with over 20 years international airport development, infrastructure and asset management experience. Joining the Houston Airport System in 2012, Mr. Barker has also served as Deputy Director for Capital Programs, Executive Representative for the Intercontinental Terminal Redevelopment Program, and Assistant Director for Asset Management. Prior to joining the Houston Airport System, Mr. Barker's previous work assignments included asset management leadership positions at Dallas-Fort Worth International Airport and the Cincinnati/Northern Kentucky International Airport as well as a variety of consulting engagements at Los Angeles International Airport, Indianapolis International Airport, Hartsfield-Jackson Atlanta International Airport, Northwest Florida Regional Airport and Phoenix Sky Harbor International Airport.

J'Maine Chubb, Chief Financial Officer, is responsible for the overall financial health of the Houston Airport System. Mr. Chubb provides financial leadership by working with the Executive Management Team to establish long-range financial goals, strategies, and plans while also ensuring that short-term funding needs are met. Mr. Chubb plays a leading role in driving the Houston Airport System's "Build the Platforms for Future Success" strategic priority, as he helps the Houston Airport System maintain fiscal discipline, fund capital improvements and pursue revenue growth opportunities. He brings over 20 years of finance and accounting experience in the private and not-for-profit sectors. As Assistant Director of Accounting for the Houston Airport System, Mr. Chubb provided direction and leadership for General Accounting, Financial Reporting, Accounts Receivable, Accounts Payable and Fixed Assets and Government Grant Administration groups. He led and engaged an accounting and finance organization of 30 employees while utilizing his expertise to resolve audit issues. Previously, Mr. Chubb held senior accounting positions at CITGO Petroleum Corporation, Halliburton, and Schlumberger. Prior to his experience in the oil and gas sector, Mr. Chubb held accounting positions at Toyota, the State of Georgia and the State of Michigan. Mr. Chubb holds a Master of Business Administration and a Bachelor of Science in Accounting from Wayne State University. He holds Certified Global Management Accountant (CGMA) and Certified Management Accountant (CMA) certificates and is also a licensed Certified Public Accountant (CPA) in the State of Texas.

Kenneth Gregg, Assistant Director of Financial Planning and Analysis, oversees the annual development of airline rates and charges and the reconciliation of prior year's rates and charges, conducts financial planning, performs airline statistical analysis and forecasting as well as ad hoc financial analysis as well as managing the debt and treasury programs at the Houston Airport System. Prior to joining the Houston Airport System in March 2011, Mr. Gregg served in various operational, financial and corporate real estate roles with Continental Airlines ("Continental" now United) for over 22 years. Mr. Gregg received a Bachelor of Science degree in Finance from the University of Houston – Clear Lake and a Master of Science degree in Finance from the Mays Business School at Texas A&M University.

Ted Kitchens, General Manager for Intercontinental, is responsible for the daily operations of Houston's largest airport and the development and implementation of its policies and procedures. In addition, he also coordinates the preparation, implementation and monitoring of the budget and expenditures for Intercontinental. Previously Mr. Kitchens served as the Houston Airport System's Planning and Development Assistant Director and was responsible for cost-effective, long-range planning of the Houston Airport System's airfield, terminal and landside facilities to meet the region's air passenger, spaceport and cargo needs. In addition, he developed and maintained forecasts of aviation demand, lead master planning and defined and prioritized capital projects as input to the CIP. He is a 17-year veteran of the aviation industry with a background in both airport management and aviation consulting services. Mr. Kitchens joined the Houston Airport System from the Newport News/Williamsburg International Airport in Virginia where he served as an Assistant Airport Director for 5 years. Prior to Newport News/Williamsburg International Airport, Mr. Kitchens held various leadership roles within the Bureau of Planning and Development at Hartsfield-Jackson Atlanta International Airport. With project experience, ranging from facility planning and programming for multi-billion dollar capital developments such as the Maynard H. Jackson Jr. International Terminal to leading the creation of the first Sustainable Airport Master Plan under an FAA Pilot Program to leading various efforts to maximize generating non-aeronautical revenue. He earned a Bachelor's degree from the University of Central Florida and a Master's Degree in Urban and Regional Planning from the University of Florida. In 2010, he received his Accredited Airport Executive designation from the American Association of Airport Executives.

Liliana Rambo, CAPP is General Manager for Hobby. Ms. Rambo is responsible for directing the day-to-day management of Hobby, as well as for establishing policies, procedures, guidelines and project schedules for Hobby. She is also responsible for developing the collaborative relationships with our air carriers, tenants and team members to excel at providing a customer-friendly, safe, secure and efficient operation at Hobby to the travelling public. In addition, she coordinates the preparation, implementation and monitoring of the budget and expenditures for Hobby, among other duties. Ms. Rambo holds a Master's of Science in Management from St. Thomas University and a Bachelor of Business Administration in Marketing and International Business from Florida International University. She has held key leadership roles within the parking community, most recently as the Chair of the Board of Directors for the International Parking Institute. Liliana has also served on the Board of Directors of the Florida Parking Association and the Board of Directors of the Texas Parking Association, which recognized her with its Distinguished Service Award.

Arturo Machuca, General Manager of Ellington, is responsible for the daily operations and the development and implementation of policies and procedures at Ellington. He is also the lead on the Houston Spaceport project. Mr. Machuca joined the Houston Airport System in 2009 with over 30 years of sales and marketing experience in the aviation industry. His prior responsibilities included economic development, industry affairs and business relations for all three airports, and three years ago he was tasked with the responsibility to develop a plan to bring a commercial spaceport to Ellington. He worked with various federal and local agencies, as well as key players in the aerospace industry, to create preliminary plans and conceptual drawings to pursue a license to bring commercial spaceflights to Ellington Airport and is now leading commercial development efforts for Ellington Airport and Houston Spaceport. Mr. Machuca holds a Bachelor of Arts degree in Hotels and Tourism Administration from Universidad Regiomontana (Monterrey, Mexico).

Ian N. Wadsworth is Chief Commercial Officer of the Houston Airport System and Deputy Director of Commercial Development. He oversees the commercial activities at the Houston Airport System's three airports, including air service development, airline affairs, concessions, parking, real estate and business development. He joined the Houston Airport System in November 2008 as Deputy Director, Finance and Administration. In that position, Mr. Wadsworth was responsible for the finance, properties, human resources, and procurement functions. Prior to joining the Houston Airport System, Mr. Wadsworth served in various finance, planning, and marketing roles over a span of 15 years at American Airlines, Capital One Financial, and Global Aero Logistics, the parent company of ATA Airlines, World Airways, and North American Airlines. Mr. Wadsworth received a Bachelor's degree in International Affairs from George Washington University and an MBA degree in Finance from the University of Michigan Business School.

Tanya Acevedo is the Chief Information Officer for the Houston Airport System. In this capacity, Ms. Acevedo is responsible for ensuring the successful execution of the Houston Airport System's mission through innovative and enabling technology with a focus on technologies that deliver way-finding, passenger flow/tracking, and a stronger cyber security posture. Ms. Acevedo has almost three decades of experience and has a proven track record of successfully implementing innovative solutions that increase efficiency and automate processes resulting in revenue generation and cost savings. Ms. Acevedo holds a Master's of Business Administration from Central Michigan University and a Bachelor of Arts in Political Science from Michigan State University. She is a certified Project Management Professional and has received many accolades including the 2016 Public Sector Chief Information Officer of the Year from Public CIO Magazine and the 2017 Government Technology Top 25 Doers, Dreamers and Drivers Award.

Saba Abashawl, Chief External Affairs Officer, is responsible for inter-governmental relations, industry and community affairs, international business development, communications, public and media relations, and special projects. Ms. Abashawl has been an executive for the City for more than 10 years. Prior to her current position, she was the Managing Director of Development, responsible for global commercial relations and development programs that ranged from air service expansion to aviation real estate marketing and promoting the City for corporate expansion and/or relocation. Ms. Abashawl is the City's lead liaison to the Department of Homeland Security, U.S. Customs and Border Protection, the U.S. Department of State, and the U.S. Department of Commerce. Under her leadership, Houston became a Model Port of Entry and was the location for testing new procedures. From 1999 to 2004, Ms. Abashawl also served as Executive Officer for the Mayor of Houston and was responsible for international business development. She directed the City's international business development strategy along with 26 institutions, establishing Houston as the permanent Secretariat of the World Energy Cities Partnership. She previously held key positions at Houston's University of St. Thomas and Rice University. She received a Bachelor's degree in Marketing and a Master's degree in International Finance and Business, both from the University of St. Thomas.

Harleen Hines Smith is the Chief Human Resource Officer for the Houston Airport System. She is responsible for developing a culture that enables employees to perform in accordance with Houston Airport System strategic and tactical human capital objectives. She also directs the development and implementation of organizational development programs, employee orientation and training programs, talent management programs, learning management systems, benefits plans, policies, and guidelines, equal opportunity employment programs and employee records and documentation policies. Ms. Hines Smith has over 20 years of human resources management experience in the private sector. She holds a Bachelor of Science degree in Business Administration from Franklin University and is an experienced manager focused on strategic management and goals.

Airport Service Region

The primary service region for the Houston Airport System is the nine-county Metropolitan Statistical Area of Houston-The Woodlands-Sugar Land (formerly called the Houston-Sugar Land-Baytown Metropolitan Statistical Area) ("MSA") and the 12-county Combined Statistical Area ("CSA") of Houston-Baytown-Huntsville. The 2017 U.S. Census population estimate for the MSA was approximately 6.89 million. The MSA and CSA contain the City of Houston, which is the nation's fourth most populous city. Harris County (the county in which the City is primarily located) accounted for 69.3% of the MSA's population. The extended air service region includes smaller markets with limited or no air service within driving distance of system airports, including Beaumont/Port Arthur, Bryan/College Station, Lufkin/Nacogdoches, and Victoria, Texas, and Lake Charles, Louisiana.

The MSA's population has grown consistently between 2013 and 2017:

Historical Houston-The Woodlands - Sugar Land MSA
Population Estimates

Year (July 1)	Population	Annual Percentage Change
2013	6,332,710	2.4%
2014	6,497,864	2.7%
2015	6,656,947	2.6%
2016	6,772,470	1.7%
2017	6,892,427	1.7%

Source: U.S. Census Bureau

The development and strength of the economic base of the Houston Airport System's service region is important to airline traffic growth at the airports. This dependency is particularly true for an economy with large trade volumes such as that of the region, in which industries rely on airports for the connections provided by passenger and cargo airline service. Houston's location approximately 50 miles from the Gulf of Mexico makes it an ideal gateway to Latin America. Intercontinental is currently the third busiest U.S. international gateway to Latin America, behind only Miami International and New York's John F. Kennedy airports. The region also is a center for the energy, financial, medical, transportation, retail and manufacturing industries. The region has 21 Fortune 500 companies headquartered in the Houston area, fourth behind the New York City, Chicago, and Dallas regions in its number of Fortune 500 companies. The 10 largest private employers in the Houston area are shown in the table below:

Top 10 Greater Houston Private Employers

Company	Employment	Type of business
Walmart	37,000	Retail
Memorial Hermann Health System	24,108	Healthcare
HEB	23,732	Retail grocer
University of Texas MD Anderson Cancer Center	21,086	Healthcare
McDonald's Corporation	20,918	Retail fast food
Houston Methodist	20,000	Healthcare
Kroger Company	16,000	Retail grocer
United Airlines	14,941	Airline
Schlumberger Limited	12,069	Oil and gas
Shell Oil Company	11,507	Oil and gas

Source: Greater Houston Partnership, 2017 Houston Facts.

The City is a center for convention and special events, including the NCAA Men's Division I Basketball Final Four in 2011 and 2016 and the NFL's Super Bowl in 2017. It is estimated that during Fiscal Year 2016, City facilities, including the George R. Brown Convention Center with its 1.2 million square feet of meeting space, hosted approximately 209 events resulting in a local economic impact of approximately $161 million.

Capital Improvement Program

General Discussion. The City updates and adopts annually a rolling five-year comprehensive plan that determines and prioritizes its capital and infrastructure needs, including the Houston Airport System. In connection with updates to its master plans for its airports, the Houston Airport System publishes CIPs extending past the City's five-year requirement, which is described below. The Houston Airport System continuously monitors and adjusts its CIP based upon financial capacity, air travel demand, and airline industry developments. From 2000 to 2010, the Houston Airport System undertook a major renovation, modernization and expansion project of all three airports totaling approximately $2.8 billion. At Intercontinental, the City built, among other projects, two new air carrier runways and related airfield expansions and improvements; a new international arrivals facility; an extended automated people mover system; and expansions and renovations to existing terminal, garage, and support facilities. At Hobby, the City constructed a new central concourse, substantially expanded the main terminal building, and completed various runway and taxiway improvements. At Ellington, the City made various airfield improvements. See also “INVESTMENT CONSIDERATIONS.”

Master Plans. The Houston Airport System has completed updates to the Intercontinental, Hobby, and Ellington Master Plans. These long-term development plans are generally demand-driven (with respect to activity levels), time-driven (with respect to facility condition), and consistent with strategic goals. Projects are identified as needed when a pre-defined demand level is reached, but are revalidated before implementation in the then-current operating environment.

CIP Projects. The proposed CIP, which covers Fiscal Year 2019 through Fiscal Year 2023 (“Fiscal Year 2019-2023 CIP”) calls for approximately $1.4 billion in projects. The major projects in the Fiscal Year 2019-2023 CIP include the following:

Major Projects as Shown in Fiscal Year 2019-2023 CIP (Proposed)
(dollars in millions)

Airport	Description	Amount
Intercontinental	Intercontinental Terminal Redevelopment Program	$ 881
	Runway, Taxiway and Airfield Projects	144
	Terminal Improvements	176
	Parking, Ground Transportation and Other Improvements	105
Hobby	Runway, Taxiway and Airfield Projects	25
	Other Improvements	7
Ellington	Improvements and Spaceport	3
Administration	System Support	72
	Total	**$ 1,413**

Intercontinental Capital Improvement Program. The Intercontinental Airport Terminal Redevelopment Program (“ITRP”) includes the construction of a new Mickey Leland International Terminal (“MLIT”) to provide needed additional wide-body aircraft-capable gates and terminal facilities. Terminal D opened in 1990, and it has been determined that the facility should be redeveloped with a new international facility to be constructed in phases on the same site as Terminal D, the original C-North concourse, and adjacent aircraft parking aprons. The new facility is anticipated to offer up to 16 wide-body gates versus the six that are available today. MLIT will provide approximately 560,000 square feet of space and up to 16 gates capable of accommodating wide-body aircraft, up to two of them A380-capable (with restrictions on the use of adjacent gate(s)). All gates will be connected to the Central FIS Facility and be capable of accommodating both domestic and international flights. MLIT will include improved concessions, club rooms, and other passenger amenities compared with Terminal D.

Intercontinental’s Central FIS Facility will be renovated and enlarged to improve arriving international passenger flows through primary and secondary processing functions and to facilitate the use of automated passport control technology. Passenger security screening checkpoints for United’s international departing and connecting passengers will be consolidated. A new baggage handling system will be installed and a new baggage claim annex will be constructed to provide four additional baggage claim units. After removal of one existing baggage claim unit during reconfiguration, 14 units will be provided, four with the capacity for A380 aircraft. A separate baggage claim area with four claim units will be provided for domestic and precleared passengers at Terminals D and E.

At Intercontinental, a new C-North concourse for United, which was opened in May 2017, was constructed to the west of the original C-North concourse to replace domestic gates that will be redeveloped as part of the MLIT development. The new concourse provides 280,000 square feet of space on two levels (including a renovated portion of the existing C-North concourse), an increase of 40,000 square feet over the original concourse. The new C-North concourse provides 14 domestic gates, compared with 13 gates at the original concourse. The project included reconstruction of the apron and utilities and installation of equipment to allow bags to be transferred from the new concourse to the baggage sortation complex at Terminal C. The original C-North concourse is not now in use.

Improvements to utility supply and distribution systems are required for the entire Intercontinental terminal complex as well as to enable implementation of MLIT and other ITRP elements. Roadway and signage improvements and other landslide projects will also be implemented as part of ITRP.

The Houston Airport System is investigating options for building a new electrical power generating plant and distribution system to serve the Intercontinental terminal complex through a design, build, operate, and maintain contract, with financing to be provided from private sources.

Hobby Capital Improvement Program. The Houston Airport System completed an update to the Master Plan for Hobby in 2015. Key airfield projects in the Hobby Master Plan include the relocation, widening, and extension of Runway 12L-30R from a general aviation runway to a full air-carrier-capable runway 8,000 feet long and 150 feet wide with a full-length parallel taxiway. Land is to be acquired at the southeast end of the extended runway for the runway protection zone and air navigation aids are to be relocated. Following the construction of Runway 12L-30R, Runway 17-35 will be decommissioned. Construction of the extended runway is not planned until after 2023, but planning and environmental studies are included in the CIP. Other airfield projects in the CIP are the reconstruction of Runway 12R-30L and the rehabilitation of taxiway and apron pavement.

The Hobby Master Plan provides for expansion of the international concourse and apron to add up to seven gates (for a total of 12 international gates). Construction is not planned to begin until after 2023. Terminal projects included in the CIP are construction of a canopy over the curbside roadways and various rehabilitation projects.

Construction of a consolidated rental car center is not currently included in the CIP. Subject to agreement with the rental car companies on scope and funding, the center would include a customer service building, a parking structure for ready and return spaces, and a quick turnaround area. Houston Airport System management anticipates that the project would be funded with special facilities debt and would not be an obligation against Net Revenues.

Ellington Capital Improvement Program. The Houston Airport System completed an update to the Master Plan for Ellington in 2015. Projects in the Ellington Master Plan (not expected to be implemented until after 2023) include the extension of Runway 17R-35L to 10,000 feet, land acquisition for a runway protection zone for the extended runway, construction of a full-length taxiway parallel to Runway 4-22, reconfiguration of other airfield facilities, construction of additional general aviation hangars, and development of infrastructure to enable future spaceport and other commercial development. Near-term projects include new control tower construction, roadway improvements, and airfield pavement rehabilitation.

Available land at Ellington would allow eventual development of facilities for research, engineering, manufacturing, and related aerospace activities at a 400-acre campus. As part of the first phase of campus development, in 2015, the City acquired a light manufacturing and office building from the Boeing Company. The Houston Airport System renamed the building the Houston Aerospace Support Center and is modifying it to provide 53,000 square feet of space for offices, laboratories, and fabrication facilities.

CIP Project Funding. The Houston Airport System anticipates funding the Fiscal Year 2019-2023 CIP from multiple sources, including available cash in the Airports Improvement Fund ("AIF") and Renewal and Replacement Fund, entitlement and discretionary grants and awards from the FAA and the Transportation Security Administration, PFC revenues, and bond proceeds. The Houston Airport System also anticipates using senior lien commercial paper draws to fund projects on an interim basis. While the current CIP anticipates the issuance of additional general revenue bonds to finance certain capital expenditures, the timing and structure of any new bond issue is uncertain and depends upon, among other things, market considerations, the amount of cash generated internally by the Houston Airport System, and the timing and scope of projects in the capital improvement plan, in particular those relating to the ITRP. As of April 30, 2018, the Houston Airport System also had approximately $21.5 million outstanding in Senior Lien Notes. The Senior Lien Notes are supported by a letter of credit issued by Sumitomo Mitsui Banking Corp, which expires in December 2021, but may be terminated at the City's option at any time.

On November 5, 2015, the City executed a forward bond purchase agreement for the issuance of up to $450 million of Airport System Inferior Lien Revenue Bonds with Royal Bank of Canada, which replaced the $150 million Airport System Inferior Lien Commercial Paper Notes, Series C. The City has not issued nor currently expects to issue amounts pursuant to the forward bond purchase agreement.

Passenger Facility Charge (PFC) Revenues. The City is authorized to impose and use PFCs for certain Houston Airport System improvements. Additionally, the City expects to submit future PFC applications to the Federal Aviation Administration for authority to impose and use PFCs for future improvements, including for the ITRP and other projects in the capital improvement plan. **PFC revenues are not currently pledged as security for any Senior Lien Bonds or Subordinate Lien Bonds, including the Series 2018 Bonds, or the Inferior Lien Bonds.** However, the City has taken the requisite actions to commit eligible and available PFC Revenues to the payment of debt service on the Series 2018 Bonds by annually depositing such funds in the Subordinate Lien Bond Interest and Sinking Fund. Additionally, the Houston Airport System periodically commits PFC Revenues for the purpose of paying eligible debt service attributable to approved PFC projects financed by Senior Lien Bonds and Subordinate Lien Bonds. See "SECURITY FOR THE SERIES 2018 BONDS – Flow of Funds."

PFC revenues are not considered Gross Revenues under the Ordinance. See "Sources of Revenues –Passenger Facility Charge Revenues" in APPENDIX A and the definition of Gross Revenues in APPENDIX B-1.

The City's authority to impose and use PFCs at both Hobby and Intercontinental is subject to certain terms and conditions in the federal PFC authorizing legislation, the PFC regulations adopted by the FAA and specific FAA approvals applicable to the Intercontinental and Hobby PFC programs. If the City fails to comply with any of these requirements, the failure could reduce or terminate the City's authority to impose PFCs at one or both airports and use such PFCs to finance a portion of the CIP.

As of March 2015, the City had implemented a PFC of $4.50 per enplaned passenger at both Hobby and Intercontinental. The City has authority to impose and use $736,300,640 of PFCs collected at Hobby through September 1, 2038 and the authority to impose and use $1,372,445,143 of PFCs collected at Intercontinental through January 1, 2028. The City is authorized to use PFC revenues to (a) pay debt service on outstanding bonds issued for certain completed Intercontinental projects; (b) reimburse the Houston Airport System for the unamortized cost of certain other Intercontinental projects that were originally funded from the Houston Airport System's resources, such as the AIF; (c) provide pay-as-you-go funding of the local share of the costs of certain planned future projects; and (d) pay debt service on commercial paper and future bonds to finance certain projects.

As of April 30, 2018, the aggregate account balances for PFC collections were approximately $176 million at Intercontinental and $39 million at Hobby. These funds are scheduled to be used to either pay future debt service for projects already approved by the FAA or pay the local share of capital projects approved by the FAA on a pay-as-you go basis. Historical PFC collections for the Houston Airport System are shown below.

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Schedule A: PFC Collections

Houston Airport System PFC Collections
(dollars in thousands)

	FY 2013	FY 2014	FY 2015[1]	FY 2016	FY 2017	Ten Months Ended 4/30/17	Ten Months Ended 4/30/18
Intercontinental	$47,465	$48,181	$66,491	$80,574	$77,351	$64,152	$65,170
Hobby	13,731	14,422	18,901	23,656	24,188	19,752	20,469
Total	$61,196	$62,603	$85,392	$104,230	$101,539	$83,904	$85,639
Year-over-Year Change	-3.71%	2.30%	36.40%	22.06%	-2.58%[2]		2.07%

(1) As of March 2015, the City implemented a PFC of $4.50 per enplaned passenger at Hobby and Intercontinental.
(2) See "HOUSTON AIRPORT OPERATING STATISTICS" for a description of the reasons causing the decrease.
Source: Houston Airport System audited financial statements.

For a discussion of the treatment of PFC Revenues under the Ordinance, see APPENDIX B-1. See "Schedule 5: Selected Financial Information" for the total amount of PFC Revenues available to pay debt service and debt service coverage ratios.

Grants under the FAA Airport Improvement Program and Other Programs. The City has been awarded, on behalf of the Houston Airport System, numerous grants under the FAA Airport Improvement Program, including Voluntary Airport Low Emissions grant funding, and awards from the Transportation Security Administration. Eligible projects include runway and taxiway rehabilitation, noise mitigation, environmental impact studies and security projects. The Houston Airport System has recognized capital contributions from these programs totaling over $118 million over the prior five fiscal years ending Fiscal Year 2017. Grant funds are not available for payment of debt service.

HOUSTON AIRPORT SYSTEM OPERATING STATISTICS

According to the U.S. Department of Transportation, Intercontinental and Hobby ranked 14th and 34th among U.S. airports, respectively, based on total enplaned passengers in Calendar Year 2016.

Total enplaned passengers for the Houston Airport System decreased by 1.6% to 27.4 million during Fiscal Year 2017. During this same period, total enplaned passengers at Hobby increased 4.34% to 6.7 million. Total enplaned passengers decreased by 3.4% at Intercontinental, with international passenger enplanement down 2.5%. The reduction in the number of enplaned passengers at Intercontinental between Fiscal Year 2016 and Fiscal Year 2017 is attributable primarily to reduced numbers of connecting passengers as United reduced connecting service through Intercontinental. Notwithstanding the oil-price-related slowdown in the economy of the Houston MSA, the number of originating passengers increased 1.7%. However, that increase was more than offset by a 7.9% reduction in the number of connecting passengers.

Each airport has an airline with an enplaned passenger market share of above 75%: United at Intercontinental and Southwest at Hobby. United and its regional partners, collectively, accounted for approximately 77.6% of total passengers at Intercontinental in Fiscal Year 2017. Southwest accounted for 93.0% of all passengers at Hobby in Fiscal Year 2017. See "Schedule 1: Passenger Statistics" and "Schedule 2: Airline Market Shares."

Airlines Utilizing the Houston Airport System

The table below shows the passenger airlines that provided scheduled service as of April 2018 from either Intercontinental or Hobby. As of April 2018, the scheduled passenger airlines that serve Houston averaged 5,302 weekly aircraft departures (including seasonal and non-daily scheduled service), which served more than 109 domestic destination airports, including all major U.S. cities. The airlines also provided service to 69 international destinations, and currently serve or expect to serve cities in Mexico, Central America, South America, Canada, Europe, Asia, Middle East, Australia and Africa. All of the mainline carriers shown below have signatory airline status under various use and lease agreements, except for Alaska Airlines at Intercontinental and Branson Air and JetBlue at Hobby.

Intercontinental			Hobby	
Mainline Carriers	**Regional Carriers**	**Cargo Carriers**	**Mainline Carriers**	**Regional Carriers**
Aeromexico	Aerolitoral	Air France Cargo	American Airlines	Envoy Air Inc
Air Canada	Compass Airlines	CargologicairAir Bridge Cargo	Delta Air Lines	ExpressJet Airlines
Air China	Elite Airways	Cargolux	JetBlue Airways	Mesa Airlines
Air France	Endeavor Air	Cathay Pacific Cargo	Southwest Airlines	Southern Airways
Air New Zealand	Envoy Air Inc.	China Airlines		Via Airlines, Inc.
Alaska Airlines	ExpressJet Airlines	DHL		
All Nippon Airways	GoJet Airlines	Emirates SkyCargo		
American Airlines	Jazz Air	Federal Express		
AVIANCA	LACSA	Lufthansa Cargo		
BahamasAir				
British Airways	Mesa Airlines			
Delta Air Lines	Republic Airlines	Qatar Cargo		
Emirates		UPS		
EVA Air	Shuttle America	Atlas Air		
Frontier Airlines	SkyWest Airlines			
InterJet	Trans International Airlines			
KLM Royal Dutch Airlines	Trans States Airlines			
Lufthansa				
Qatar Airways				
Singapore Airlines				
Spirit Airlines				
Turkish Airlines				
United Airlines				
VivaAerobus				
Volaris				
WestJet				

Source: Houston Airport System

United Airlines. United is the busiest airline at Intercontinental with combined average daily departures of 477 for calendar year 2017, including regional affiliates. United and its regional affiliates enplaned 77.5% of total enplaned passengers in Fiscal Year 2017, 77.6% of total enplaned passengers in Fiscal Year 2016 and 80.0% of total enplaned passengers in Fiscal Year 2015 at Intercontinental. See "Schedule 2: Airline Market Shares." For a discussion of the sources of operating revenues for the Houston Airport System, and the term of United's use and lease agreement at Intercontinental, respectively, see “HOUSTON AIRPORT SYSTEM FINANCIAL INFORMATION – Sources of Revenues” and “HOUSTON AIRPORT SYSTEM SIGNIFICANT CONTRACTUAL AGREEMENTS – Airport Use and Lease Agreements and Second Amended and Restated Special Facilities Lease Agreement” and “– Intercontinental Terminal E Lease and Special Facilities Lease Agreement.”

Intercontinental is the 2nd busiest of United’s principal domestic airport hubs as measured by enplaned passengers, accounting for approximately 20.4% of United’s system-wide enplanements for the twelve months ending December 31, 2017. During this period at Intercontinental, United enplaned approximately 10.7 million passengers while its regional affiliates enplaned 4.3 million passengers, approximately 60% of whom were connecting from flights operated by United or its regional carriers. The airline with the next highest market share at Intercontinental in 2017 was American Airlines, with an enplaned passenger market share of 5.4%.

Based on United’s anticipated schedule for the next 12 months as of April 1, 2018, (a) United expects to operate 232 average daily departures (excluding regional jets) from Intercontinental to 116 non-stop destinations, including 43 international destinations, and (b) United’s regional carriers expect to operate an additional 269 average daily departures from Intercontinental to 54 domestic destinations and 10 international destinations.

Southwest Airlines. Southwest is the busiest airline at Hobby with 152 average daily departures in calendar year 2017. Southwest carried 93.0% of the total Hobby passengers in Fiscal Year 2017, and 92.6% in Fiscal Year 2016. The airline with the next highest market share at Hobby in 2017 was Delta Air Lines, with an enplaned passenger market share of 3.4%. See “Schedule 2: Airline Market Shares.” For a discussion of the sources of operating revenues for the Houston Airport System, and the term of Southwest’s use and lease agreement at Hobby, respectively, see “HOUSTON AIRPORT SYSTEM FINANCIAL INFORMATION – Sources of Revenues” and “HOUSTON AIRPORT SYSTEM SIGNIFICANT CONTRACTUAL AGREEMENTS – Hobby Use and Lease Agreements.”

On October 15, 2015, Southwest began operating flights to six international destinations in Mexico, Central America, and the Caribbean from a new international terminal at Hobby. As of December 2017, Southwest operates 48 domestic non-stop destinations and nine international non-stop destinations from Hobby.

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The following schedules set forth certain statistical information regarding the Houston Airport System as provided by the City.

Schedule 1: Passenger Statistics

Schedule 1 shows total passengers at Intercontinental and Hobby over the most recent five fiscal years and the ten-month periods ending April 30, 2017 and 2018. Intercontinental has seen significant growth in international passengers, but a decrease in the number of domestic passengers during this period. Hobby has seen growth over the period shown.

Houston Airport System
Total Passengers
(in thousands)

Intercontinental Domestic Passengers	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	Ten Months Ended 4/30/17	Ten Months Ended 4/30/18
Enplaned and Deplaned	30,830	30,836	31,968	31,959	30,809	25,298	25,237
Year-over-Year Change	-3.0%	0.0%	3.7%	0.0%	-3.6%		-0.24%
Intercontinental International Passengers							
Enplaned and Deplaned	8,795	9,470	10,019	10,901	10,606	8,765	8,517
Year-over-Year Change	1.3%	7.7%	5.8%	8.8%	-2.7%		-2.83%
Total Intercontinental Passengers*							
Enplaned and Deplaned	39,625	40,306	41,987	42,860	41,415	34,063	33,754
Year-over-Year Change	-2.1%	1.7%	4.2%	2.1%	-3.4%		-0.91%
Hobby Domestic Passengers							
Enplaned and Deplaned	10,690	11,606	11,837	12,208	12,423	10,128	10,483
Year-over-Year Change	4.9%	8.6%	2.0%	3.1%	1.8%		3.51%
Hobby International Passengers(1)							
Enplaned and Deplaned	-	-	4	519	860	704	771
Year-over-Year Change	-	-	N/A	12,875%	65.7%		9.51%
Total Hobby Passengers							
Enplaned and Deplaned	10,690	11,606	11,840	12,728	13,284	10,832	11,254
Year-over-Year Change	4.9%	8.6%	2.0%	7.5%	4.4%		3.90%
Total Airport System Passengers*							
Enplaned and Deplaned	50,315	51,915	53,823	55,587	54,698	44,894	45,008
Year-over-Year Change	-0.7%	3.2%	3.7%	3.3%	-1.6%		0.25%

Source: Houston Airport System

*Numbers may not total exactly due to rounding.

(1) Limited international arrivals began at Hobby on March 7, 2015. Southwest began roundtrip service to select international destinations on October 15, 2015.

Schedule 1A: Total Enplaned Passengers for the Houston Airport System

Schedule 1A shows originating and connecting enplaned passengers for Intercontinental and Hobby over the most recent five fiscal years and the ten-month periods ending April 30, 2017 and 2018. The enplaned originating percentage has generally stayed within a relatively narrow range for both airports.

Houston Airport System
Total Originating and Connecting Enplaned Passengers
(in thousands)

Intercontinental	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	Ten Months Ended 4/30/17	Ten Months Ended 4/30/18
Originating Enplaned	9,235	9,657	10,454	11,129	11,105	8,998	9,137
Connecting Enplaned	10,521	10,452	10,505	10,301	9,599	7,971	7,697
Total Enplaned passengers	19,756	20,109	20,959	21,430	20,704	16,969	16,834
Enplaned Originating Percentage	46.7%	48.0%	49.9%	51.9%	53.6%	53.03%	54.28%
Hobby							
Originating Enplaned	3,960	4,135	4,270	4,696	4,853	3,993	3,937
Connecting Enplaned	1,417	1,701	1,674	1,687	1,807	1,433	1,702
Total Enplaned passengers	5,377	5,836	5,944	6,383	6,660	5,466	5,639
Enplaned Originating Percentage	73.6%	70.8%	71.8%	73.6%	72.9%	73.06 %	69.81%
Houston Airport System							
Originating Enplaned	13,195	13,791	14,725	15,824	15,958	12,992	13,073
Connecting Enplaned	11,938	12,153	12,179	11,988	11,406	9,404	9,399
Total Enplaned passengers	25,133	25,944	26,903	27,813	27,364	22,435	22,472
Enplaned Originating Percentage	52.5%	53.2%	54.7%	56.9%	58.3%	58.91%	58.17%

Source: Houston Airport System

*Numbers may not total exactly due to rounding.

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Schedule 2: Airline Market Shares

Schedule 2 shows airline market shares for the Houston Airport System over the most recent five fiscal years and the ten-month periods ending April 30, 2017 and 2018. United and Southwest have maintained leading market shares at Intercontinental and Hobby, respectively, over the period.

Houston Airport System
Market Share Data
(in thousands)

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	10 Months Ended 4/30/2017	10 Months Ended 4/30/2018
Total Passengers-Intercontinental							
Domestic							
United and affiliates	26,414	25,804	26,205	25,561	24,698	20,359	20,122
Spirit	292	666	1,168	1,679	1,769	1,512	1,691
Delta and affiliates	1,298	1,363	1,450	1,460	1,475	1,205	1,250
American and affiliates*	2,551	2,629	2,728	2,618	2,245	1,847	1,862
All Other Airlines	277	370	417	640	621	374	312
Subtotal Domestic Passengers*	30,830	30,832	31,968	31,959	30,809	25,298	25,237
International							
United and affiliates	6,862	7,160	7,398	7,690	7,433	6,106	6,003
Air Canada/Jazz	239	252	278	290	303	295	218
British Airways	271	281	265	243	241	195	181
Emirates	186	200	221	253	203	168	166
Lufthansa	306	301	281	278	292	239	228
AeroMexico	168	219	271	255	256	227	134
Air France	148	152	146	144	153	122	116
Qatar	165	164	153	160	155	128	128
KLM	174	178	180	156	165	136	133
Spirit	0	0	24	218	121	91	87
Singapore	113	105	84	79	83	66	76
All Others	165	458	716	1,132	1,203	991	1,047
Subtotal Int'l Passengers*	8,795	9,470	10,015	10,900	10,606	8,765	8,517
Total (Domestic and International)*	39,625	40,302	41,983	42,860	41,415	34,063	33,754
Market Share-Intercontinental							
Domestic							
United and affiliates	66.7%	64.0%	62.4%	59.6%	59.6%	59.6%	59.6%
Spirit	0.7%	1.7%	2.8%	3.9%	4.3%	6.0%	6.7%
Delta and affiliates	3.3%	3.4%	3.5%	3.4%	3.6%	3.5%	3.7%
American and affiliates*	6.4%	6.5%	6.5%	6.1%	5.4%	5.4%	5.2%
All Other Airlines	1.4%	2.6%	3.7%	5.4%	5.8%	5.5%	5.9%
Subtotal Domestic	77.8%	76.5%	76.1%	74.5%	74.4%	74.3%	74.8%
International							
United and affiliates	17.3%	17.8%	17.6%	18.0%	17.9%	17.9%	17.8%
Air Canada/Jazz	0.6%	0.6%	0.7%	0.7%	0.7%	0.9%	0.7%
British Airways	0.6%	0.6%	0.4%	0.6%	0.6%	0.6%	0.5%
Emirates	0.6%	0.6%	0.7%	0.6%	0.5%	0.5%	0.5%
Lufthansa	0.8%	0.7%	0.7%	0.6%	0.7%	0.6%	0.7%
AeroMexico	0.4%	0.5%	0.6%	0.5%	0.6%	0.7%	0.4%
Air France	0.4%	0.4%	0.3%	0.3%	0.4%	0.4%	0.4%
Qatar	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
KLM	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Spirit	0.0%	0.0%	0.1%	0.5%	0.3%	0.3%	0.3%
Singapore	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%
All Others	0.4%	1.2%	1.8%	2.7%	2.9%	2.9%	3.1%
Subtotal International	22.2%	23.5%	23.9%	25.5%	25.6%	25.7%	25.2%
Total	100%	100%	100%	100%	100%	100%	100%

Houston Airport System
Market Share Data
(in thousands)
(cont'd)

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	10 Months Ended 4/30/2017	10 Months Ended 4/30/2018
Total Passengers-Hobby							
Domestic							
Southwest	9,481	10,373	10,883	11,272	11,485	9,362	9,724
Delta and affiliates	403	409	448	429	447	358	352
American and affiliates	234	269	329	333	296	245	253
JetBlue	135	203	166	166	190	158	147
Frontier	3	-	-	-	-	-	-
All Others			6	8	5	5	7
Subtotal Domestic Passengers[1]	10,690	11,609	11,837	12,208	12,423	10,128	10,483
International							
Southwest			4	519	860	703	771
All Others			-	-	1	1	1
Subtotal Int'l Passengers[1]			4	519	860	704	771
Total (Domestic and International)[1]			11,841	12,727	13,284	10,832	11,254
Market Share-Hobby							
Domestic							
Southwest	92.7%	92.3%	91.9%	88.5%	86.5%	88.5%	86.5%
Delta and affiliates	3.8%	3.5%	3.8%	3.4%	3.4%	3.4%	3.4%
American and affiliates	2.2%	2.3%	2.8%	2.6%	2.2%	2.6%	2.2%
JetBlue	1.3%	1.8%	1.4%	1.3%	1.4%	1.3%	1.4%
Frontier	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
All Others	0.0%	0.1%	0.8%	0.0%	0.0%	0.0%	0.0%
Subotal Domestic	100%	100%	100%	95.9%	93.5%	95.9%	93.5%
International[2]							
Southwest			0.0%	4.1%	6.5%	4.1%	6.5%
Delta and affiliates			0.0%	0.0%	0.0%	0.00%	0.00%
Subtotal International			0.0%	4.1%	6.5%	4.1%	6.5%
Total	100%	100%	100%	100%	100%	100%	100%

Source: Houston Airport System

*Numbers may not total exactly due to rounding.

(1) US Airways and affiliates completed its merger with American and affiliates in 2015.

(2) Limited international arrivals began at Hobby on March 7, 2015. Southwest began roundtrip service to select international destinations on October 15, 2015.

Schedule 3: Total Aircraft Operations and Aircraft Landed Weight

Schedule 3 shows the aircraft operations (take-offs and landings) and aircraft landed weight for the Houston Airport System for the most recent five fiscal years and the ten-month periods ended April 30, 2017 and 2018.

Aircraft Operations
(in thousands)

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	10 Months Ended 4/30/2017	10 Months Ended 4/30/2018
Aircraft Operations	799	811	816	787	760	632	610
Year-over-Year Change	-4.62%	1.44%	0.74%	-3.55%	-3.43%		-3.58%

Aircraft Landed Weight
(in million pounds)

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	10 Months Ended 4/30/2017	10 Months Ended 4/30/2018
Aircraft Landed Weight	33,041	33,878	31,894	35,517	34,644	28,593	28,582
Year-over-Year Change	0.60%	2.53%	-5.86%	11.36%	-2.46%		-0.04%

Source: Houston Airport System

Schedule 4: Total System Cargo Activity

Schedule 4 shows cargo activity for the Houston Airport System for the most recent five fiscal years and the ten-month periods ended April 30, 2017 and 2018.

Total System Cargo Activity
(in metric tons)

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	10 Months Ended 4/30/2017	10 Months Ended 4/30/2018
Domestic Freight	201,464	193,054	192,169	195,644	210,730	174,994	188,795
International Freight	218,311	226,123	253,039	205,381	220,172	185,895	193,520
Mail	27,142	27,333	30,026	25,693	24,903	21,020	19,834
Total Cargo	446,917	446,510	475,234	426,718	455,805	381,910	402,149
Year-over-Year Change	-1.4%	-0.1%	6.4%	-10.2%	6.8%		5.30%

Source: Houston Airport System

*Numbers may not total exactly due to rounding.

HOUSTON AIRPORT SYSTEM FINANCIAL INFORMATION

Sources of Revenues

The Houston Airport System generates Operating and Non-Operating Revenues from various sources:

Landing Fees. Landing fees for airlines that provide scheduled service at Intercontinental and Hobby are computed annually under residual cost-recovery formulas derived from various use and lease agreements and license agreements (see "HOUSTON AIRPORT SYSTEM SIGNIFICANT CONTRACTUAL AGREEMENTS – Airport Use and Lease Agreements and Second Amended and Restated Special Facilities Lease Agreement"). Landing fees are also applied by ordinance to nonscheduled, commercial aircraft and non-signatory scheduled aircraft landings at both airports based upon maximum FAA-approved gross landed weights. The City also receives revenues from aviation fuel flowage fees (currently six cents per gallon) assessed on the delivery of fuel to certain aircraft in lieu of landing fees, however, at Intercontinental and Hobby, this revenue is netted against the airfield costs used to set the landing fees.

Building and Ground Area Revenues. Terminal space rentals paid by signatory airlines under use and lease agreements are computed annually under compensatory cost-recovery formulas derived from various use and lease agreements and license agreements. Ground rentals are charged by the City under long-term ground leases of land at Intercontinental, Hobby, and Ellington, typically at market rates escalating periodically. The City leases various parcels of land to airlines, fixed base operators and various corporations for hangars, aircraft maintenance facilities, flight kitchens and cargo buildings, auto rental companies for their service facilities and storage lots, and to a variety of other entities for buildings and other permanent improvements.

Parking, Concessions, and Other Revenues. Other than revenues from airline landing fees and terminal rentals, parking revenues from City-owned facilities are the largest single source of revenues of the Houston Airport System. Parking operations are managed and operated on behalf of the Houston Airport System by New South Parking. See "HOUSTON AIRPORT SYSTEM SIGNIFICANT CONTRACTUAL AGREEMENTS – Other Significant Airport Agreements." Parking rates are approved by the City Council; however, under a City ordinance, the Houston Airport System has the authority to increase parking rates, without further approval from City Council, up to specified amounts. Whereas the airline agreements generally allow for the Houston Airport System to set rates only to recover costs allocable to airline facilities, the Houston Airport System is generally able to set parking rates and concession and other business terms on a commercial basis. Therefore, the Houston Airport System must generate these nonairline revenues in order to (1) cover that portion of system operating and capital costs not paid by the airlines; (2) produce an annual surplus for deposit to the Airports Improvement Fund to meet current or anticipated needs of the Houston Airport System; and (3) comply with the Rate Covenant.

PFCs. The Houston Airport System derives a significant amount of non-operating revenues from PFC collections which are authorized for both Intercontinental and Hobby and are both being collected at the $4.50 rate ($4.39 net of $0.11 airline collections fee permitted by federal regulation) per eligible enplaned passenger. In Fiscal Year 2017, PFC revenues received by the Houston Airport System implied that approximately 81% of enplaned passengers were subject to the PFC. While the Ordinance does not define Gross Revenues to include PFCs, they are recognized as non-operating revenues in the Houston Airport System's comprehensive annual financial statements.

Selected Financial Information

Schedule 5 sets forth, for the Fiscal Years and ten-month periods indicated, (1) the Gross Revenues, Operation and Maintenance Expenses and Net Revenues (each computed as defined in the Ordinance) of the Houston Airport System, (2) the total Debt Service Requirement (computed as defined in the Ordinance) on then Outstanding Airport Obligations, which include all obligations payable from revenues of the Houston Airport System and (3) the coverage of Debt Service Requirement by Net Revenues. All amounts in "Schedule 5: Selected Financial Information" for Fiscal Years 2013 through 2017 are derived from the audited financial statements of the Houston Airport System Fund, or from the supplementary information and the statistical section included in the City Controller's Comprehensive Annual Financial Report of the City of Houston, Texas, for each respective Fiscal Year. The schedule should be read in conjunction with the complete audited financial statements of the City of Houston, Texas Airport System Fund Comprehensive Annual Financial Report and the notes thereto included as APPENDIX A.

Schedule 5: Selected Financial Information

(dollars in thousands)

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	10 Months Ended 4/30/2017 (unaudited)	10 Months Ended 4/30/2018 (unaudited)
Operating Revenues							
Landing fees:							
Landing fees	$86,911	$84,098	$89,426	$82,703	$84,036	$69,506	$72,925
Aviation fuel	1,444	1,529	1,521	1,527	1,350	1,136	1,275
Aircraft parking	2,704	2,715	2,628	2,640	2,660	2,305	2,394
Subtotal	91,059	88,342	93,575	86,870	88,046	72,947	76,594
Building and ground area revenues:							
Terminal space	158,237	163,297	173,392	191,321	196,162	162,507	158,332
Cargo building	2,397	2,432	2,506	2,484	2,448	2,050	1,993
Other rentals	5,848	6,174	6,252	6,808	6,453	5,342	5,395
Hangar rental	6,675	6,605	6,355	6,576	6,813	5,700	5,478
Ground rental	8,544	7,997	8,534	8,828	9,305	7,734	7,906
Subtotal	181,701	186,505	197,039	216,018	221,181	183,333	179,104
Parking, concession and other revenues:							
Retail concessions	41,604	41,444	41,855	35,216	39,999	33,104	32,770
Auto parking	77,596	90,173	97,515	101,650	99,752	80,788	84,738
Auto rental	29,522	32,783	31,991	30,737	28,735	23,929	23,548
Ground transportation	6,639	8,301	9,323	10,083	10,402	8,598	8,926
Other operating revenue	4,873	4,559	4,984	8,324	5,926	5,147	5,263
Subtotal	160,234	177,260	185,668	186,009	184,814	151,566	155,245
Total operating revenue	$432,994	$452,107	$476,282	$488,897	$494,041	$407,846	$410,943
Nonoperating revenues (1)							
Interest on investments (1)	7,029	5,499	6,014	6,986	9,306	7,475	10,624
Other revenues - revenue fund	1,222	3,162	7,526	-52	7,177	65	152
Subtotal	8,251	8,661	13,540	6,934	16,483	7,540	10,776
Total gross revenues	$441,245	$460,768	$489,822	$495,831	$510,524	$415,386	$421,719
Operation and maintenance expenses (2)(5)							
Personnel and other current expenses	$ 252,638	$268,638	$ 283,451	$ 309,455	$249,382	$224,550	$240,929
Interest on pension bonds and note(3)	107	107	107	107	107	89	89
Other interest	-	-	-	5,153	5,018	6,382	461
Total operation and maintenance expenses	$ 252,745	$ 268,745	$ 283,557	$ 314,715	$254,506	$231,021	$241,479
Net revenue	$188,500	$ 192,023	$ 206,264	$ 181,117	$256,018	$184,365	$180,240
Total debt service requirements	$ 153,938	$ 156,424	$ 163,319	$ 163,904	$175,023		
PFC revenue available for debt service	34,390	35,614	38,054	42,320	54,673		
Grant revenue available for debt service	-	22,942	16,399	13,888	-		
Net debt service requirement (4)	$119,548	$97,868	$ 108,866	$ 107,696	$120,350		
Coverage of debt service(5)	1.58	1.96	1.89	1.68	2.13		

* Totals may not add up due to rounding.

(1) The figures shown have been adjusted for miscellaneous revenues not defined as Gross Revenues or Net Revenues in the Ordinance. Excludes interest revenue earned in restricted bond funds and PFCs.

(2) Does not include depreciation expenses.

(3) Represents a portion of the pension debt issued in 2005 allocable to the Houston Airport System. No revenues of the Houston Airport System are pledged to such debt.

(4) Does not include debt service for which interest was capitalized from bond proceeds. Interest earned in reserve funds and used for debt service reduces the debt service requirement. See definitions of "Debt Service Requirements" in APPENDIX B-1.

(5) Operating and maintenance expense for debt service coverage calculations decreased by $60.2 million between Fiscal Year 2016 and Fiscal Year 2017, primarily due to a $67.4 million decrease in pension expense associated with pension reform enacted in 2017. Without the effects of pension reform, it is estimated that debt service coverage would have been 1.63 in Fiscal Year 2017.

Source: Houston Airport System

Schedule 6: Summary of Certain Fees and Charges

Schedule 6 shows the rates and charges for Fiscal Year 2018 and Fiscal Year 2019 (Preliminary) for both Intercontinental and Hobby. These rates and charges are established according to the terms of the use and lease agreements for each airport and are subject to annual fiscal year-end adjustments once actual airport-related expenses are finalized.

	Intercontinental		**Hobby**	
	FY 2018	FY 2019 (Preliminary)	FY 2018	FY 2019 (Preliminary)
Landing Fee Rates (1)	$2.76	$2.70	$2.01	$1.86
Terminal Space Rentals (2)	23.59-73.44	24.68-74.82	65.65-68.15	51.78-70.17
Apron (2)	2.420-2.769	2.754-2.933	1.791-1.848	1.687-1.738
Aircraft Parking (per day)	100.00-400.00	100.00-400.00	100.00-400.00	100.00-400.00
Cargo (per day)	200.00-600.00	200.00-600.00	200.00-600.00	200.00-600.00
Parking Rates (maximum per day)				
Economy (Ecopark)				
Covered	7.39	7.39	n/a	n/a
Uncovered	5.54	5.54	9.24	9.24
Structured	22	22	22	22
Sure Park	24	24	n/a	n/a
Valet	26	26	26	26

Source: Houston Airport System

(1) Per 1,000 pounds of landed weight.
(2) Range per square foot.

Shown below are average airline payments per enplaned passenger for the most recent five fiscal years and the ten-month periods ended April 30, 2017 and 2018 for each of Intercontinental and Hobby. This average does not include payments by United for special facilities bond debt service or terminal operations and maintenance in net-leased terminals, nor is it reflective of concession revenues retained by United in these terminals.

Houston Airport System
Total Cost Per Enplanement
($ per enplanement)

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Intercontinental	10.52	10.61	10.56	10.62	11.10
Hobby	6.64	6.19	6.43	7.15	6.15

Source: Houston Airport System

DEBT SERVICE REQUIREMENTS OF HOUSTON AIRPORT SYSTEM OBLIGATIONS

Schedule 7: Houston Airport System Debt Service Requirements Schedule

Schedule 7 sets forth the Debt Service Requirements, computed as defined in APPENDIX B-1, on all Outstanding Airport Obligations, assuming scheduled mandatory redemption of any term bonds. This schedule does not include the debt service for Outstanding Senior Lien Notes, which as of July 1, 2018, are outstanding in the principal amount of $21,473,000.

	Senior Lien Bonds			Subordinate Lien Bonds				
12 Months Ending	Existing Senior Lien Debt Service	Less: Refunded Senior Lien Debt Service	Senior Lien Debt Service	Existing Subordinate Lien Debt Service(1)	Less: Refunded Subordinate Lien Debt Service(1)	Plus: Series 2018C Debt Service	Plus: Series 2018D Debt Service	Subordinate Lien Debt Service
7/1/2019	33,095,244	31,216,278	1,878,965	157,928,725	24,844,566	16,519,692	26,530,474	176,134,324
7/1/2020	33,091,494	33,091,494	-	157,927,267	26,105,148	21,466,250	29,032,000	182,320,369
7/1/2021	33,094,744	33,094,744	-	158,179,833	25,988,512	21,623,000	29,030,500	182,844,821
7/1/2022	33,093,244	33,093,244	-	158,601,906	26,115,982	21,894,000	26,029,750	180,409,674
7/1/2023	33,095,744	33,095,744	-	157,755,188	26,090,132	22,221,750	26,028,250	179,915,056
7/1/2024	33,095,494	33,095,494	-	157,766,878	26,103,901	22,361,250	26,032,000	180,056,227
7/1/2025	33,095,994	33,095,994	-	157,244,764	26,110,207	22,684,500	26,029,500	179,848,556
7/1/2026	33,095,494	33,095,494	-	159,569,113	26,126,157	22,955,250	26,029,750	182,427,956
7/1/2027	33,092,244	33,092,244	-	157,152,468	26,109,874	23,183,500	26,031,250	180,257,344
7/1/2028	33,093,675	33,093,675	-	156,834,131	26,062,139	23,468,750	26,032,500	180,273,241
7/1/2029	33,091,288	33,091,288	-	158,638,735	26,111,917	23,815,500	29,032,000	185,374,317
7/1/2030	33,095,025	33,095,025	-	158,568,927	26,111,746	24,182,750	29,028,250	185,668,181
7/1/2031	33,094,400	33,094,400	-	155,983,192	18,459,435	16,851,250	29,032,250	183,407,256
7/1/2032	33,095,200	33,095,200	-	159,714,527	18,433,021	17,062,500	29,031,500	187,375,506
7/1/2033	33,094,125	33,094,125	-	13,507,500	-	-	29,029,000	42,536,500
7/1/2034	33,092,875	33,092,875	-	13,502,750	-	-	29,032,500	42,535,250
7/1/2035	33,092,875	33,092,875	-	13,503,250	-	-	29,029,250	42,532,500
7/1/2036	33,095,275	33,095,275	-	13,507,750	-	-	29,032,000	42,539,750
7/1/2037	33,095,950	33,095,950	-	13,505,000	-	-	29,027,750	42,532,750
7/1/2038	33,095,775	33,095,775	-	13,504,250	-	-	29,029,000	42,533,250
7/1/2039	33,095,350	33,095,350	-	13,509,250	-	-	29,032,500	42,541,750
7/1/2040	-	-	-	13,503,500	-	-	-	13,503,500
7/1/2041	-	-	-	13,501,250	-	-	-	13,501,250
7/1/2042	-	-	-	3,821,000	-	-	-	3,821,000
7/1/2043	-	-	-	3,820,250	-	-	-	3,820,250
7/1/2044	-	-	-	3,827,750	-	-	-	3,827,750
7/1/2045	-	-	-	3,822,750	-	-	-	3,822,750
7/1/2046	-	-	-	3,825,500	-	-	-	3,825,500
7/1/2047	-	-	-	3,820,250	-	-	-	3,820,250
7/1/2048	-	-	-	3,822,000	-	-	-	3,822,000
	694,981,506	693,102,541	1,878,965	2,360,169,652	348,772,738	300,289,942	586,141,974	2,897,828,829

(1) Variable rate bonds reflected at original certified rates. Actual rates will vary.

Source: Houston Airport System

Schedule 8: Houston Airport System Outstanding Debt

Schedule 8 summarizes Houston Airport System debt outstanding as of July 1, 2018 after the payment of scheduled maturities. This schedule includes commercial paper notes, and is adjusted to include the Series 2018C and Series 2018D Bonds and to exclude the related Refunded Bonds. Individual series of Senior Lien Bonds and Subordinate Lien Revenue Bonds are listed in Note 5 in the June 30, 2017, Comprehensive Annual Financial Report for the Airport System Fund in *Appendix B.*

	Outstanding Principal Amount (dollars in thousands)
Senior Lien Revenue Bonds, fixed rate(1)	$ -
Senior Lien Notes	21,473
Subordinate Lien Revenue Bonds, fixed rate(2)	1,843,145
Subordinate Lien Revenue Bonds, auction rate(3)	-
Subordinate Lien Revenue Bonds, variable rate	92,305
Inferior Lien Obligations(4)	-
Pension Obligation Bonds(5)	29,616
Total Outstanding Principal	$1,986,539
Special Facilities Revenue Bonds(6)	$ 934,965

(1) No Senior Lien Revenue Bonds will remain outstanding after the issuance of the Series 2018D Bonds.

(2) Is adjusted to include the Series 2018C and Series 2018D Bonds.

(3) No auction rate subordinate lien revenue bonds will remain outstanding after the issuance of the Series 2018C Bonds.

(4) On November 5, 2015 the City executed a forward bond purchase agreement for the issuance of up to $450 million of Airport System Inferior Lien Revenue Bonds with Royal Bank of Canada, which replaced the $150 million Airport System Inferior Lien Commercial Paper Notes, Series C. No amounts have been issued pursuant to the forward bond purchase agreement and as of the date hereof, the City does not expect to issue such debt.

(5) Represents the Houston Airport System's allocation of the City's pension obligation bonds issued in 2005 and 2017, although not direct obligations of the Houston Airport System or secured with any revenues of the Houston Airport System. In December 2017, the City issued $1.005 billion of pension obligation bonds. In Fiscal Year 2018, the Houston Airport System transferred to the City $27.61 million for its pro-rata share of the principal for such bonds, which will be applied to payment of principal on March 1, 2019. The Houston Airport System is also responsible for its share of interest in Fiscal Year 2019, totaling $608,248.30. After payment of such share of principal and interest, the Houston Airport System will have no continuing obligation on such 2017 pension obligation bonds.

(6) Represents the dollar amount of special facility revenue bonds that the City issued on behalf of third parties, the repayment of which is solely the obligation of such third party. THESE BONDS ARE SECURED SOLELY BY LEASE PAYMENTS OF THIRD PARTIES, AND NO REVENUES OF THE HOUSTON AIRPORT SYSTEM ARE PLEDGED TO PAY SPECIAL FACILITY BONDS. Approximately $91.6 million of the bonds outstanding were issued to support a consolidated rental car facility and the remaining bonds were issued to support certain United Airlines, Inc.. terminal and maintenance facility projects. See "HOUSTON AIRPORT SYSTEM SIGNIFICANT CONTRACTUAL AGREEMENTS – Other United Lease Agreements at Intercontinental" for a more detailed description of these bonds.

Source: Houston Airport System

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Schedule 8A: Cash and Liquidity

Schedule 8A shows the cash position of the Houston Airport System and a calculation of days of cash on hand for the most recent five fiscal years and for the twelve-month periods ended April 30, 2017 and 2018. A portion of the Houston Airport System cash is restricted to certain uses and some of the cash is unrestricted. The Ordinance requires the Houston Airport System to set aside two months of operation and maintenance reserves in the Operation and Maintenance Reserve Fund. The Houston Airport System's policy has been to reserve greater than the minimum two month requirement to accommodate fluctuations in revenues and enplanements.

Houston Airport System Cash and Investments
(dollars in thousands)

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	12 Months Ended 4/30/2017 (unaudited)	12 Months Ended 4/30/2018 (unaudited)
Unrestricted Airport System Cash and Investments	$518,853	$549,429	$457,396	$511,384	$480,251	$467,039	$501,317
Days of Unrestricted Cash on Hand	749	746	589(1)	595	689(2)	549	693(2)

(1) In Fiscal Year 2015, the Houston Airport System made appropriations for new multi-year contracts related to the IAH Terminal Redevelopment Program, resulting in the reduction of unrestricted cash on hand.

(2) If not for the decrease in pension expense in Fiscal Year 2017 associated with pension reform, Houston Airport System management estimates that Days of Unrestricted Cash on Hand would have been 557 for Fiscal Year 2017 and 601 for the 12-month period ended April 30, 2018.

Source: Houston Airport System

HOUSTON AIRPORT SYSTEM SIGNIFICANT CONTRACTUAL AGREEMENTS

Airport Use and Lease Agreements and Second Amended and Restated Special Facilities Lease Agreement

General. At both Intercontinental and Hobby, the vast majority of landing fees and terminal rentals are paid by the airlines pursuant to use and lease agreements and/or special facilities leases. Those agreements generally require the airlines to pay landing fees, terminal building rentals and certain other charges to enable the Houston Airport System to recover costs allocable to facilities occupied by the airlines. These costs include, among others, operation and maintenance expenses, amortization charges associated with the Houston Airport System's investment in airport capital improvements and interest on the Houston Airport System's investment in land. Airlines that do not operate under use and lease agreements either operate under agreements on a month-to-month basis or under City ordinance.

While the Houston Airport System maintains different use agreements for Intercontinental, each terminal at Intercontinental, and Hobby, airline rentals and use fees are generally calculated using the same "compensatory" cost allocation and rate-making principles. Under these principles, the Houston Airport System creates cost centers for each terminal or major facility (e.g., Terminals A, B, C, D, E, the Central Federal Inspections Services ("FIS") Facility; the Skyway; and the Airfield at Intercontinental; and the Central Terminal, West Terminal, and Airfield at Hobby) and calculates a rate base requirement as the total of all allocable direct, indirect, and system (e.g., the Subway and the central utility plant) operating and capital costs of the facility. Capital costs are calculated as the level annual amortization charge allocable to each investment. Terminal costs are further allocated between airline, nonairline, and apron areas, with terminal building and apron rental rates set to recover the rate base requirement, and the Houston Airport System bears risk for costs allocable to vacant space. Costs associated with nonairline (e.g., public and concession) areas of the terminals are the responsibility of the Houston Airport System and are recovered through concession revenues (including parking, rental car and ground transportation revenues) and other eligible non-airline revenues. Landing fee rates are calculated on a cost-center residual basis to recover in full the costs of the airfield area, net of certain nonairline cost center revenues (principally general aviation fuel flowage fees).

At Intercontinental, United leases certain terminals under long-term "net lease" agreement provisions by which United leases in full airline and nonairline premises such that there is no risk to the Houston Airport System for vacant space, and capital investment is generally the responsibility for United. In consideration of this mitigated risk, the Houston Airport System confers upon United the right to control, and retain revenues generated by, terminal concessions.

The following sections summarize the major provisions of the Houston Airport System's use and lease agreements, special facilities leases and license agreements.

Intercontinental Terminal A Airlines Use and Lease Agreement. The Terminal A Use and Lease Agreement expired on June 30, 2005, and is currently being held over on a month-to-month basis. In addition to allowing for the lease of preferential terminal building space, the agreement provides for the use of certain premises such as holdroom and apron on a common-use basis, with equivalent per-use charges in lieu of rentals.

Intercontinental Terminal B Improvement Projects and Special Facilities Lease. In November 2011, the Houston Airport System and Continental (now United) entered into a Second Amended and Restated Special Facilities Lease with a term of thirty years to provide for the redevelopment of Terminal B in three phases, subject to certain early termination and extension provisions. Pursuant to the agreement, United leases all airline premises in Terminal B, and, as facilities are redeveloped, all airline and nonairline premises in the terminal under "net lease" provisions. Also pursuant to the agreement, the Houston Airport System leases to United certain special facilities located in Terminal C that were financed with proceeds of previously issued special facilities bonds.

The Terminal B Improvement Projects are expected to be accomplished in phases. In the first phase, completed in 2013, United built a new Terminal B South Concourse for regional jet aircraft. In the second phase, completed in May 2017, United built a new mainline concourse between the original north concourses of Terminals B and C. Under the third and final deferred phase, United may construct two new international-capable Terminal B North Concourses for both mainline and regional jet aircraft along with a Terminal B FIS facility and the renovation and reconstruction of the existing Terminal B central lobby and baggage claim areas. The redevelopment, with the exception of certain projects to be funded by the Houston Airport System as detailed later, is to be undertaken by United at its sole expense, with the Houston Airport System agreeing to issue on behalf of United additional special facilities bonds.

To support the Terminal B Improvement Projects, the Houston Airport System has agreed to undertake certain capital projects to be completed concurrently with United's capital projects at Terminal B. The Houston Airport System's capital projects include ramp and apron replacement and roadway, signage, inter-terminal train, utility, environmental and fuel system relocation or improvements. The first phase of the Houston Airport System's capital program for Terminal B cost approximately $53 million. The second phase will cost approximately $105 million. It is anticipated that the Houston Airport System's capital program for Terminal B will be financed largely with AIF cash balances, PFCs, grants, and airport revenue bond proceeds.

As security for the Houston Airport System Special Facilities Revenue Bonds (Continental Airlines, Inc. Terminal Improvement Projects), Series 2011, the Second Amended and Restated Special Facilities Lease obligates United to pay rent, directly to the trustee, equal to the debt service on the special facility bonds. In addition, following substantial completion of each phase or segment of the Terminal B Improvement Projects, United will pay the Houston Airport System rentals calculated under "net lease" provisions.

Intercontinental Terminal C Use and Lease Agreements. United's Airport Use and Lease Agreement, as it relates to Terminal C, was amended in 2015 and now expires on December 31, 2037, as does the term of the Terminal C Special Facilities Lease Agreement. The Terminal C Use and Lease Agreement gives United the preferential right to use all of the apron area and exclusive right to use of all of the holdrooms and other airline space in Terminal C for the duration of the lease term. The Second Amended and Restated Special Facilities Lease also covers certain improvements made by United in Terminal B, Terminal C and Terminal D at Intercontinental. These improvements were financed by the Houston Airport System Special Facilities Revenue Bonds, Series 1997B and Series 1998B, originally issued in the principal amounts of $71,200,000 and $20,630,000, respectively, and refunded in 2015. These special facilities revenue bonds are not obligations of the Houston Airport System. United has a continuing obligation to pay debt service on such bonds which may become due and payable after expiration of the special facilities lease.

The amended Airport Use and Lease Agreement converted Terminal C to a net lease, similar to Terminal E, where United is responsible for all maintenance, janitorial and all-around upkeep. In consideration of the net lease, United will retain all revenues from inside concessions, such as food and beverage, gifts, and news, for the Terminal C South Concourse.

In calculating airline fees, rentals and any other charges at Intercontinental, the total costs of all support facilities such as the inter-terminal train system and the chilled and hot water plant are allocated among the various areas that benefit from such facilities, including airline areas of the terminal buildings. In addition, the Houston Airport System charges apron fees that are calculated to recover costs allocable to the aprons. Finally, landing fees are calculated according to a formula through which the airlines are required to pay their pro-rata share of all costs allocable to the airfield cost center after first deducting airfield revenues derived from general aviation (principally fuel flowage fees, if any).

Intercontinental Terminal D International Facilities Agreement. Foreign-flag airlines, United, and other airlines providing international service at Terminal D, which shares the Central FIS Facility with Terminal E, operate under the terms of the International Facilities Agreement which expires June 30, 2020, but is cancellable by either the Houston Airport System or the airline with 30 days' notice. Use fee rates are calculated for Terminal D sub-cost centers by function (e.g., arrivals, departure, and ticketing and baggage make-up), with costs allocated using compensatory rate-making principles.

Intercontinental Terminal E Lease and Special Facilities Lease Agreement. The term of the Terminal E Lease and Special Facilities Lease Agreement relating to the central ticketing facility, Terminal E baggage system improvements, Terminal C-East garage, ATO facility, Terminal E apron area and fuel systems and ancillary facilities, commenced August 29, 2001 and is scheduled to terminate on January 25, 2030. United may extend the term for an additional 5-year period, subject to certain conditions. United net leased the facilities on an exclusive basis, with the exception of the Terminal E Apron area and fuel systems, which are leased on a preferential basis.

As security for the Houston Airport System Special Facilities Revenues Bonds (Continental Airlines, Inc. Terminal E Project), Series 2001, the Terminal E Special Facilities Lease obligates United to pay rent, directly to the trustee, equal to debt service on such bonds. In addition, United must pay the Houston Airport System ground rentals for the special facility areas and "city charges" for the portions of the facilities financed by the Houston Airport System as well as certain allocated costs relating to capital project amortization, maintenance, and operations costs, replenishment of the renewal and extension fund for systems costs, and airport and departmental administrative costs. In consideration of United's net leasing of the entire Terminal E and central ticketing facility (including the public areas), United is entitled to the revenues from all "inside concessions" at Terminal E, such as revenues from concession agreements for food and beverage, gift/news, telephone and advertising.

Other United Lease Agreements at Intercontinental

In March 1997, Continental (now United) entered into a Special Facilities Lease Agreement for the Skyway connecting Terminals B and C at Intercontinental. The project was financed with the Houston Airport System's Special Facilities Revenue Bonds, Series 1997A, issued in the principal amount of $74,200,000. The Special Facilities Lease Agreement (Automated People Mover) obligates United to pay rent to the Houston Airport System equal to debt service on the bonds. The Houston Airport System subleased the link between Terminals B and C from United effective January 25, 2005, when the link between Terminals C and D was placed into service. The Houston Airport System assumed the debt obligations for the link when it entered the sublease and they are paid from Houston Airport System net revenues on the same priority as Inferior Lien Bonds. The Special Facilities Revenue Bonds, Series 1997A fully matured on July 15, 2017.

In September 2016, the City and United executed a Memorandum of Agreement ("MOA") for United to build a new technical operations center and provide certain improvements to related facilities at Intercontinental ("UTOC"). United issued the Houston Airport System's Special Facilities Revenue Bonds, Series 2018 to finance the UTOC project (the "2018 UTOC Bonds") on February 20, 2018, and, in connection with the 2018 UTOC Bonds, the City and United entered into a special facilities lease, whereby United has agreed, among other things, to pay debt service on the 2018 UTOC Bonds. The term of the lease expires in 2053.

The construction and improvement of certain of the United facilities at Intercontinental were partially financed by the Houston Airport System Special Facilities Revenue Bonds, Series 1997C and Series 1998C (together, the "1998 Bonds"), which were originally issued in the amounts of $44,600,000 and $25,675,000, respectively, and subsequently refunded by the Houston Airport System Special Facilities Revenue Bonds, Series 2015C (the "2015C Bonds"). Simultaneously with the issuance of the 2018 UTOC Bonds on February 20, 2018, United issued the Houston Airport System's Special Facilities Revenue Bonds, Series 2018C to finance the improvement, renovation, expansion and repair of certain special facilities of United at Intercontinental, including improvements to an existing aircraft maintenance hangar facility, construction of an aircraft shops facility, and renovation of a maintenance and parts storage facility (the "2018 Special Facility Bonds"). In connection with the issuance of the 2018 Special Facility Bonds, the City and United entered into an amendment to a Special Facilities Lease that was originally entered into by the parties in connection with the issuance of the 1998 Bonds related to non-terminal facilities used by United at Intercontinental. The 2018 Special Facility Bonds are secured on a parity with the 2015C Bonds, neither of which are secured by revenues of the Houston Airport System. United has a continuing obligation to pay debt service on such bonds which may become due and payable after expiration of the special facilities lease term, which extends until the end of 2027.

United leases approximately 4,300 parking spaces principally near the ecopark economy parking lot at Intercontinental. The spaces are primarily for employee use. This lease agreement was scheduled to expire on July 31, 2016, but the first of two one-year extension options was exercised. Subsequently, in conjunction with the MOA related to the UTOC project mentioned above, the lease has been extended until August 31, 2027.

Hobby Use and Lease Agreements. The airport use and lease agreement for the airlines operating at Hobby are similar in form and substance to the agreements at Intercontinental, but with certain differences in rate-making methodology in that there is no division of cost centers into "airline" and "nonairline" as is the practice at Intercontinental, but, like at Intercontinental, the airlines have financial responsibility only for the premises they lease. Under the Hobby use and lease agreements, landing fees are calculated using the same formula as is used at Intercontinental. The Hobby agreement also includes a cost containment provision with respect to the Terminal Building, the Central Concourse and associated Apron and the Airfield cost centers. This provision uses the Fiscal Year 2012 airline cost per enplanement as a base and allows it to increase based on the Consumer Price Index for the Houston area both annually and cumulatively with no implications if the actual cost per enplanement for ensuing fiscal years does not exceed the adjusted rate. If the adjusted rate were calculated to exceed the calculated containment cost per enplanement, the Houston Airport System must reduce the allocation of costs to airline cost centers so as not to exceed the adjusted rate. The lease also provides for an Inside Concession Revenue sharing program for those airlines signing a 25-year lease term. Currently, only Southwest has done so. The revenue-sharing program calls for inside concession revenue (food and beverage, retail) to be shared at the average net inside concession revenue rate per enplaned passenger for each fiscal year in which there is incremental enplanement growth over the base of Fiscal Year 2012 up to a maximum of $4 million dollars annually.

In February 2013, the Houston Airport System entered into a new agreement with Southwest, which expires on June 30, 2040. Delta and American both entered into five-year agreements in 2015 that expire June 30, 2020. In October 2015, international operations began at Hobby.

In December 2016, the City and Southwest entered into an MOA regarding a maintenance hangar development project. The City has agreed to lease nearly 44 acres exclusively to Southwest for the project. The project will include both Southwest project components and City project components. Southwest will expend, at its own cost, a minimum of $60 million dollars to design and construct the project. The City's enabling projects are estimated to cost approximately $14 million dollars.

Other Significant Airport Agreements

Rental Car Facilities

The consolidated rental car facility at Intercontinental was financed in March 2001 with proceeds of the Houston Airport System Special Facilities Taxable Revenue Bonds, Series 2001 (Consolidated Rental Car Facility Project), issued in the principal amount of $130,250,000. A portion of these special facility bonds were refinanced with the issuance of Airport System Special Facilities Taxable Revenue Refunding Bonds (Consolidated Rental Car Facility Project), Series 2014. These special facility bonds are secured by and payable from a separate customer facility charge ("CFC") assessed on rental car customers at Intercontinental, which, as of April 30, 2018, is $4 per transaction day. Under the terms of the Master Special

Facilities Lease, the rental car companies are responsible for all operation and maintenance costs associated with the facility and the associated busing operation. Such lease is scheduled to expire on December 31, 2027.

The Houston Airport System has rental car agreements with nine rental car operators at Hobby. Four of the operators lease facilities from the Houston Airport System on a month-to-month basis. All nine of the operators have concession agreements that expire in 2020.

Concessions, Cargo and Service Agreements

Shown below is a summary of other significant non-airline agreements for the Houston Airport System.

Houston Airport System
Significant Non-Airline Agreements

Vendor	Expiration Date	Extension or Termination Options	Service Provided	Airport
JC Decaux	February 28, 2024; July 31, 2024	N/A	Advertising	Intercontinental; Hobby
ATU Americas	December 31, 2025		Duty Free	Intercontinental
Paradies	December 31, 2025	N/A	News, gift and specialty	Hobby
WDFG	December 31, 2025	N/A	News, gift and specialty	Hobby
HMS Host	December 31, 2025	N/A	Food	Intercontinental
WDFG	December 31, 2025	N/A	News, gift and specialty	Intercontinental
Paradies	December 31, 2025	N/A	News, gift and specialty	Intercontinental
JDDA SSP	December 31, 2018	N/A	Food	Intercontinental
SSP America	December 31, 2025	N/A	Food	Intercontinental
Latrelle's Galley, L.P.	December 31, 2025	N/A	Food	Intercontinental
Host International, Inc.	December 31, 2025	N/A	Food	Intercontinental
Houston Airport Hotel Owner's, L.P.	October 31, 2053	N/A	Marriott	Intercontinental
4 Families of Houston	May 22, 2020	N/A	Food	Hobby
Federal Express	May 31, 2022	1 five year extension option	Freight, Mail	Intercontinental
UPS	December 31, 2022	2 ten-year optional extensions	Freight, Mail	Intercontinental
Aero Houston Central	December 31, 2024	N/A	Central Cargo	Intercontinental
Aero Houston East, LLC	February 25, 2043	Option to terminate after 30 years	East Cargo	Intercontinental
Aero Houston East II, L.P.	February 28, 2043	Option to terminate after 30 years	East Cargo	Intercontinental
Trammel Crow Company IAH International Air Cargo II, L.P	August 31, 2049	Option to terminate after 30 years	Perishables Cargo	Intercontinental
Prologis	February 28, 2043	Option to terminate after 30 years	East Cargo, Warehouse	Intercontinental
New South Parking –Texas	June 30, 2021	N/A	Parking management	Intercontinental; Hobby

Source: Houston Airport System

THE AIRLINE INDUSTRY FINANCIAL INFORMATION

Certain of the certificated major domestic airlines (or their respective parent corporations) are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, and thus must file reports and other information with the U.S. Securities and Exchange Commission (the "Commission"). Certain information, including financial information, as of particular dates, concerning the certificated major domestic airlines (or their respective parent corporations) is disclosed in such reports and statements filed with the Commission. Such reports and statements can be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Commission's regional offices, including the Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, IL 60661-2511 and 5670 Wilshire Boulevard, 11th Floor, Los Angeles, California 90036. Copies of such reports and statements can be obtained from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. The Commission also maintains a web site at http://www.sec.gov containing reports, proxy and information statements and other information regarding registrants that file electronically with the Commission. The Commission undertakes no responsibility for and makes no representations (and the City, the City's Financial Advisors and the Underwriters disclaim any responsibility) as to the accuracy or completeness of the content of such material contained on the world wide web as described in the preceding sentence, including but not limited to, updates of such information or links to other world wide web sites accessed through the aforementioned web site. In addition, all major and certain other airlines are required to file periodic reports of financial and operating statistics with the United States Department of Transportation. Such reports can be inspected in the Office of Airline Statistics, Research and Special Programs Administration, United States Department of Transportation, 400 Seventh Street, S.W., Washington, D.C. 20590, and copies of such reports can be obtained from the U.S. Department of Transportation at prescribed rates.

Airlines owned by foreign governments or foreign corporations operating airlines (other than foreign airlines that have American Depository Receipts registered on a national exchange) are not required to file information with the Commission. Airlines owned by foreign governments, or foreign corporations operating airlines, file limited information only with the U.S. Department of Transportation.

INVESTMENT CONSIDERATIONS

Economic and Political Conditions

Historically, airline passenger traffic nationwide has correlated closely with the state of the U.S. economy and levels of real disposable income. Recessions in the U.S. economy in 2001 and 2008-2009 and associated high unemployment reduced discretionary income and coincided with reduced airline travel in those years. With the globalization of business and the increased importance of international trade and tourism, the U.S. economy is more closely tied to worldwide economic, political, and social conditions. As a result, international economics, trade balances, currency exchange rates, political relationships, and hostilities all influence passenger traffic at major U.S. airports. Sustained future increases in passenger traffic at the Houston Airport System airports will depend on stable international conditions as well as national and global economic growth.

Financial Condition of the Airlines

The ability of the Houston Airport System to generate revenues depends, in part, upon the financial health of the aviation industry in general. The economic condition of the aviation industry is volatile, and periodically the industry undergoes significant changes, including mergers, acquisitions, bankruptcies and closures. Further, the aviation industry is sensitive to a variety of factors, including (i) the cost and availability of financing, labor, fuel, aircraft and insurance, (ii) regional, national and international economic conditions, (iii) international trade, (iv) currency values, (v) competitive considerations, including the effects of airline ticket pricing, (vi) traffic and airport capacity constraints of the Houston Airport System and competing airports, (vii) governmental regulation, including security regulations and taxes imposed on airlines and passengers, and maintenance and environmental requirements, (viii) passenger demand for air travel and (ix) disruption caused by airline accidents, criminal incidents and acts of war or terrorism, such as the events of September 11, 2001. The aviation industry is also vulnerable to strikes and other union activities. The number of passengers at Houston Airport System airports depends partly on the profitability of the U.S. airline industry and the associated ability of the industry and individual airlines, particularly United and Southwest, to make the necessary investments to provide service.

Recent History. Airlines generally have faced volatile economic cycles, and after September 11, 2001 and the economic recession of 2008-2009, suffered significant losses. In 2010 through 2013, the U.S. passenger airline industry as a whole recorded net income of approximately $18 billion, notwithstanding sustained high fuel prices, by controlling capacity and nonfuel expenses, increasing airfares, recording high load factors, and increasing ancillary revenues. Between 2009 and 2013, the airlines collectively increased domestic seat-mile capacity by an average of 1.0% per year. American filed for bankruptcy protection in 2011.

In 2014, the U.S. passenger airline industry reported net income of $9 billion, assisted by reduced fuel prices in the second half of the year (as discussed in the later section, "Availability and Price of Aviation Fuel"). In 2015, the industry achieved record net income of $27 billion as fuel prices decreased further, demand remained strong, and capacity control allowed average fares and ancillary charges to remain high. Strong industry profitability continued in 2016 and 2017. Sustained industry profitability will depend on, among other factors, economic growth to support airline travel demand, continued capacity control to enable increased airfares, and stable fuel prices. Profitability of airlines generally continued to be strong in early 2018, but future profitability can be negatively affected by a number of factors.

From 2001 through 2006 the U.S. airline industry saw significant consolidation of carriers. Such consolidation has resulted in four airlines (American, Delta, Southwest, and United) and their regional affiliates now accounting for approximately 80% of domestic seat-mile capacity. The consolidation may have contributed to current industry profitability, however, any resumption of financial losses could cause U.S. airlines to seek bankruptcy protection or liquidate. The liquidation of any of the large network airlines would drastically affect airline service at certain connecting hub airports, present business opportunities for the remaining airlines, and change airline travel patterns nationwide.

Airline Service and Routes. Intercontinental and Hobby accommodate travel demand to and from the Houston region and serve as connecting hubs. The number of origin and destination passengers at the two airports depends on the intrinsic attractiveness of the region as a business and leisure destination, the propensity of its residents to travel, and the airline fares and service provided. The number of connecting passengers, on the other hand, depends entirely on the airline fares and service provided at the airports.

The large airlines have developed hub-and-spoke systems that allow them to offer high-frequency service in many city-pair markets. Because most connecting passengers have a choice of airlines and intermediate airports, connecting traffic at an airport depends on the route networks and flight schedules of the airlines serving that airport and competing hub airports. Since 2003, as the U.S. airline industry has consolidated, airline service has been drastically reduced at many former connecting hub airports, including those serving St. Louis (American, 2003-2005), Dallas-Fort Worth (Delta, 2005), Pittsburgh (US Airways, 2006-2008), Las Vegas (US Airways, 2007-2010), Cincinnati, (Delta 2009-2011), Memphis (Delta, 2011-2013), and Cleveland (United, 2014).

Intercontinental serves as a primary connecting hub and international gateway for United, while Hobby serves as a connecting airport and Latin American gateway for Southwest. As a result, much of the connecting passenger traffic at the two airports results from the route networks and flight schedules of United and, to a lesser extent, Southwest, rather than the economy of the Houston region. If United were to reduce connecting service at Intercontinental (or Southwest were to reduce connecting service at Hobby), such service would not necessarily be replaced by other airlines.

Airline Competition and Airfares. Airline fares have an important effect on passenger demand, particularly for relatively short trips for which automobile and other surface travel modes are potential alternatives, and for price-sensitive "discretionary" travel. The price elasticity of demand for airline travel increases in weak economic conditions when the disposable income of potential airline travelers is reduced. Airfares are influenced by airline capacity and yield management, passenger demand, airline market presence, labor, fuel, and other airline operating costs, taxes, fees, and other charges assessed by governmental and airport agencies, and competitive factors. Future passenger numbers, both nationwide and at the Houston Airport System airports, will depend, in part, on the level of airfares.

Prior to 2010, a variety of factors reduced industry airfares and resulted in decreased airlines profits. Beginning in 2010, as airline travel demand increased and seat capacity was restricted because of industry consolidation, yields increased to 16.7 cents per passenger-mile in 2016. Beginning in 2006, charges were introduced by most airlines for services such as checked baggage, preferred seating, in-flight meals, and entertainment, thereby increasing the effective price of airline travel more than these yield figures indicate. Yields continue to be higher than pre-2010 levels.

Availability and Price of Aviation Fuel. The price of aviation fuel is a critical and uncertain factor affecting airline operating economics. Fuel prices are particularly sensitive to worldwide political instability and economic uncertainty. Beginning in 2003, aviation fuel prices increased as a result of the invasion and occupation of Iraq; political unrest in other oil-producing countries; the growing economies of China, India, and other developing countries; and other factors influencing the demand for and supply of oil. By mid-2008, average fuel prices were three times higher than they were in mid-2004 and represented the largest airline operating expense, accounting for between 30% and 40% of expenses for most airlines. Fuel prices decreased sharply in the second half of 2008 as demand for oil declined worldwide, but then increased as demand increased. Between early 2011 and mid-2014, aviation fuel prices were relatively stable, partly as a result of increased oil supply from U.S. domestic production. As of mid-2014, average fuel prices were approximately three times those prevailing at the end of 2003. Beginning in mid-2014, an imbalance between worldwide supply and demand resulted in a precipitous decline in the price of oil and aviation fuel. Decreased demand from China and other developing countries, combined with a continued surplus in the worldwide supply (and the potential for further surpluses from Iran as trade sanctions are lifted) resulted in further reductions in fuel prices through 2016. Fuel prices have since increased, but the average price of aviation fuel at mid-2018 was still approximately 80% of the price at mid-2014. Lower fuel prices are having a positive effect on airline profitability as well as far-reaching implications for the global economy.

Airline industry analysts hold differing views on how oil and aviation fuel prices may change in the near term, although, absent unforeseen disruptions, prices are expected to remain low for some time. However, there is widespread agreement that fuel prices are likely to increase over the long term as global energy demand increases in the face of finite oil supplies that are becoming more expensive to extract, although some economists predict that the development of renewable sources of energy, pressures to combat global climate change, the widespread use of electric cars, and other trends will eventually result in a decline in the demand for oil and associated downward pressure on fuel prices.

Aviation fuel prices will continue to affect airfares, passenger numbers, airline profitability, and the ability of airlines to provide service. Airline operating economics will also be affected as regulatory costs are imposed on the airline industry as part of efforts to reduce aircraft emissions contributing to global climate change.

Structural Changes in the Travel Market. Many factors have combined to alter consumer travel patterns. There remain threats of terrorism against aviation. As a result, the federal government has mandated various security measures that have resulted in new security taxes and fees and longer passenger processing and wait times at airports. Both add to the costs of air travel and make air travel less attractive to consumers relative to ground transportation, especially to short-haul destinations. Additionally, consumers have become more price-sensitive. Efforts of airlines to stimulate traffic by heavily discounting fares have changed consumer expectations regarding airfares. In addition, the availability of fully transparent price information on the Internet now allows quick and easy comparison shopping, which has changed consumer purchasing habits. Consumers have shifted from purchasing paper tickets from travel agencies or airline ticketing offices to purchasing electronic tickets over the Internet. This has made pricing and marketing even more competitive in the U.S. airline industry. Finally, smaller corporate travel budgets, combined with the higher time costs of travel, have made business customers more amenable to communications substitutes such as tele- and video-conferencing.

Airline Capital Markets Access. Historically, airlines have required access to third-party capital to finance significant portions of their aircraft and non-aircraft capital needs. If the capital markets were to become inaccessible by either U.S. airlines or international airlines, it could significantly impact their ability to provide scheduled service to and from the Houston Airport System's airports or undertake contractual capital commitments.

Airline Concentration; Effect of Airline Industry Consolidation

On October 1, 2010, Continental became a wholly-owned subsidiary of United Continental Holdings, Inc. ("UCH") as a result of the merger of a subsidiary of UCH with and into Continental. (United also operated as a wholly-owned subsidiary of UCH.) UCH assumed all of Continental's obligations. The combined airline received a single operating certificate from the FAA on November 30, 2011. In early March 2015, the two airlines achieved full integration and began operating under the name "United Airlines."

On May 2, 2011, Southwest announced that it had closed its purchase of all of the outstanding common stock of AirTran Holdings, Inc., the former parent company of AirTran Airways ("AirTran"). Southwest and AirTran received approval for a single operating certificate from the FAA on March 1, 2015. Southwest has been the largest passenger airline at Hobby over the last several years. Other recent mergers include Delta Air Lines and Northwest Airlines in 2008, American Airlines and US Airways in 2013, and Alaska Airlines and Virgin America in 2016.

Further airline consolidation remains possible. While the Houston Airport System believes that recent merger activity has had little impact on the respective combined airlines' market shares at Intercontinental or Hobby, future mergers or alliances among airlines operating at the Houston Airport System's facilities may result in fewer flights or decreases in gate utilization as airlines reduce duplicative capacity. Such decreases could result in reduced Net Revenues, reduced PFC collections and increased costs for the other airlines using the Houston Airport System.

Historically, when airlines have reduced or ceased operations at the Houston Airport System, other airlines have absorbed the traffic with no significant adverse impact on the Houston Airport System revenues.

United and Southwest account for a significant portion of the Houston Airport System's operating revenues. For more information, see Note 10 of the Notes to the Financial Statements as set forth in APPENDIX A. If either airline were to significantly reduce service it may have a material impact on revenues, including concession revenues and PFC collections, and on the resulting cost per enplanement charged at each airport.

FAA Reauthorization

Congressional authorization for the FAA's operating authority, including various aviation programs and excise taxes, expired in 2007 and has been subsequently extended by Congress for only short time periods. On July 15, 2016, the President signed into law the FAA Extension, Safety, and Security Act of 2016, which established federal funding for the FAA for fiscal years 2012-2017. The current authorization to fund the FAA extended to September 30, 2018. Failure of Congress to reauthorize the FAA's operating authority beyond that date, or adverse changes in the conditions placed on such authority, may have an adverse impact on Houston Airport System operations over the long-run because grants awarded under the FAA's Airport Improvement Program have been a significant source of financing for the Houston Airport System.

Availability of PFCs

The Houston Airport System currently uses PFC collections to pay a portion of its debt service and to fund certain pay-as-you-go projects. For Fiscal Year 2018, the Houston Airport System has budgeted $50.6 million of PFCs to pay senior lien and subordinate lien debt service. The collection of PFCs is subject to several risks. First, the amount of PFCs received by the Houston Airport System depends on the actual number of PFC-eligible passenger enplanements at Intercontinental and Hobby. If PFC-eligible passenger enplanements decline, PFC collections will also decline. Further, the PFC authorizations for Intercontinental and Hobby expire in January 2028 and September 2038, respectively. Finally, the Houston Airport System's authority to impose PFCs could be terminated if it violates Department of Transportation regulations regarding their use. A shortfall in PFC collections would require the Houston Airport System to pay these debt service costs from existing cash balances or from Net Revenues, or to seek approval to increase PFC rates at one or both airports. The PFC rate is currently $4.50 per enplaned passenger at both Intercontinental and Hobby.

Airport Security

Concerns about the safety of airline travel and the effectiveness of security precautions influence passenger travel behavior and airline travel demand. Anxieties about the safety of flying and the inconveniences and delays associated with security screening procedures lead to both the avoidance of travel and the switching from air to surface modes of transportation for short trips.

Safety concerns in the aftermath of the September 2001 attacks were largely responsible for the steep decline in airline travel nationwide in 2002. Since 2001, government agencies, airlines, and airport operators have upgraded security measures to guard against changing threats and maintain confidence in the safety of airline travel. These measures include strengthened aircraft cockpit doors, changed flight crew procedures, increased presence of armed sky marshals, federalization of airport security functions under the Transportation Security Administration (the "TSA"), more effective dissemination of information about threats, more intensive screening of passengers and baggage, and deployment of new screening technologies. The TSA also has introduced "pre-check" service to expedite the screening of passengers who have submitted to background checks. Concerns about the safety of air travel were heightened in 2016 by gun and bomb attacks at Brussels Airport and at Istanbul Ataturk Airport.

Historically, airline travel demand has recovered after temporary decreases stemming from terrorist attacks or threats, hijackings, aircraft crashes, public health and safety concerns, and international hostilities. Provided that precautions by government agencies, airlines, and airport operators serve to maintain confidence in the safety of commercial aviation without imposing unacceptable inconveniences for airline travelers, it can be expected that future demand for airline travel at the Houston Airport System airports will depend primarily on economic, not safety or security, factors.

Cyber Security

The Houston Airport System relies on computer technology for its operations, and faces cybersecurity threats including, but not limited to, hacking, phishing, viruses, malware, digital theft, and other attacks on its digital networks and systems. As a recipient and provider of personal, private, or sensitive information, the Houston Airport System may be the target of cyber security incidents that could adversely affect the Houston Airport System's operations.

The federal government regulates various aspects of airport operations and the FAA and Transportation Security Administration ("TSA") both impose various regulations and security directives that affect the design, policies and procedures of the information technology and physical access security of Houston Airport System. Houston Airport System Information Technology department has yearly initiatives that minimize the risk to airport operations such as upgrades to servers, computers, network devices, security related hardware and software, security assessments, audits, reviews, and policies and procedures. Major investments have also been made to increase the posture to Houston Airport System cyber security related initiatives in order to minimize risk, in addition, the Houston Airport System is committed to replacing the current electronic badging system to the next generation access and identity system that will greatly reduce and minimize the threats of a physical compromise to airport security access.

Over the past five years, the City has taken several steps to enhance and protect information systems and information of the City. In 2013, the City implemented Executive Order (EO) 1-44 placing the authority with the Chief Information Officer (CIO) to manage citywide IT risk, and in 2014 Executive Order 1-48 to develop a city-wide information security program. The CIO designated a Chief Information Security Officer (CISO) responsible for carrying out the CIO's information security responsibilities. Specific objectives of the Executive Orders include: (i) protecting all City information and information systems in a manner that is commensurate with the security classification level, sensitivity, value, and critical nature of Information; (ii) protecting information from unauthorized access, disclosure, destruction, disruption, or modification while the information is being collected, processed, transmitted, stored, or disseminated; (iii) managing all information technology that is acquired, developed, or used in support of City programs, projects, and department requirements by use of a process that covers the complete system lifecycle; (iv) managing all information systems in a cost-effective manner, guided by the application of sound risk management processes that ensure an appropriate level of integrity, confidentiality, and availability of information in each phase of the system lifecycle; (v) conducting periodic audits of all City information systems that process, store, or transmit City data; (vi) investigating information security incidents for incident management, forensic investigations, and reports; and (vii) ensuring all basic information security policy requirements, audits, and forensic investigations are implemented across all City departments.

Among other initiatives, the CISO is in the process of implementing a comprehensive, 4-year information security master plan covering Fiscal Years 2018 through 2021. The plan is designed to identify, protect, detect, respond and recover from cyber events and incidents from nation state actors, organized criminals, hacktivist groups and insider threats. The City is in year one of the master plan and several initiatives have been completed. Certain aspects of the plan are funded and are expected to be implemented in the next several Fiscal Years.

In addition to direct risks to the Houston Airport System's digital systems, FAA digital systems and individual airline systems are subject to the same kind of risks as the Houston Airport System, and attacks on those systems could substantially affect Houston Airport System operations and revenues.

Capacity of National Air Traffic Control and Airport Systems

Demands on the national air traffic control system have, in the past, caused delays and operational restrictions affecting airline schedules and passenger traffic. The FAA is gradually implementing its Next Generation Air Transportation System (NextGen) air traffic management programs to modernize and automate the guidance and communications equipment of the air traffic control system and enhance the use of airspace and runways through improved air navigation aids and procedures. Since 2007, airline traffic delays have decreased as a result of reduced numbers of aircraft operations (down approximately 20% between 2007 and 2016), but, as airline travel increases in the future, flight delays and restrictions can be expected.

Hurricane Activity

Downtown Houston is located approximately 50 miles north of the Gulf of Mexico. The Gulf region is prone to seasonal hurricane activity; major hurricanes or related storms may develop. A hurricane of great severity could significantly damage Houston Airport System properties. The Houston Airport System maintains hurricane insurance jointly and severally with the City and its other enterprise departments, but the policy covers only part of the total property value of the Houston Airport System. Deductibles, any costs in excess of insured amounts or reimbursements received from FEMA would be borne by the City or the airlines. See "THE HOUSTON AIRPORT SYSTEM – Hurricane Harvey."

General Factors Affecting Air Traffic at the Houston Airport System

There are numerous factors that affect air traffic generally and, more specifically, air traffic at the Houston Airport System. Demand for air travel is influenced by factors such as population, levels of disposable income, the nature, level and concentration of industrial and commercial activity in the service area and the price of air travel. The price of air travel is, in turn, affected by the number of airlines serving a particular airport and a particular destination, the financial condition, cost structure and hubbing strategies of the airlines serving an airport, the willingness of competing airlines to enter into an airport market, the cost of operating at an airport, the price of fuel and any operating constraints (due to capacity, environmental concerns or other related factors) limiting the frequency or timing of airport traffic within the national system or at a particular airport.

Cost and Completion Schedule of Houston Airport System Capital Improvement Program

The costs and completion timeframe of capital projects included in the Houston Airport System's CIP are subject to a number of uncertainties. The ability of the Houston Airport System to complete the CIP may be adversely affected by various factors including: (i) estimating errors, (ii) design and engineering errors, (iii) changes to the scope of the projects, (iv) delays in contract awards, (v) material, and/or labor shortages, (vi) unforeseen site conditions, (vii) adverse weather conditions, (viii) contractor defaults, (ix) labor disputes, (x) unanticipated levels of inflation, (xi) environmental issues, including environmental approvals that the Houston Airport System has not obtained at this time, (xii) additional security improvements and associated costs mandated by the federal government, and (xiii) lack of adequate funding, including inability to access the capital markets or loss of grants or PFCs.

A delay in the completion of certain projects under the CIP could delay the collection of revenues for such projects, increase project costs, or cause the rescheduling of other projects. There can be no assurance that the cost of construction of the 2019-2023 CIP projects will not exceed the currently estimated dollar amount or that the completion of the projects will not be delayed beyond the currently projected completion dates. Any schedule delays or cost increases could result in the need to issue additional Airport Obligations and may result in increased costs per enplaned passenger to the airlines, which could place the Houston Airport System at a competitive disadvantage with other airports. Further, changes in the mix of the projects which comprise the Houston Airport System's CIP could negatively impact the long-term revenue base of the Houston Airport System. This could occur if there were a substantial shift to the capital projects that the Houston Airport System is required to fund out of non-airline revenues versus those that become part of the airline rate base and for which the Houston Airport System receives airline revenues through landing fees and terminal rentals. In such case, the Houston Airport System would seek to alter its rate-making methodology or find additional revenue sources. See "THE HOUSTON AIRPORT SYSTEM –Capital Improvement Program."

Airport Capital Markets Access

Airport operators such as the Houston Airport System have also historically required access to third-party capital, primarily through the municipal bond market, to finance significant portions of their capital needs and to effectively manage their cost per enplanement or debt coverage ratios. If the capital markets were to become inaccessible by the Houston Airport System or interest rates were to rise, it could significantly impact the Houston Airport System's ability to meet its prospective coverage ratios or to meet its future spending needs or to achieve a competitive cost per enplanement.

Parking and Concession Revenues

City-owned parking facilities are the Houston Airport System's largest single source of non-airline revenues. City's parking facilities compete with several off-site private parking operators that provide free shuttle service to their customers at both Intercontinental and Hobby. Accordingly, competitive supply and demand constraints have affected the City's ability to significantly increase parking revenues, and may continue to affect revenues, at its on-site economy parking facilities. Additionally, the range of approved parking rates must be established by City Council, which may limit the Houston Airport System's ability to increase rates for either its structured parking or economy parking facilities.

Concessions are the second largest source of non-airline revenues for the Houston Airport System. Under amendments to the leases governing United's use and occupancy of Terminals B and C at Intercontinental, concession revenues earned from operations in the new B-South and C-North concourses will accrue largely for the benefit of United. In the past, the City earned a percentage of revenues from the concession operators in those concourses. While the Houston Airport System expects to reduce operations and maintenance costs to fully offset the loss of these concession revenues there can be no assurance that it will be able to do so.

Effect of Airline Bankruptcies

Prior bankruptcies by airlines using the Houston Airport System have resulted in reductions of service levels by particular airlines, even in cases where such airlines continued to operate in bankruptcy. Additional bankruptcies, liquidations or major restructurings of other airlines could occur. The bankruptcy of an airline with significant operations at the Houston Airport System, such as United or Southwest, could have a material adverse effect on operations at the Houston Airport System, revenues, and the cost to the other airlines operating at the Houston Airport System.

Airline Lease Agreements. In the event of bankruptcy proceedings involving one or more of the airlines operating at the Houston Airport System, the debtor or its bankruptcy trustee must determine within a time period determined by the court whether to assume or reject the applicable airline's use and lease agreement or other lease agreements. If assumed, the debtor would be required to cure any prior defaults and to provide adequate assurance of future performance under the relevant agreements. Rejection of a lease or executory contract by an airline would give the City an unsecured claim for damages, the amount of which in the case of a lease is limited by the Bankruptcy Code.

Passenger Facility Charges. Pursuant to 49 U.S.C. §40117 and the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (the "PFC Act"), the FAA has approved the City's application to require the airlines to collect and remit to the City a $4.50 PFC on each enplaning revenue passenger at Hobby and Intercontinental as further discussed in "THE HOUSTON AIRPORT SYSTEM – Capital Improvement Program – Passenger Facility Charges (PFCs)."

The PFC Act provides that PFCs collected by the airlines constitute a trust fund held for the beneficial interest of the eligible agency (i.e., the City) imposing the PFCs, except for any handling fee or retention of interest collected on unremitted proceeds. In addition, federal regulations require airlines to account for PFC collections separately and to disclose the existence and amount of funds regarded as trust funds for financial statements. However, the airlines are permitted to commingle PFC collections with other revenues and are also entitled to retain interest earned on PFC collections until such PFC collections are remitted. In the event of a bankruptcy, the PFC Act, as amended in December 2003, provides that (1) PFCs are and remain trust funds, (2) the airline in bankruptcy may not grant to any third party any security or other interest in PFC Revenues, and (3) the airline in bankruptcy must segregate in a separate account PFC Revenues equal to its average monthly PFC liability as well as post-petition actual PFCs. Despite these enhanced statutory protections, it is unclear whether the City would be able to recover the full amount of PFC trust funds collected or accrued by an airline in the event of a liquidation or cessation of business. The City also cannot predict whether an airline operating at Hobby or Intercontinental that files for bankruptcy would have properly accounted for PFCs owed to the City or whether the bankruptcy estate would have sufficient moneys to pay the City in full for PFCs owed by such airline. While the City expects to pay a portion of the Series 2018 Bond debt service from PFC proceeds, the PFCs are not legally pledged to the payment of the Series 2018 Bonds. For a discussion of the treatment of PFC Revenues under the Ordinance, see APPENDIX B-1.

Recent Bankruptcies and Non-Judicial Restructurings

Pinnacle Airlines and Colgan Air, both subsidiaries of Pinnacle Airlines Corporation, formerly served the Houston Airport System as regional partners for Delta Air Lines and United Airlines, respectively. In 2012, Pinnacle Airlines Corporation and its subsidiaries filed for Chapter 11 bankruptcy protection. Colgan Air ceased operations in 2012 and Pinnacle Airlines emerged from bankruptcy as a wholly owned subsidiary of Delta, operating as Endeavor Air, in 2013. Endeavor Air continues to operate at Intercontinental as a Delta affiliate.

There may be other possible effects of a bankruptcy of an airline that could result in delays or reductions in revenues received by the Houston Airport System and potentially in delays or reductions in payments on the Series 2018 Bonds. Regardless of any specific adverse determinations in an airline bankruptcy proceeding, the fact of an airline bankruptcy proceeding could have an adverse effect on the liquidity and value of the Series 2018 Bonds.

THE CITY AND CITY FINANCIAL INFORMATION

Governmental Structure

The City has a mayor-council form of government in which the Mayor and the sixteen-member City Council serve as the legislative body. Eleven council members are elected by district and five council members are elected at-large. The present term of office for all elected officials expires in January 2020. On November 3, 2015, voters approved an amendment to the City Charter ("Term Limits Amendment") that changed the number of terms of elective office to no more than two terms in the same office and limits the length for all terms of elective office to four years, beginning in January 2016. This Term Limits Amendment (codified in Article V, Sec. 6a of the City Charter) also provided for a transition whereby City elected officials elected to their first terms in office in the November 2013 election are able to serve two more four-year terms (for a potential total of 10 years in office), and those elected to their second terms in the November 2013 election are able to serve a final term of four years (for a potential total of eight years in office).

On November 19, 2015, a lawsuit was filed in State district court against the City claiming that the ballot language for the Term Limits Amendment was misleading and seeking to have the amendment declared illegal and invalid. The City filed a Plea to the Jurisdiction with the district court asserting that the plaintiffs failed to properly serve the City and the other defendants. The trial court denied the City's plea. The City appealed, and the Court of Appeals affirmed that denial, after a motion for rehearing, on May 2, 2017. The City sought review from the Supreme Court which was denied. In addition, on June 5, 2017, one of the plaintiffs initiated an original mandamus action in the Texas Supreme Court seeking to invalidate the Term Limits Amendment and requesting a new ballot measure in November 2017. The Supreme Court denied the mandamus relief requested. In May 2018, the trial court granted the City's motion for summary judgment, holding that the ballot language was not misleading, as a matter of law. The court also denied the contestants' cross-motion, seeking a holding that the language was misleading. The contestants have stated that they will appeal. The City intends to continue defending itself vigorously.

The Mayor is the City's chief executive officer. The Mayor exercises administrative control over the City's government; presides over City Council meetings; establishes the City Council agenda; and appoints the heads of the various departments of the City, subject to confirmation by the City Council. The Mayor also is responsible for preparing and submitting the City's annual budget proposals to the City Council for adoption.

The City Controller is the City's chief financial officer. The Office of the City Controller superintends, supervises, manages and conducts the fiscal affairs of the City; maintains the books of accounts; prepares financial statements; conducts the sales of City obligations; certifies the availability of funds before the City incurs any financial obligation; and, along with the Mayor, countersigns all warrants, contracts or orders for payment of any money by the City.

Home-Rule Charter

Although the City is a home-rule city under the Texas Constitution, it may not adopt ordinances or charter provisions inconsistent with Texas law. The Texas Legislature may enact legislation that (i) materially increases the costs and expenditures of the City or (ii) reduces the ability of the City to collect ad valorem taxes or other revenues described herein. Under the Texas and United States Constitutions, the Texas Legislature may not, however, enact legislation that impairs the City's ability to pay principal of and interest on its indebtedness. Under the Texas Constitution, the City Charter may be amended not more than once every two years at an election held for that purpose, which may be called by the City Council or upon petition of 20,000 of the City's registered voters. The last City Charter amendment was adopted on November 3, 2015. See "– City Charter Tax and Revenue Propositions." In addition, the City Charter allows the City's voters to exercise the powers of initiative and referendum. To enact an initiative ordinance, a petition signed by voters equal in number to at least 15% of the greater total vote cast for Mayor in any general election in the preceding three years must be submitted to the City. Thereafter, the City Council may enact the ordinance or call an election on the question of its adoption. In order to exercise the referendum power, a petition signed by voters equal in number to at least 10% of the greater total vote cast for Mayor in any general election in the preceding three years must be submitted to the City. City Council may repeal the ordinance that is the subject of the referendum petition or submit the issue to the electorate. See "– City Charter Tax and Revenue Propositions."

City Interest Rate Swap Policy

There are no outstanding Swaps (as defined below) in respect to any Outstanding Airport Obligations.

The City follows a master swap policy, as amended from time to time (the "Swap Policy"), to provide guidance for the City in its use of swaps, caps, floors, collars, options and other derivative financial products (collectively, "Swaps") in conjunction with the City's management of its assets and liabilities. The Swap Policy describes the circumstances and methods by which Swaps will be used, the guidelines to be employed when Swaps are used, and who is responsible for carrying out these policies. The City may enter into Swaps as authorized by the City Council and approved by the Attorney General of the State of Texas in connection with the issuance or payment of certain debt obligations, before, concurrently with, or after the actual issuance of the debt.

As a general rule, the City will enter into transactions only with counterparties whose obligations are rated in the double-A category or better from at least one nationally recognized rating agency. In addition, if a counterparty's credit rating is downgraded below the double-A rating category, the City may require that its exposure to the counterparty be collateralized or may exercise its right to terminate the transaction prior to its scheduled termination date. In order to limit the City's counterparty risk, the City will seek to avoid excessive concentration of exposure to a single counterparty or guarantor.

The Swap Policy provides that the City may choose counterparties for Swap contracts on either a negotiated or competitive basis. To provide safeguards on negotiated transactions, the Swap Policy provides that the City should generally secure outside professional advice to assist in the process of structuring, documenting and pricing the transaction, and to verify that a fair price was obtained. In any negotiated transactions, the counterparty will be required to disclose all payments to third parties (including lobbyists, consultants and attorneys) who had any involvement in assisting the counterparty in doing business with the City.

The City will track and regularly report on the financial implications of its Swaps. A quarterly report will be prepared for the City Council including: (i) a summary of key terms of the agreements, including notional amounts, interest rates, maturity and method of procurement, including any changes to Swap agreements since the last reporting period; (ii) the mark-to-market value (termination value) of its Swaps, as measured by the economic cost or benefit of terminating outstanding contracts at specified intervals; (iii) the amount of exposure that the City has to each specific counterparty, as measured by aggregate mark-to-market value, netted for offsetting transactions; (iv) the credit ratings of each counterparty (or guarantor, if applicable) and any changes in the credit rating since the last reporting period; and (v) any collateral posting as a result of Swap agreement requirements. In addition, the City will perform monitoring and reporting as is required by the rating agencies or for compliance with GASB requirements.

Financial Policies

The City operates under financial policies (the “Financial Policies”) that have been adopted by City Council. The Financial Policies were initially approved in 2003, and were amended and restated in 2014, and also amended in 2015 to include provisions regarding pay-as-you-go funding. Under the Financial Policies the Mayor is required to review the Financial Policies at least once every two years. On May 16, 2018, the City Council revised and updated the Financial Policies in connection with the required review.

Under the heading of Operating Budget Policies – Revenues and Expenditures, the Financial Policies state that the City will adopt a budget annually in which current revenues and other sources will be sufficient to support current expenditures. All retirement and employee benefit systems will be financed in a manner to fully and systematically fund liabilities (with the City making all necessary payments in compliance with contractual obligations and statutory requirements and in a manner that results in full amortization of liabilities over a closed 30-year period). *See the sections captioned “THE CITY AND CITY FINANCIAL INFORMATION—Health Care Benefits for Retired Employees” through and including “THE CITY AND CITY FINANCIAL INFORMATION —Employee Pension Funds –Firefighter Fund” and Scheduless 9, 9A, 9B and 9C for more detailed information relating to the funding of the City’s OPEB and pension benefit systems.*

Each Enterprise Fund maintains revenues that support the full (direct and indirect) cost of the service provided. A review of all fees and rates will be conducted at least every five years, except for impact fees, which shall be reviewed at least every ten years, to determine the extent to which the full cost of associated services are being recovered by revenues. Fees may be adjusted in the interim period by ordinance, however, based on analysis whenever there have been significant changes in the method, level or cost of service delivery. The General Fund unassigned fund balance shall be maintained to provide for temporary financing of unforeseen needs of an emergency, disaster, and economic instability. The Financial Policies also provide that the level of the General Fund unassigned fund balance will be a minimum of 7.5% of General Fund expenditures less debt service and transfers for pay-as-you-go capital expenditures. To the extent that the General Fund unassigned fund balance exceeds 7.5% of total expenditures less debt service and transfers for pay-as-you-go capital expenditures, the excess funds are available for appropriation by City Council for non-recurring expenditures.

Under the heading Special Revenue Fund Reserve Policy, the Financial Policies state that the proposed and adopted operating budget each year must include the budgets of all special revenue funds that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. Each special revenue fund is required to have an appropriate methodology for determining minimum and maximum cash reserves. The Financial Policies also state that any fiscal year-end fund balance that exceeds the established maximum cash reserve of the special revenue fund may be transferred to the General Fund, subject to City Council approval.

Under the heading of Debt Management Policies, the Financial Policies provide that any capital project financed through the issuance of bonds shall be financed for a period not to exceed the average expected life of the assets. Average (weighted) general obligation bond maturities shall be kept at or below 12 years. The Financial Policies also provide that annual contributions to the Debt Service Fund from the General Fund shall not exceed 20% of the total General Fund revenues, excluding state and federal grants until Fiscal Year 2019. Beginning in Fiscal Year 2019, and in each subsequent fiscal year, the maximum annual contribution to the Debt Service Fund from the General Fund is to be reduced by 0.5% annually until it reaches 12% of General Fund revenues (excluding state and federal grants), at which point the maximum is to be held constant at 12%.

The City’s Financial Policies require that an annual audit be performed by an independent public accounting firm in accordance with generally accepted accounting principles. The June 30, 2017 City Controller’s audited Comprehensive Annual Financial Report of the City and additional financial information are available for public inspection, or copies may be obtained by written request, to the extent permitted by law, addressed to the Office of the City Controller.

Additionally, the Financial Policies require the Finance Department to annually prepare a five-year General Fund forecast that includes identification of requirements for achieving a “structural balanced budget” in the upcoming fiscal year and the subsequent fiscal year, including a list of options for eliminating any funding shortfalls preventing achievement of a structural balanced budget. If a structural balanced budget were adopted by the City Council, it is anticipated that the level of expenditure reductions would be materially and significantly higher than currently anticipated.

Investment of Moneys

The City maintains an investment strategy that emphasizes, in order of priority, safety, liquidity and return on investment, as embodied in its investment policy (the "Policy"). The City does not invest in inverse floaters, or interest-only or principal-only mortgage-backed securities. The Policy provides, among other things, that (1) the Investment Manager (as defined in the Policy) shall submit quarterly investment reports to City Council and (2) the Policy shall be reviewed annually by City Council. On December 6, 2017, the City Council approved and readopted the Investment Policy with two amendments. The amended policy aims to further protect City assets by identifying investment objectives, addressing the issues of investment risks versus rewards, and providing the framework for the establishment of controls, limitations and responsibilities of City employees in the performance of their fiduciary responsibilities.

Fitch Ratings, Inc. has assigned a "AAA" credit quality rating to the City's General Investment Portfolio. The ratings reflect the view of Fitch Ratings, Inc., from whom an explanation of the significance of such ratings may be obtained.

The Ordinance provides that all interest and income derived from the deposit and investment of amounts held in all Funds will be transferred or credited monthly to the Revenue Fund and shall constitute Gross Revenues of the Houston Airport System (unless specifically excluded from the definition of Gross Revenues), except as follows: (1) all interest and income derived from deposits and investments credited to the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Reserve Fund and the Operation and Maintenance Reserve Fund will remain in such funds to the extent necessary to accumulate the Reserve Fund Requirements or other required balance therein; and (2) all interest and income derived from deposits and investments held in any construction fund, including amounts held therein as capitalized interest, created by any ordinance authorizing the issuance of Airport Obligations will remain in such construction fund for disposition in the manner provided in the applicable ordinance. Notwithstanding anything to the contrary contained in the Ordinance, any interest and income derived from deposits and investments of any amounts credited to any fund or account may be paid to the federal government if in the opinion of nationally recognized bond counsel such payment is required in order to prevent interest on any Airport Obligations from being includable within the gross income of the owners thereof for federal income tax purposes.

Health Care Benefits for Retired Employees

The City provides certain health care benefits for its retired employees, their spouses and survivors. Employees on long-term disability and their spouses can also qualify for retiree health care benefits. Currently, substantially all of the City's employees who qualify for pension benefits while working for the City will become eligible for such benefits.

The City provides five Medicare plans with five different vendors and has made these plans mandatory for all retirees over age 65 who are eligible for Medicare. The medical plans are supported by contributions from the City and subscribers. In addition to the medical plan and in an effort to mitigate costs and maximize benefits to the City and Medicare eligible retirees, the City offers Medicare Advantage plans from several insurance providers. Effective January 1, 2015, the City awarded a three year contract with two one year renewal options to Texan Plus, HealthSpring, Aetna Steerage (PPO Plan), Kelsey (HMO Plan) and United Health Care. These Medicare Advantage Plans provide retirees with alternative managed healthcare plans. The Medicare Advantage Plans continue to be fully insured products and offer retirees several plans to choose from. Effective January 1, 2012, the City has required all Medicare eligible retirees to enroll in the Medicare Advantage Plans.

Bargaining with Other Municipal Employees. Chapter 146 of the Texas Local Government Code ("Chapter 146"), extends to municipal employees of the City, other than department heads, firefighters and police officers, the right to appoint bargaining agents to "meet and confer" with representatives of the City or any agency, board, commission or political subdivision that is required to establish wages, salaries, rates of pay, hours, working conditions or other terms and conditions of employment regarding such issues. Chapter 146 prohibits municipal employees from engaging in strikes and specifically prohibits the bargaining agent and the City from entering into agreements regarding pension-related matters governed by Article 6243g, Vernon's Texas Civil Statutes, or a successor statute (now Article 6243h, Vernon's Texas Civil Statutes). See "—Employee Pension Funds." However, any agreement affecting the salaries of municipal employees will likely have a negative effect on the City's pension liabilities.

Pursuant to the provisions of Chapter 146, the City recognized the Houston Organization of Public Employees ("HOPE") as the exclusive bargaining agent for all covered employees, which generally consist of municipal employees, but not elected officials, employees of elected officials, directors or classified employees. The City and HOPE's current "meet and confer" agreement was executed on August 27, 2015 and expired on June 30, 2018 (the "2015 HOPE Agreement"). The

2015 HOPE Agreement provided for a minimum hourly wage increase from $10.00 to $12.00 and in lieu of "across-the-board" pay increases, a range of targeted base rate increases by pay grade to occur in January 2016, July 2016, and July 2017.

The 2015 HOPE Agreement remained in effect through June 30, 2018. After this time, contractual obligations to pay increases will affect the City's pension contributions. On June 25, 2018, City Council enacted an ordinance approving a new "meet and confer" agreement that will expire on June 30, 2021 (the "2018 HOPE Agreement"), pursuant to which "across-the-board" three percent pay increases will occur in July 2018, two percent in July 2019, and one percent in July 2020. In 2011, the City reached an agreement with the Houston Municipal Employees Pension Board ("HMEPS") specifically related to pension benefits and contributions. See also the section captioned " – Employee Pension Funds" below for a discussion of the "meet and confer" process for HMEPS. Portions of the 2011 agreement were codified as a part of the comprehensive pension reform plan. See "– Employee Pension Funds – Pension Reform Legislation", below. However, the 2011 agreement was largely superseded by the pension reform enacted by the 85th Texas Legislature, Senate Bill 2190 (the "Pension Reform Legislation") which codifies portions of the "meet and confer" agreement between the City and HMEPS. To the extent that the City and the Pension System reach separate "meet and confer" agreements in the future, such agreements must conform in all respects to the Pension Reform Legislation.

Employee Pension Funds

Prospective investors are advised that any projections or forecasts in the section below, including projections of the amount of the unfunded actuarially accrued liability ("UAAL") and other calculations of unfunded pension liability and the amounts of actuarially calculated contributions by the City, constitute forward-looking information that reflects the judgment of the City, the boards of the Pension Systems (as defined below) and their respective actuaries as to the funding required to pay future benefits to retirees. Such forward-looking information is based upon a variety of assumptions concerning future events and circumstances. Future actuarial studies may differ significantly from current estimates due to factors such as: retirements, terminations, deaths, disabilities, salary growth and investment returns, changes in contributions or investment portfolios, changes in actuarial or accounting standards, and changes in plan provisions, the Pension Statutes (as defined below) or applicable laws. See "—Pension Reform Legislation" below. The assumptions underlying the projections are material to the development of the projections, and changes in one or more of the assumptions may produce substantially different results. In addition to these projections, the City's financial statements as set forth at http://www.houstontx.gov/controller/cafr.html also report Net Pension Liability as required by GASB 68. The Net Pension Liability, as reported in the financial statements, is materially higher than the UAAL reported in the various actuarial reports of the Pension Systems and has materially changed the City's financial statements relating to the Pension Systems beginning in Fiscal Year 2015. Such differences reflect, in part, the different methods of valuation employed by accountants and actuaries. Prospective investors are strongly encouraged to review Note 10 ("Note 10") to the financial statements at http://www.houstontx.gov/controller/cafr.html for additional information.

Statutory Authority and Governance and Management

Texas statutes authorize three separate pension systems (collectively, the "Pension Systems") for full-time firefighters ("HFRRF" or the "Firefighter Fund"), police ("HPOPS" or the "Police System"), and municipal employees ("HMEPS" or the "Municipal System"). The Houston Airport System contributes principally to HMEPS, with nonmaterial contributions to HPOPS and HFRRF, though the financial well-being of the City may ultimately be affected by any of the Pension Systems. Detailed information regarding the funding of each Pension System is discussed under "– Municipal System," "– Police System," and "– "Firefighter System" below and in Note 10. Each Pension System is a defined benefits plan, which guarantees retiree benefits based on years of service and salary. The City bears the primary financial risk of such plans. As such, the City must fund the Pension Systems to pay a retiree's defined benefit regardless of why the Pension System is underfunded.

The Texas Legislature adopted the Pension Reform Legislation to enact reforms and substantive changes to the funding and benefit structure of the Pension Systems. The Pension Reform Legislation was effective July 1, 2017 (the "Reform Effective Date"), the first day of Fiscal Year 2018 and is the culmination of an effort to reform the Pension Systems to control costs, reduce the unfunded liability and better manage future pension costs and liabilities. The risk-sharing corridor implemented in the Pension Reform Legislation provides the City with more budget certainty by establishing minimum and maximum City contribution rates, and mandates management of unfunded liabilities by the City and the Pension Systems. Under the Pension Reform Legislation, the City will pay off the unfunded liability (the "Legacy Liability") over a fixed maximum 30-year amortization period ending in 2047. The Legacy Liability is calculated using a standard actuarial cost methodology, based on the market value of each Pension System's assets as of July 1, 2016, after giving effect to the Pension Reform Legislation and delivery of the 2017 pension obligation bonds issued on December 22, 2017 in the aggregate principal amount of $1,005,145,000 (the "2017 POB Bonds") for HMEPS and HPOPS, with earnings at the 7% per annum discount rates and allocable City contributions from July 1, 2016 through the Reform Effective Date. Any future actuarial loss liabilities will have an amortization period of 30 years from the date the loss is recognized, with a corresponding final payoff year and credits for any future gains.

Houston Airport System Obligations. Virtually all of the Houston Airport System's employees are members of the Municipal System. The Houston Airport System is directly responsible only for the costs of funding the portion of the City's Municipal System contributions associated with employees of the Houston Airport System. See "– Houston Airport System's Contributions to the Municipal System," below. Due to the small number of classified police and firefighters employed by the Houston Airport System, any changes in City contributions to the Police System and Firefighter Fund in future fiscal years should not have a substantial financial impact on the Houston Airport System.

Below is a description of Pension System governance, the funding of the Pension Systems prior to pension reform, the Pension Reform Legislation, and status of funding requirements.

Statutory Authority and Contracts Between the Pension Boards and the City.

The statutes governing the Pension Systems are as follows:

(i) HMEPS: Article 6243h, Vernon's Texas Civil Statutes, as amended (the "HMEPS Statute");

(ii) HPOPS: Article 6243g-4, Vernon's Texas Civil Statutes, as amended (the "HPOPS Statute"); and

(iii) HFRRF: Article 6243e.2(1), Vernon's Texas Civil Statutes, as amended (the "HFRRF Statute" and, collectively with the HMEPS Statute and the HPOPS Statute, the "Pension Statutes").

Governance. Each Pension System is separately governed by a board of trustees that acts independently of the City. The Mayor appoints a designee to serve on the board of each Pension System, and the Director of Finance of the City appoints a member to the HFRRF Board and the HPOPS Board, while the City Controller appoints a member to the HMEPS Board. However, a majority of the trustees serving on each Pension System board are either full-time employees or retirees elected by participants in the respective Pension System and are themselves participants. These trustees have a personal interest in the plan administered by the board of the Pension System on which they serve. All trustees of a Pension System board take an oath to "diligently and honestly administer" such Pension System, and each trustee is counseled and trained on their fiduciary responsibilities. Trustees appointed by the City are counseled that their fiduciary duties to the Pension System take precedence over the interests of the City and the official that appointed them. No legal challenges have arisen as a result of potential conflicts of interest. See "—Pending Pension Systems Litigation."

The Pension Systems' boards are generally imbued with broad powers to interpret, construe and supplement omissions in their governing statutes and to determine questions related to eligibility for membership, services and benefits, though their ability to act unilaterally with respect to pension reform enacted as part of the Pension Reform Legislation is limited. The grant of such powers to the Pension System boards may adversely affect the City's ability to manage its pension obligations through mechanisms such as reducing the number of City full-time employees by outsourcing certain City functions.

In 2004, City voters opted out of an amendment to the Texas Constitution that otherwise would have prohibited a reduction in or impairment of the accrued retirement benefits or death benefits provided by a public employee retirement.

The Pension Systems are funded from City contributions, employee contributions, and investment earnings, and the amount of funding required is related to the benefits projected to be paid to retirees. Each of the Pension Systems is currently underfunded.

Pension System Funding Prior to Pension Reform Legislation

Historically, the Pension Systems calculated unfunded liability as required by each Pension Statute pursuant to actuarial valuation reports prepared by firms retained by each respective Pension System. Prior to the enactment of the Pension Reform Legislation (as described below), the City and the governing boards of HMEPS and HPOPS have agreed to changes in benefits, management, and funding of HMEPS and HPOPS through "meet and confer" agreements as allowed under their respective Pension Statutes. Accordingly, funding plans negotiated through the "meet and confer" process were not necessarily consistent with actuarially-determined contribution levels and component UAALs (determined by a standard actuarial cost method for the respective System) or Net Pension Liability, as determined by GASB 68. The current "meet and confer" agreement between HMEPS and the City is effective until July 1 of the year following the date that the City's annual contribution rate meets or exceeds the actuarial required contribution, and the current "meet and confer" agreement between HPOPS and the City is effective until 2023. From the Reform Effective Date, the Pension Reform Legislation governs most aspects of Pension System funding and City contributions. See "—Municipal System" and "—Police System." Prior to the Reform Effective Date, the HFRRF Statute did not allow "meet and confer" negotiations or agreements to change or augment benefits, management or funding, and the authority to enter into such agreements after the Reform Effective Date is limited.

Pension Reform Legislation

General. The Pension Reform Legislation (https://legiscan.com/TX/text/SB2190/2017) amends the HMEPS Statute, the HPOPS Statute, and the HFRRF Statute and enacted portions of the meet and confer agreements between the City and HMEPS and HPOPS. The Pension Reform Legislation includes recognition of unrealized losses in the Pension Systems and reductions in both anticipated earnings and the discount rate used to calculate the City's future payments to 7.00% (which is lower than the discount rate assumptions used by the Pension Systems in prior actuarial reports), reduction of planned benefits, amortization of the Legacy Liability (see "— Legacy Liability") over a fixed maximum 30-year period, and a limit on the maximum future City payments as a percentage of active employee payroll. For a comparison of actuarial liabilities of each Pension System before and after the Pension Reform Legislation, see "—Status of Funding of the Pension Systems."

The Pension Reform Legislation augments the principle provisions of the existing agreements between HMEPS and HPOPS and the City, and authorizes future agreements between HMEPS, HPOPS, and HFRRF under limited circumstances. Moreover, to the extent there is any conflict between the Pension Reform Legislation and any separate "meet and confer" agreements between HPOPS and the City, or HMEPS and the City, the Pension Reform Legislation governs future agreements between the Pension Systems and the City, and such agreements may not affect the calculation, payment of City obligations or benefit structure unless they conform to limitations and scope set forth in the Pension Reform Legislation. In respect to the enforcement of meet and confer agreements, the Texas Supreme Court has held that agreements under the Pension Statutes are contracts and do not amend the statutes. A suit for breach of such an agreement by either the City or a Pension System could be subject to governmental immunity. See "—Pending Pension Systems Litigation."

The principal changes to the Pension Statutes in the Pension Reform Legislation are as follows:

- <u>Benefits and Contributions</u>. The Pension Reform Legislation reduces future benefits and increases current employee contributions. No current payments to existing retirees are reduced by the proposed amendments, but cost of living adjustments ("COLA") for current retirees are suspended for up to three years.

- <u>Unfunded Liability</u>. The existing unfunded pension obligation as reduced by the benefit changes (See "— Legacy Liability" below) is amortized and required to be paid by the City over a fixed maximum 30-year period.

- <u>Future Costs</u>. The Pension Reform Legislation requires that future costs of the Pension Systems be calculated each fiscal year by actuarial valuations separately carried out by each of the respective Pension Systems and the City. The annual valuation establishes the City's legally mandated payments to meet the costs of the respective Pension Systems.

- <u>Risk Sharing</u>. The City and the Pension Systems share the risk that returns on pension assets are less than projected so that the City's maximum annual contribution is capped.

Utilizing lower long-term discount rate assumptions, the total recalculated GASB Net Pension Liability of the Pension Systems as of July 1, 2016 was estimated by the City to be approximately $8.21 billion. The City estimates the Pension Reform Legislation reduced the recalculated GASB Net Pension Liability by approximately $2.9 billion, without giving effect to the Series 2017 POB Bonds, which were delivered in December 2017. See "—Legacy Liability." Certain of the estimates used herein depend upon the data provided by the Pension Systems and are subject to the completeness and accuracy of the data provided by the Pension Systems, which is in their sole control. As part of the Pension Reform Legislation, the City issued the Series 2017 POB Bonds to fund a portion of the Legacy Liability relating to the Municipal System and the Police System.

The following is a general description of the principal benefits changes implemented by the Pension Reform Legislation.

Benefits Reforms. In order to reduce and reform pension costs related to each Pension System, the Pension Reform Legislation (i) increased the age at which an employee can retire with full benefits for HPOPS and HFRRF; (ii) reduced the amount of benefits accrued in each year for HFRRF; and (iii) changed the types of pay included in salary for pension benefit calculations for HFRRF and HPOPS. Significantly, the Pension Reform Legislation suspended cost of living ("COLA") increases for up to three years. The minimum guaranteed COLA for future benefits was reduced, and the age at which COLAs begin for retirees increased from no minimum age to age 55 for HPOPS and age 48 to age 55 for HFRRF retirees.

The Pension Reform Legislation substantially changed the Deferred Retirement Option Plans ("DROP"), for active employee members of HFRRF and HPOPS. DROP allows an active employee to be paid a salary and have the monthly pension benefit the employee would have received as a retiree credited to the DROP account. Credited benefits accumulate and are paid to the employee (or retiree, as applicable) as a lump sum, with attributed earnings and with COLA increases, if any, at the end of the member's period of participation therein. Earnings may reflect actual earnings of the applicable pension fund, but the payment is guaranteed by the applicable Pension System, and ultimately the City. Under the Pension Reform Legislation, the ability of active employees to enter the DROP program has been restricted by reducing the period during that an employee can enter such program, and over time, will eliminate the opportunity for all employees to participate in the DROP program. Additionally, among other changes, earnings on amounts credited to DROP accounts are aligned with expected earnings of the respective Pension Systems, and COLAs for monthly DROP payments have been eliminated.

The Pension Reform Legislation increased employee contributions for each Pension Systems. Additionally, with respect to HMEPS, it reduced survivor benefits generally from 100% of the retirement benefit to which a deceased member would have been entitled to 80% of the retirement benefit to which a deceased member would have been entitled. For HMEPS, a cash balance plan component is added for group D members, which is comprised of employees hired after January 1, 2008. In addition to the required employee contribution for group D members, the Pension Reform Legislation requires each group D member to contribute an additional 1.0% of salary, that will be credited to a notional cash balance plan account on the member's behalf. Such amounts are credited with earnings at a rate equal to the discount rate on amounts credited to an eligible member's DROP account. See "—Municipal System."

Legacy Liability. The Pension Reform Legislation implements a fixed maximum 30-year closed period (as opposed to a rolling 30-year open period used prior to pension reform) to amortize the Legacy Liability. Based on the risk sharing valuation studies conducted for each Pension System by the respective Pension System and the City, the Legacy Liability for HMEPS is calculated to be $2.0 billion as calculated by the City's actuary compared to $2.1 billion as calculated by the Pension System actuary; for HPOPS $1.3 billion as calculated by the Pension System actuary compared to $1.4 billion as calculated by the City's actuary; and for HFRRF $900 million as calculated by the Pension System actuary compared to $602 million as calculated by the City's actuary.

Future Costs. Costs of the Pension Systems arising after the Reform Effective Date are required to be calculated each fiscal year by actuarial valuations separately carried out by the respective Pension Systems and the City. The annual actuarial valuations establish the City's required payments to meet Pension System costs, based on pension system normal costs and unfunded accrued liabilities. New liability losses will be amortized over a new 30-year period. New liability gains will be amortized over the remaining period of the largest remaining liability loss layer, or if there is none, 30 years.

Risk Sharing. The Pension Reform Legislation enacted a risk sharing and cost control mechanism. Under the risk sharing mechanism, the City and each Pension System are required to share information and cooperate to evaluate the performance of the Pension System. The City and each Pension System are required to conduct an annual valuation study—(the "RSVS")—which is subject to review by the Texas Pension Review Board. The initial RSVS process is complete and sets the City's projected future contribution rates, the corridor midpoint, as a percent of projected pensionable payroll for each Pension System for the next 31 years. For years one through 30, the corridor midpoint for HMEPS ranges from 8.17%

in Fiscal Year 2018 to 8.81% in Fiscal Year 2047. Similarly, for HPOPS the corridor midpoint ranges between 31.77% in Fiscal Year 2018 to 32.13% in Fiscal Year 2047, while the corridor midpoint for HFRRF is constant at 31.89% for the 30 year period. The projected contribution rates and the annual contribution rates for HPOPS and HFRRF include the amortization of the Legacy Liability. The annual cost of amortization of the Legacy Liability for HMEPS is excluded from the calculation of projected and annual contribution rates; however, the HMEPS Legacy Liability is paid on a fixed-dollar schedule rather than based on a percentage of pensionable payroll. Because pensionable payroll for each Pension System is projected to increase, the actual dollar amounts required to be paid based on the projected corridor midpoints and contribution rates are also projected to increase. The calculation of the City's contribution rates for future fiscal years is calculated by each subsequent year's RSVS.

Under the Pension Reform Legislation, because the differences in the calculations for HPOPS and HMEPS by the City and such Pension System for any year were less than two percent of projected payroll, the System's calculations were used to establish the corridor midpoints for future years. Because for HFRRF the differences for each year were greater than two percent of projected payroll, the arithmetic means of the City and System calculations were used to establish the corridor midpoints.

The City bears the risk of pension contribution costs increasing up to 5% of pensionable payroll above the corridor midpoint. If the increase is greater than 5% of the pensionable payroll, then steps must be taken, including the reduction of benefits or increase of Pension System member contributions, to reduce the City's cost. Conversely, if costs are 5% of pensionable payroll less than projected for any plan, steps must be taken to maintain the City's contribution at the minimum level. If on or after July 1, 2021, the funded ratio of HPOPS or HFRRF is less than 65% as determined in an RSVS, then the City and the Pension System are required to establish a cash balance retirement plan for any new participants in HPOPS or HFRRF, as applicable. If on or after July 1, 2027, the funded ratio of HMEPS is less than 60% as determined in an RSVS, then the City and the Pension System are required to establish a cash balance retirement plan for any new participants in HMEPS.

Investment Considerations Relating to the Implementation of Pension Reform

The changes to be implemented under the Pension Reform Legislation are prospective. There are foreseen and unforeseen risks arising from that implementation that could affect the general financial condition of the City and that should be considered by any potential investor. The City has identified the following investment considerations, but any potential investor should consult their own advisor, and should recognize that additional risks may occur with implementation of the Pension Reform Legislation.

> Conduct of the RSVS. The RSVS requires the sharing of information and comparison of results by the City and each Pension System. While the Pension Reform Legislation requires the City and each Pension System to conduct the RSVS and to share information, failure to do so by the City or a Pension System could result in litigation or other enforcement efforts which could delay conduct of the RSVS in any year. If a Pension System fails to provide information, the City may conduct its RSVS based on estimates, but the estimated payments could carry a greater risk of under- or over-payments by the City.

Status of Funding of the Pension Systems

The following information is based on reports prepared reflecting the current system of funding and benefits under the Pension Statutes.

Recent changes in pension accounting rules have resulted in significant changes to the presentation of the City's liabilities for each Pension System in its financial statements beginning in Fiscal Year 2015. For a comparison of the liabilities, see "—Net Pension Liability Under GASB 67 and 68" below as well as Note 10. GASB 67 and 68 do not affect the City's pension contributions or contribution rates.

The City has historically funded the Pension Systems in amounts agreed upon by the City and the respective boards of the Pension Systems either (i) as part of jointly-sponsored changes in State law or (ii) in negotiations with the Municipal System's and Police System's respective boards through the "meet and confer" process. As stated in the Fiscal Year 2018 Budget, the total amount of the City's contribution to the three Pension Systems for Fiscal Year 2018 will be approximately

$405.5 million, which represents an approximate $10 million decrease from the Fiscal Year 2017 contribution. See " –Municipal System," "—Police System" and "—Firefighter Fund."

Based, in part, on the issuance of the 2017 POB Bonds, the City projects that its Fiscal Year 2018 budgeted contribution to the Pensions Systems will be sufficient to fund the annual cost of amortizing the Legacy Liability and funding normal and administrative costs of the Pension Systems.

Net Pension Liability Under GASB 67 and 68. As reflected in the schedule below, the financial statements now reflect a calculation of the City's Net Pension Liability to describe the City's funding obligation to the Pension Systems. The "Net Pension Liability" is the difference between the City's "Total Pension Liability" and the "Fiduciary Net Position" of each respective Pension System's plan. The Total Pension Liability is the present value of pension benefits that are allocated to current members due to past service by the entry age normal actuarial cost method. It includes benefits related to projected salary and service, and automatic cost of living adjustments. In addition, ad hoc cost of living adjustments are also included in the Total Pension Liability to the extent they are substantially automatic. Fiduciary Net Position is determined on the same basis used by the respective Pension System. The City's Net Pension Liability was measured as of June 30, 2017. For a more detailed break-out of Net Pension Liability for each Pension System, see Note 10.

NET PENSION LIABILITY AS OF JUNE 30, 2017

(in thousands)

	HFRRF	HMEPS	HPOPS
Total Pension Liability	$4,673,681	$4,959,510	$6,508,122
Fiduciary Net Position	(4,025,090)	(2,602,665)	(4,457,178)
Net Pension Liability	$ 648,591	$2,356,845	$2,050,944

The calculation of Net Pension Liability under GASB 67 and 68 as reported in the City's financial statements for Fiscal Year 2017 factors in the reforms enacted by the Pension Reform Legislation, with the exception of the delivery of 2017 POB Bonds, which will be reflected in the Financial Statements for Fiscal Year 2018 and thereafter. See Note 10.

Schedule 9: Actuarially Determined Contribution Amounts and Changes in Pension Plan Assets

Each part of the following tables should be read in context with the sections that follow describing in more detail the Pension Systems individually. Such information is historic, and does not reflect the Pension Reform Legislation calculation of the City's required contributions thereunder for Fiscal Year 2018 and thereafter. See "Pension Reform Legislation – Risk Sharing." Part 1 sets forth for each of the Fiscal Years 2013 through 2017 the amount of the annual pension cost to the City and the percentage contribution made by the City to each of the Pension Systems. Amounts paid in Fiscal Year 2017 are established by the meet and confer agreements with HPOPS and HMEPS and the pre-reform HFRRF legislation. For Fiscal Year 2018 and thereafter, contribution amounts are established by the Pension Reform Legislation.

Part 2 sets forth for each of the Fiscal Years 2014 through 2018 actuarially determined amounts and actual City pension contribution amounts as a percentage of payroll. Part 3 sets forth certain information from the City's financial statements for Fiscal Year 2017 (June 30, 2017). The tables reflect annual pension costs and contributions prior to the enactment of the Pension Reform Legislation. See "—Pension Reform Legislation."

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Part 1: Annual Pension Costs and Contributions[(a)]
(in millions)

	Municipal System			Police System			Firefighter Fund		
Fiscal Year	Annual Pension Cost	City Contrib.[(b)]	Percent Contrib.	Annual Pension Cost	City Contrib.[(b)]	Percent Contrib.	Annual Pension Cost	City Contrib.[(c)]	Percent Contrib.
2013	$144.1	$113.7	79%	$146.3	$84.5	58%	$80.7	$62.1	77%
2014	159.7	130.2	82	158.2	102.8	65	89.0	64.1	72
2015[(d)]	241.0	145.0	60	333.0	113.0	34	128.0	92.6	72
2016	315.3	160.0	51	340.0	137.4	40	223.0	94.3	42
2017[(e)]	(319.1)	182.6	N/A	(594.1)	133.8	N/A	(318.2)	93.7	N/A

(a) See Note 10.
(b) Contribution amounts are determined in accordance with the applicable "meet and confer" agreements.
(c) Contribution amounts are determined by the applicable Pension Statute.
(d) Fiscal Year 2015 is the first year subject to GASB 68 accounting requirements. The change in accounting methodology caused a substantial increase in annual pension costs and contributions.
(e) As the result of the Pension Reform Legislation, for the Fiscal Year ended June 30, 2017, the City recognized a negative pension expense. Therefore, the percent contribution calculation is not applicable.

Part 2: Actuarially Determined Contribution Amount and Actual City Contribution as a Percentage of Payroll[(a)(b)]

	Municipal System		Police System		Firefighter Fund	
Fiscal Year	Actuarial	Actual	Actuarial	Actual	Actuarial	Actual
2014	26.1%	21.4%	34.5%	26.6%	31.1%	30.9%
2015[(c)]	27.5	23.2	36.0	28.7	33.2	33.3
2016	27.4	25.0	38.2	33.8	N/A[(d)]	33.6
2017	31.8	30.0	39.6	30.4	30.8	33.5
2018[(e)]	27.8	TBD	31.8	TBD	31.9	TBD
2019[(f)]	28.9	TBD	31.9	TBD	33.0	TBD

(a) See Note 10. Actuarial numbers from the funding valuations prepared by the retirement systems may be different from the GASB 68 accounting valuations used to prepare the City's financial statements.
(b) Adopted actuarial reports for the respective Pension System for actuarially determined percentages and internal City figures for actual contribution percentages. See "—Municipal System," "—Police System" and "—Firefighter Fund."
(c) Fiscal Year 2015 is the first year subject to GASB 68 accounting requirements.
(d) The Firefighter Fund did not perform a valuation for the period referenced.
(e) Source: HMEPS Final Initial Risk Sharing Valuation Study as of July 1, 2016; HPOPS Final Risk Sharing Valuation Study as of June 30, 2016; and Joint Addendum to HFRFF Final Initial Risk Sharing Valuation Study as of July 1, 2016. Actual contributions during Fiscal Year 2018 are in process.
(f) Source: HMEPS Risk Sharing Valuation Study as of July 1, 2017; HPOPS Risk Sharing Valuation Study as of July 1, 2017; and HFRRF Joint Addendum to Final Risk Sharing Valuation Study for Fiscal Year 2019. Actual contributions for Fiscal Year 2019 will occur at the start of the new fiscal year (July 1, 2018) and are expected to equal the required actuarial contribution. The HMEPS actuarial percentage for Fiscal Year 2019 is calculated based on 8.27% of payroll plus $127 million, using HMEPS's payroll assumption, the rate approximates 28.9%.

Part 3: Changes in Pension Plan Assets[(a)]
(in millions)

Fiscal Year 2017	Municipal	Police	Fire	Total
Additions[(b)]	$ 490.6	$841.4	$ 552.0	$1,884.0
(Deductions)[(c)]	(288.0)	(464.7)	(256.6)	(1,009.3)
Net Increase	($ 202.6)	($376.7)	($ 295.4)	($ 874.7)
City's Total Contribution	$ 182.6	$ 133.8	$ 93.7	$ 410.1

(a) Amounts are derived from the City's financial statements for Fiscal Year 2017.
(b) Includes contributions by the employees and the City, net increase (decrease) in the fair value of investments, income from investments, and other income.
(c) Includes benefits paid to members, refunds to members, and other costs, including professional services and administrative expenses.

Houston Airport System's Contributions to the Municipal System

The Fiscal Year 2019 Budget provides that the Houston Airport System will be responsible for approximately $18.1 million of the City's estimated $179.0 million contribution to the Municipal System. In Fiscal Year 2018, the Houston Airport System was responsible for approximately $18.8 million of the City's $179.0 million contribution to the Municipal System.

In addition to the cash contributions made by the City, the City has issued $448 million in Pension Obligations for the benefit of HMEPS. Although these bonds are secured by a pledge of ad valorem tax revenues, the Houston Airport System is responsible for repaying its pro-rata share of debt service on $2.0 million of pension obligation bonds issued by the City in 2005. Interest expense on these bonds is $106,500 per year. Principal payments will begin in Fiscal Year 2029. In January 2009, the City refunded its $300 million 2004 Collateralized Pension Note (the "Pension Note"). The Houston Airport System did not participate in the refunding, but instead paid $34.8 million in cash to retire its share of the Pension Note. In December 2017, the City issued $1.005 billion of pension obligation bonds. In Fiscal Year 2018, the Houston Airport System transferred to the City $27.61 million for its pro-rata share of the principal payable on March 1, 2019. The Houston Airport System is also responsible for its share of interest in Fiscal Year 2019, totaling $608,243.30. After payment of such share of principal and interest, the Houston Airport System will have no continuing obligation on such 2017 pension obligation bonds.

Municipal System

The Municipal System is a contributory defined benefits pension program that provides benefits to most municipal employees (other than classified police officers and firefighters) pursuant to three different programs. Employees hired between January 1, 1999 and January 1, 2008 are provided benefits pursuant to a contributory defined benefits pension program ("Group A"), under which, prior to the enactment of the Pension Reform Legislation, the employees contributed 5% of their salary to the plan. Employees hired prior to January 1, 1999 had a choice to enroll in either Group A, the contributory defined benefit program, or a non-contributory plan ("Group B"). Employees hired after January 1, 2008 are covered by a defined benefit plan ("Group D"), which prior to the enactment of the Pension Reform Legislation was non-contributory. The HMEPS Risk Sharing Valuation Study as of July 1, 2017 reports that 43.42% of active employees of the City were enrolled in Group A, 11.03% were enrolled in Group B and 44.55% were enrolled in Group D. Group A employees contribute 8% of their salary after a phase in period, Group B employees contribute 4% of their salary after a phase in period, and Group D employees contribute 2% of salary, with 1% of salary placed in a notional cash balance plan account.

Prior to the enactment of the Pension Reform Legislation, the City's annual contributions were determined through the "meet and confer" process. For Fiscal Year 2018 and thereafter, the annual contribution is governed by the Pension Reform Legislation, and annual contributions for Fiscal Year 2018 to the Municipal System will be 8.17% of payroll plus $124 million, equating to roughly 27.84% of payroll.

Municipal System Fiscal Year Funding. The City budgets its contributions by allocating the cost between its General Fund and Enterprise Funds based upon the nature of the employment of the covered employees. In Fiscal Year 2017 the General Fund was responsible for approximately $66.8 million of the City's approximately $182.6 million contribution to the Municipal System (approximately 30.0% of payroll); the Fiscal Year 2018 Budget provides that the General Fund will be responsible for approximately $63.5 million of the City's estimated $179.0 million contribution to the Municipal System;

and the Fiscal Year 2019 Budget provides that the General Fund will be responsible for approximately $62.5 million of the City's estimated $179.0 million contribution to the Municipal System.

The table below reflects actuarial accrued liability, actuarial value of plan assets, unfunded actuarial accrued liability or surplus and funded ratio for each of the years 2013-2017. The information contained therein is derived from the HMEPS actuarial valuation reports from July 1 in each of the respective years through 2015. For 2016 and 2017, the values are based on the HMEPS Final Initial Risk Sharing Valuation Study as of July 1, 2016 and RSVS as of July 1, 2017 and reflect the enactment of the Pension Reform Legislation. See "—Pension Reform Legislation."

Schedule 9A: Municipal System Pension Plan Assets, Liabilities and Unfunded Actuarial Accrued Liability[(a)]
(in millions)

	As of July 1,				
	2013	2014	2015	2016 Post-Reform[(b)]	2017 Post-Reform[(c)]
Actuarial Accrued Liability	$4,130	$4,289	$4,766	$4,735	$4,866
Actuarial Value of Plan Assets[(d)]	2,383	2,491	2,583	2,626	2,743
Unfunded Actuarial Accrued Liability	$1,747	$1,798	$2,183	$2,109	$2,123
Funded Ratio	58%	58%	54.2%	55.5%	56.4%

(a) Source: Municipal System Actuarial Valuation Reports. This information is no longer presented in the City's financial statements.
(b) Source: HMEPS Final Initial Risk Sharing Valuation Study as of July 1, 2016. These values are post-enactment of the Pension Reform Legislation, and reflect a reduction in the discount rate, changes in future benefits, delivery of the proceeds of the 2017 POB Bonds, and allocable payments by the City in Fiscal Year 2017.
(c) Source: HMEPS Risk Sharing Valuation Study as of July 1, 2017. These values are post-enactment of the Pension Reform Legislation, and reflect a reduction in the discount rate, changes in future benefits, and delivery of the proceeds of the 2017 POB Bonds.
(d) The actuarial value of plan assets is determined by the actuary for HMEPS; such value represents a generally accepted method of recognizing market gains and losses (relative to the assumed discount rate) over a five-year period.

Police System

The Police System is a contributory defined benefits pension program that provides benefits to the City's classified police officers. Prior to the enactment of the Pension Reform Legislation, the City's annual contributions were determined through the "meet and confer" process; the board of trustees of the Police System and the City entered into an agreement in 2004, as amended in 2011, which is referred to herein as the HPOPS Agreement.

Police System Fiscal Year Funding. In Fiscal Year 2017, the General Fund covered substantially all of the City's contributions to the Police System, and substantially all of the City's contributions to the Police System for Fiscal Year 2018 and Fiscal Year 2019 are projected to be paid from the General Fund. The Fiscal Year 2017 contribution to HPOPS was approximately $133.8 million, as contemplated by the HPOPS Agreement. The Fiscal Year 2018 and Fiscal Year 2019 Budgets set the contribution to HPOPS at approximately $143.2 million and $144.3 million respectively, as determined by the Pension Reform Legislation.

The table below reflects actuarial accrued liability, actuarial value of plan assets, unfunded actuarial accrued liability or surplus and funded ratio for each of the years 2013-2017. The information contained therein is derived from the HPOPS actuarial valuation reports from July 1 in each of the respective years. For 2016, the values are based on the HPOPS actuarial valuation report (pre-reform) and HPOPS Final Initial Risk Sharing Valuation Study as of July 1, 2016 (post-reform). The table reflects annual pension costs and contributions prior to and following the enactment of the Pension Reform Legislation. See "—Pension Reform Legislation."

Schedule 9B: Police System Pension Plan Assets, Liabilities and Unfunded Actuarial Accrued Liability[(a)]
(in millions)

	As of July 1,					
	2013	2014	2015	2016		2017
				Pre-Reform[(b)]	Post-Reform[(c)]	Post-Reform[(d)]
Actuarial Accrued Liability	$5,010	$5,364	$5,706	$6,013	$6,081	$6,218
Actuarial Value of Plan Assets[(e)]	4,071	4,343	4,551	4,662	4,758	4,869
Unfunded Actuarial Accrued Liability	$ 939	$ 1,021	$ 1,156	$1,351	$1,323	$1,350
Funded Ratio	81%	81%	79.7%	77.5%	78.2%	78.3%

(a) Source: Police System Actuarial Valuation Reports. This information is no longer presented in the City's financial statements due to the implementation of GASB 68.
(b) Source: HPOPS Actuarial Valuation Report as of July 1, 2016. These values are prior to the enactment of the Pension Reform Legislation.
(c) Source: HPOPS Final Initial Risk Sharing Valuation Study as of June 30, 2016. These values are post-enactment of the Pension Reform Legislation, and reflect a reduction in the discount rate, changes in future benefits, delivery of the proceeds of the 2017 POB Bonds and allocable payments by the City in Fiscal Year 2017.
(d) Source: HPOPS Risk Sharing Valuation Study as of July 1, 2017. These values are post-enactment of the Pension Reform Legislation, and reflect a reduction in the discount rate, changes in future benefits, and delivery of the proceeds of the 2017 POB Bonds.
(e) The actuarial value of plan assets is determined by the actuary for the Police System. Such value represents a generally accepted method of recognizing market gains and losses (relative to the assumed discount rate) over a five-year period

Firefighter Fund

The Firefighter Fund provides benefits to the City's classified firefighters and is structured as a contributory defined benefits pension program. Prior to the Pension Reform Legislation, each fund member in active service made contributions to the fund in an amount equal to 9% of the member's salary at the time of the contribution. Under the Pension Reform Legislation, firefighters must contribute 10.5% of the member's pensionable pay.

Prior to the Pension Reform Legislation, State law provided that the City contribution to the Firefighter Fund be the greater of two times the firefighter's contribution or an actuarially determined rate established at least once every three years. The City contribution is now determined by the RSVS process. See "—Pending Pension System Litigation" regarding the Firefighter lawsuit relating to the Pension Reform Legislation.

Firefighter Fund Fiscal Year Funding. In Fiscal Year 2017, the General Fund covered substantially all of the City's contributions to the Firefighter Fund, and substantially all of the City's contributions to HFRRF for Fiscal Year 2018 and Fiscal Year 2019 are projected to be paid from the General Fund. The City's Fiscal Year 2017 contribution to HFRRF was $93.7 million as required under the HFRRF Statute before the Reform Effective Date. Currently, the City projects that the Fiscal Year 2018 contribution to HFRRF will be approximately $83.6 million as determined by the Pension Reform Legislation. The Fiscal Year 2019 Budget sets the contribution at $85.6 million. See "Schedule 9 – Part 2: Actuarially Determined Contribution Amount and Actual City Contribution as a Percentage of Payroll." For a discussion of certain lawsuits related to the Firefighter Fund, see "—Pending Pension System Litigation."

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The table below reflects actuarial accrued liability, actuarial value of plan assets, unfunded actuarial accrued liability or surplus and funded ratio for each of the available years from 2013 to 2017 (data is not available for 2014). The information contained therein is derived from the HFRRF Actuarial Valuations from July 1 in each of the respective years. The decrease in the funded ratio for 2016 shown in the table below is partially attributable to a change in the assumption for the rate or return on investment from 8.5% to 7.25%. For 2016, the values are shown based on both the HFRRF actuarial valuation report (pre-reform) and the initial RSVS calculation of the Legacy Liability as of July 1, 2016 (post-reform). See "—Pension Reform Legislation"

Schedule 9C: Firefighter Fund Pension Plan Assets, Liabilities and Unfunded Actuarial Accrued Liability[(a)]
(in millions)

	As of July 1,				
	2013	2015	2016		2017
			Pre-Reform[(b)]	Post-Reform[(c)]	Post-Reform[(d)]
Actuarial Accrued Liability	$3,963	$4,397	$5,074	$4,629	$4,828
Actuarial Value of Plan Assets	3,430	$3,930	4,089	3,730	3,884
Unfunded Actuarial Accrued Liability	$ 533	$ 467	$ 984	$ 900	$ 944
Funded Ratio[(d)]...	87%	89.4%	80.6%	80.6%	80.4%

(a) Source: Firefighter Fund Actuarial Valuation Reports. This information is no longer presented in the City's financial statements.
(b) Source: HFRFF Actuarial Valuation Report as of July 1, 2016. These values are prior to the enactment of the Pension Reform Legislation.
(c) Source: HFRFF Final Initial Risk Sharing Valuation Study as of July 1, 2016. These values are post enactment of the Pension Reform Legislation, and reflect a reduction in the discount rate, changes in future benefits, and allocable payments by the City in Fiscal Year 2017.
(d) Source: HFRFF Risk Sharing Valuation Study as of July 1, 2017. These values are post-enactment of the Pension Reform Legislation, and reflect a reduction in the discount rate and changes in future benefits.
(e) The actuarial value of the plan assets is determined by the actuary for the Firefighter Fund. Such value represents a generally accepted method of recognizing market gains and losses (relative to the assumed discount rate) over a five-year period.

Pending Pension System Litigation

Litigation Challenging the Election Authorizing the Pension Obligation Bonds. On December 15, 2017, *Noteware v. Turner* was filed in the 269th District Court in Harris County, Texas, challenging the validity of the election approving the pension obligation bonds held November 7, 2017. The suit alleges that because of language in the election proposition, the City misled the voters as to the effect of the election on the revenue limitations of the City Charter and is therefore void.

On December 21, 2017, the court denied Noteware's motion to temporarily restrain the City from issuing the bonds or distributing the bond proceeds to the pension funds. On July 3, 2018, the district court granted the City's motion to dismiss on the basis that no case or controversy was presented. The plaintiff Noteware may appeal, and, if so, the City will continue to vigorously defend the matter.

Firefighter Litigation Regarding Pension Reform Legislation. In *Houston Firefighters' Relief and Retirement Fund v. City of Houston, et. al.,* filed on May 30, 2017, the Firefighter Fund sued the City and various City officials challenging the constitutionality of the Pension Reform Legislation passed in the most recent legislative session and sought injunctive relief and declaratory judgment in respect to such legislation. Specifically, the Firefighter Fund alleged that the Pension Reform Legislation violates Article XVI, Section 67 of the Texas Constitution ("Section 67") because it allegedly violates the Firefighter Fund's Board of Trustee's "exclusive" authority to select an actuary, and adopt actuarial assumptions regarding the City contribution rates. The Attorney General of Texas intervened to defend that constitutionality of the Pension Reform Legislation. On June 30, 2017, the district court judge sustained all defendants' Pleas to the Jurisdiction, ordered that the case be dismissed in its entirety, and, in the alternative, should the dismissal be found to have been granted in error, denied the Firefighter Fund's request for a temporary injunction. All parties have filed their briefs in the court of appeals. Oral argument on the appeal was held on May 9, 2018. The City intends to continue to vigorously defend this litigation.

Litigation Regarding HMEPS. The City is also currently involved in a lawsuit involving the Municipal System. Before this current suit, on March 20, 2015, the Texas Supreme Court issued its opinion in *Klumb v. Houston Municipal Employees Pension System* ("Klumb"). At issue in the case was whether the board of the Municipal System violated the HMEPS Statute by resolving that employees of certain local government corporations and not-for-profit corporations are employees of the City for purposes of the Municipal System. The Texas Supreme Court found, among other things, that the HMEPS board's actions were within its "broad discretionary authority" under the HMEPS Statute, and thus held that the City "failed to plead actionable ultra vires and constitutional claims against the Municipal System and the Trustees." Following the issuance of the Texas Supreme Court's ruling in *Klumb*, the Municipal System asked the City to turn over certain identifying information and make pension contributions for employees of the local government corporations and not-for-profit corporations at issue in that case. On June 18, 2015, the Municipal System initiated a new lawsuit, seeking mandamus relief and asserting an ultra vires action against the City, the Mayor and several other City officers. The City filed a counterclaim and third-party claim alleging breach of the "meet and confer" agreement related to the Municipal System's definition of "employee". The Municipal System filed a motion for summary judgment and the City defendants filed a plea to the jurisdiction. In October 2015, the trial court denied the plea to the jurisdiction, and the City defendants filed an interlocutory appeal. The trial court did not rule on the summary judgment motion filed by the Municipal System. The denial of the City's plea was reversed in part and affirmed in part by the Court of Appeals. The City and the Municipal System each filed a petition for review in the Texas Supreme Court. The Texas Supreme Court later requested each side to file briefs on the merits. All parties have filed their briefs in the Supreme Court. The Texas Supreme Court heard oral arguments in the case on March 20, 2018. In June 2018, the Texas Supreme Court denied the City's plea to the jurisdiction and remanded the case back to the trial court for further proceedings. The City intends to continue to vigorously defend this litigation.

City Charter Tax and Revenue Propositions

General. In addition to certain constitutional and statutory limitations described above, the City may limit, increase or change the revenue resources available during a given Fiscal Year, either by voter authorization as provided by the City Charter or by amending the City Charter itself. The City Charter may not be amended more frequently than once every two years. Since 2006, voters of the City have imposed limits on increases in ad valorem tax revenues and other revenues in Proposition 1 (codified in Article III, Sec. 1 and Article IX, Sec. 20 of the City Charter) and Proposition 2 (codified in Article VI-a, Sec. 7 of the City Charter but not effective). Voters also have increased available revenue sources in Proposition G (codified in Article IX, Sec. 21, City Charter) and Proposition H, which did not amend the City Charter. Notwithstanding any limitations on revenue described below, the City Charter provides that, in preparing the City's budget, provision shall first be made for the payment of debt service on the City's outstanding Tax Obligations, with the remaining revenues to be apportioned among the City's respective departments. In future Fiscal Years, the amount of the tax levy allocated to debt service may need to be increased, reducing the amount allocable for the delivery of essential governmental services if there is no corresponding increase in the overall tax levy or other revenues.

Proposition 1 and Proposition 2 (2004). In 2004, voters approved Proposition 1(Article III, Sec. 1 and Article IX, Sec. 20, City Charter) in order to limit increases in (i) the City's ad valorem tax revenues by requiring voter approval for increases in ad valorem taxes in future years above a limit equal to the lesser of the actual revenues in the preceding Fiscal Year, plus 4.5%, or a formula that is based upon the actual revenues received in Fiscal Year 2005 adjusted for the cumulative combined rates of inflation and the City's population growth; and (ii) water and sewer rates (i.e., the City's Combined Utility System) by limiting rate increases to the combined increases in the rates of inflation and population growth, excluding rate increases required by certain bond covenants and rates established by contract, unless approved by the voters. At the same election, the voters also approved Proposition 2 (Article VI-a, Sec. 7, City Charter), which proposed to limit increases in the City's "combined revenues," which would include revenues of the General Fund, Special Funds and Enterprise Funds. Based on the specific language of Proposition 1 and Proposition 2, the number of votes for each proposition, and the language of the City Charter, the City declared that Proposition 2 was not effective.

Proposition 2 Litigation. Supporters of Proposition 2 filed a lawsuit to declare Proposition 2 effective. After protracted litigation, on August 26, 2011, the Texas Supreme Court vacated the judgment of the trial court (for lack of ripeness) without reference to the merits and dismissed the case for want of jurisdiction. In April of 2014, the suit was refiled. The City filed a plea to the jurisdiction, which was denied by the district court. The City has appealed the denial. On August 17, 2017, the appeals court affirmed the trial court's denial of the plea. The City has filed a petition for review at the Texas Supreme Court. The Texas Supreme Court has not requested the filing of briefs and no hearing date has been set. The trial court proceedings are stayed pending the resolution of the appeal.

Propositions G and H. In response to Proposition 1 and Proposition 2, the City held an election on November 7, 2006, at which the voters approved Proposition G and Proposition H, which are currently effective. Proposition G amended the City Charter to exclude revenues of the City's enterprise systems (i.e., Combined Utility System, Houston Airport System and the Convention and Entertainment Facilities Department) from the types of revenues limited under the City Charter. Voter approval of Proposition G removed the enterprise systems from the revenue limitations of Proposition 2, although the limitation on water and sewer rate increases included in Proposition 1 remains in effect. ***Consequently, the Houston Airport System revenues are exempted from the revenue limitations imposed on the City by Propositions 1 and 2.*** Proposition H allows the City to collect and spend up to $90 million of revenue, over and above any Proposition 2 limitations, for increased police, fire and emergency medical services and related matters. The amount collected and spent in each year becomes part of the base revenue calculations for the following year. Propositions G and H are incorporated into the City's Financial Policies, and the City has collected revenues and made expenditures for public safety purposes in compliance with Proposition H.

LITIGATION AND REGULATION

Houston Airport System Claims and Litigation

The City is aware of various pending claims and lawsuits associated with the operation of the Houston Airport System. These include, but are not limited to, certain personal injury claims, claims involving rents and charges and property disputes. The City intends to defend itself vigorously against these claims and lawsuits; however, no prediction of the City's liability with respect to the claims, or the final outcome of the lawsuits, can be made at this time. In the opinion of management of the Houston Airport System, it is improbable that the lawsuits now outstanding against the City that are associated with the operation of the Houston Airport System could become final in a time and manner so as to have a material adverse financial impact upon the operations of the City or the Houston Airport System.

Other Claims and Litigation Affecting the City

The City is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its municipal and enterprise activities, certain of which seek substantial damages. That litigation includes lawsuits claiming damages that allege that the City caused personal injuries and wrongful deaths; class actions and other lawsuits and claims alleging discriminatory hiring and promotion practices and certain civil rights violations arising under the Federal Voting Rights Act; various claims from contractors for additional amounts under construction contracts; claims involving ad valorem tax assessments; and various other liability claims. The status of such litigation ranges from an early discovery stage to various levels of appeal of judgments both for and against the City. The amount of damages is limited in certain cases under the Texas Tort Claims Act and is subject to appeal. The City intends to defend itself vigorously against the suits; however, no prediction can be made, as of the date hereof, with respect to the liability of the City for such claims or the final outcome of such suits.

The City is also aware that various claims for inverse condemnation have been and may be asserted against the City in connection with the City's operations, the aggregate amounts of which are unknown. The City intends to defend itself vigorously against all such inverse condemnation claims; however, the City's liability with respect to these claims cannot be predicted.

Environmental Regulation

The City is subject to the environmental regulations of the State and the United States. These laws and regulations are subject to change, and the City may be required to expend substantial funds to meet the requirements of such regulatory authorities, such as requirements relating to quality of the City's water supply or wastewater discharges or to the handling and disposal of wastes. Failure to comply with these laws and regulations may result in the imposition of administrative, civil and criminal penalties, or the imposition of an injunction requiring the City to take or refrain from taking certain actions. In addition, the City may be required to remediate contamination on properties owned or operated by the City, or at sites where the City has sent waste for disposal.

Other Environmental Measures

Air quality control measures required by the United States Environmental Protection Agency (the "EPA") and the Texas Commission on Environmental Quality ("TCEQ") may adversely affect new industrial, commercial and residential development in Houston and adjacent areas. Under the Clean Air Act Amendments of 1990, the eight county Houston-Galveston-Brazoria Area ("HGB Area") has been designated by the EPA as a non-attainment area under the EPA's ozone standards. Such areas are required to demonstrate progress in reducing ozone concentrations each year until compliance with EPA's standards are achieved. To provide for annual reductions in ozone concentrations, the EPA and the TCEQ have imposed increasingly stringent limitations on emissions of volatile organic compounds and nitrogen oxides (chemical precursors of ground level ozone) from existing stationary sources of air emissions. In addition, any significant new source of those types of emissions, such as a new industrial plant, must provide for a net reduction of those air emissions by arranging or paying for reductions of emissions by 1.3 times the amount of pollutants proposed to be emitted by the new source. Even though existing air emissions controls are quite stringent, studies have indicated that even more stringent air emissions controls will be necessary in order for the HGB Area to achieve compliance with ozone standards. Due to the magnitude of air emissions reductions required as well as shortage of economically reasonable control options, the development of a successful air quality compliance plan has been and continues to be extremely challenging and will inevitably impact a wide cross-section of the business and residential community. More stringent controls on sources of air emissions in the HGB Area could make the Houston area a less attractive location to businesses in comparison to other areas of the country that are not subject to similarly stringent air emissions controls. Although air quality data indicates steady improvements in the HGB Area, if it fails to meet EPA's standards, EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects. The EPA may also impose more stringent emissions offset requirements on new major sources of emissions for which construction has not already commenced.

Other constraints on economic growth and development include lawsuits filed under the Clean Air Act by plaintiffs seeking to require emission reduction measures that are even more stringent than those adopted by TCEQ and approved by EPA. From time to time, various plaintiff environmental organizations have filed lawsuits against TCEQ and EPA seeking to compel the early adoption of additional emission reduction measures, many of which could make it more difficult for businesses to construct or expand industrial facilities or which could result in new restrictions on the actions of businesses, governmental entities and private citizens. Any successful court challenge to the currently effective air emissions control plan could result in the imposition of even more stringent air emission controls that could threaten continued growth and development in the HGB Area.

Storm Activity and Periodic Flooding

Downtown Houston is located approximately 50 miles north of the Gulf of Mexico. The Gulf region is prone to seasonal hurricane activity; major hurricanes or related storms may develop. Owing in part to its relatively flat topography and moist coastal climate, certain areas in the City are subject to periodic flooding and associated severe property damage as a result of storm events and hurricanes. In addition to the damage observed due to Hurricane Harvey, the City has experienced two other major floods in the past three years: 2015 Memorial Day and 2016 Tax Day.

The City and Harris County each participate in the National Flood Insurance Program, which is administered by FEMA. Communities participating in the National Flood Insurance Program are required by FEMA to adopt restrictions on development in designated flood prone areas. In exchange, the National Flood Insurance Program makes federally subsidized flood insurance available to homeowners, renters, and business owners located in the participating communities.

In connection with its administration of the National Flood Insurance Program, FEMA will from time to time revise its Flood Insurance Rate Maps, which serve to classify the relative flooding potential of geographic areas. FEMA revised its Flood Insurance Rate Maps for the Greater Houston area as well as unincorporated Harris County in late 2006. As a result of this most recent revision, some homes and businesses within the City and the surrounding area that were outside of the 100-year flood plain (those areas that are determined to have a greater than 1% chance of flooding in any given year) under the previous Flood Insurance Rate Maps are now included in the 100-year flood plain under the new maps. Residential, commercial, and industrial properties in the City that recently have been reclassified as being within the 100-year flood plain could experience a diminution in value, the extent of which has not yet been determined. It is anticipated that a pending federal climate study will result in floodplain map changes that will significantly increase the 100-year flood elevation and floodplain.

The City is currently pursuing hazard mitigation grants from FEMA to fund flood mitigation and/or flood damage reduction projects. Mitigation projects may include home buyout, home elevation and home reconstruction. Flood damage reduction projects may consist of channel widening, regional detention and stream diversions. These projects will be coordinated with the other local agencies responsible for watershed management.

RATINGS

The rating services of Moody's Investor Service and Fitch Ratings, Inc. have assigned ratings of "A1" and "A", respectively, on the Series 2018 Bonds. Ratings reflect only the views of the rating agencies, from whom an explanation of the significance of such ratings may be obtained. There is no assurance that ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal could have an adverse effect on the market price of the Series 2018 Bonds. The City and the Co-Financial Advisors will undertake no responsibility to oppose any revision or withdrawal of such ratings.

Due to changes in rating criteria and the current economic conditions of the United States, obligations issued by state and local governments, such as the Series 2018 Bonds, could be subject to a rating downgrade. Additionally, if a significant financial crisis or budgetary reductions should occur in the affairs of the U.S. Government or of any of its agencies or political subdivisions, then such an event could adversely affect the market for and ratings, liquidity and market value of outstanding debt obligations, including the Series 2018 Bonds..

VERIFICATION OF MATHEMATICAL ACCURACY

Grant Thornton LLP, a firm of independent certified public accountants, will verify the accuracy of the mathematical computations of (i) the adequacy of the deposits with the Escrow Agent to provide for the payment of the Refunded Bonds when due, and (ii) the "yield" on the Series 2018 Bonds, prepared by the Underwriters.

These computations will be based upon information and assumptions supplied by the Underwriters on behalf of the City. Grant Thornton LLP has restricted its procedures to recalculating the computations provided by the Underwriters and has not evaluated or examined the assumptions or information used in the computations.

TAX MATTERS

Tax Exemption

In the opinion of Bracewell LLP and West & Associates, LLP, Co-Bond Counsel, under existing law, (i) interest on the Series 2018 Bonds is excludable from gross income for federal income tax purposes, except for any period during which a Series 2018 Bond is held by a person who is a "substantial user" of the facilities refinanced with the proceeds of the Series 2018 Bonds or a "related person" to such a "substantial user," each within the meaning of section 147(a) of the Internal Revenue Code, as amended (the "Code"), (ii) interest on the Series 2018C Bonds is an item of tax preference that is includable in alternative minimum taxable income for purposes of determining a taxpayer's alternative minimum tax liability, and (iii) pursuant to the American Recovery and Reinvestment Act of 2009, interest on the Series 2018D Bonds is not an item of tax preference that is includable in alternative minimum taxable income for purposes of determining a taxpayer's alternative minimum tax liability.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Series 2018 Bonds, to be excludable from gross income for federal income tax purposes. These requirements include, among other things, limitations on the use of the bond-financed project, limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the "Service"). The City has covenanted in the Ordinance that it will comply with these requirements.

Co-Bond Counsel's opinion will assume continuing compliance with the covenants of the Ordinance pertaining to those sections of the Code that affect the excludability of interest on the Series 2018 Bonds from gross income for federal income tax purposes and, in addition, will rely on representations by the City, the City's Co-Financial Advisors and the

Underwriters with respect to matters solely within the knowledge of the City, the City's Co-Financial Advisors and the Underwriters, respectively, which Co-Bond Counsel have not independently verified. Co-Bond Counsel will further rely on the report (the "Report") of Grant Thornton LLP, certified public accountants, regarding the mathematical accuracy of certain computations. If the City fails to comply with the covenants in the Ordinance or if the foregoing representations or the Report are determined to be inaccurate or incomplete, interest on the Series 2018 Bonds could become includable in gross income from the date of original delivery of each issue of the Series 2018 Bonds, regardless of the date on which the event causing such inclusion occurs.

The Code imposes an alternative minimum tax on the "alternative minimum taxable income" of an individual, if the amount of such alternative minimum tax is greater than the amount of such individual's regular income tax. Generally, the alternative minimum tax rate for individuals is 26% of so much of such taxable excess as does not exceed $175,000, as adjusted for inflation, plus 28% of so much of such taxable excess as exceeds $175,000, as adjusted for inflation. Generally, the alternative minimum taxable income of an individual will include items of tax preference under the Code, such as the amount of interest received on "private activity bonds" issued after August 7, 1986. Accordingly, Co-Bond Counsel's opinion will state that interest on the Series 2018C Bonds is an item of tax preference that is includable in alternative minimum taxable income for purposes of determining a taxpayer's alternative minimum tax liability.

Except as stated above, Co-Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, acquisition, ownership or disposition of, the Series 2018 Bonds.

Co-Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Co-Bond Counsel's knowledge of facts as of the date thereof. Co-Bond Counsel assumes no duty to update or supplement their opinions to reflect any facts or circumstances that may thereafter come to Co-Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Co-Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Co-Bond Counsel's legal judgment based upon their review of existing law and in reliance upon the representations and covenants referenced above that they deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Series 2018 Bonds. If an audit is commenced, in accordance with its current published procedures, the Service is likely to treat the City as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of any issue of the Series 2018 Bonds could adversely affect the value and liquidity of the Series 2018 Bonds regardless of the ultimate outcome of the audit.

Additional Federal Income Tax Considerations

Collateral Tax Consequences

Prospective purchasers of the Series 2018 Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers qualifying for the health insurance premium assistance credit, and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Series 2018 Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Series 2018 Bonds should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Series 2018 Bonds, received or accrued during the year.

Tax Accounting Treatment of Original Issue Premium

The issue price of all of the Series 2018 Bonds exceeds the stated redemption price payable at maturity of such Series 2018 Bonds. Such Series 2018 Bonds (the "Premium Bonds") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Premium Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Bond and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Bonds.

Tax Legislative Changes

Public Law No. 115-97 (i.e., Tax Cuts and Jobs Act), which makes significant changes to the Code, including changing certain provisions affecting tax-exempt obligations, such as the Bonds, was signed into law on December 22, 2017. The changes include, among others, changes to the federal income tax rates for individuals and corporations and the alternative minimum tax for tax years beginning after December 31, 2017. Current law may change so as to directly or indirectly reduce or eliminate the benefit of the excludability of interest on the Series 2018 Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Series 2018 Bonds. Prospective purchasers of the Series 2018 Bonds should consult with their own tax advisors with respect to any recently-enacted proposed, pending or future legislation.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Pursuant to Section 1201.041 of the Public Security Procedures Act (Chapter 1201, as amended, Texas Government Code), the Series 2018 Bonds are are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and legal and authorized investments for insurance companies, fiduciaries and trustees and for the sinking funds of municipalities and other political subdivisions or public agencies of the State of Texas. For political subdivisions in Texas that have adopted investment policies and guidelines in accordance with the Public Funds Investment Act, the Series 2018 Bonds may have to be assigned a rating of "A" or its equivalent as to investment quality by a nationally recognized rating agency before such obligations are eligible investments for sinking funds and other public funds.

The City has made no investigation of any other laws, rules, regulations or investment criteria that might affect the suitability of the Series 2018 Bonds for any of the above purposes or limit the authority of any of the above persons or entities to purchase or invest in the Series 2018 Bonds.

CONTINUING DISCLOSURE

In the Ordinance, the City has made the following agreement regarding the continuing disclosure of information for the benefit of the holders and Beneficial Owners of the Series 2018 Bonds. The City is required to observe such agreement for so long as it remains an "obligated person" with respect to the Series 2018 Bonds within the meaning of Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended from time to time (the "Rule"). Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, whether or not material, to the information repository described below.

Annual Reports

The City will provide certain updated financial information and operating data to the Municipal Securities Rulemaking Board (the "MSRB") annually. The information to be updated includes quantitative financial information and operating data with respect to the City's Airport System in APPENDIX A and under the schedules listed in APPENDIX D. The City will update and provide this information within six months after the end of each fiscal year. See APPENDIX D relating to the City's limited obligations to update Schedules 9, 9A, 9B, and 9C, which contain actuarial information related to the pension plans.

The City may provide updated information in full text or in such other form consistent with the Ordinance, or may incorporate by reference certain other publicly available documents, as permitted by the Rule. The updated information will include audited financial statements if the City commissions an audit and it is completed by the required time. If audited financial statements are not provided by that time, the City will provide audited financial statements when and if they become available, but if such audited financial statements are unavailable, the City will provide such financial statements on an unaudited basis within the required time. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX A or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

The City's current fiscal year end is June 30. Accordingly, it must provide updated information by December 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

Certain Event Notices

The City will also provide notice to the MSRB of any of the following events with respect to the Series 2018 Bonds in a timely manner and not more than 10 Business Days after occurrence of the event: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2018 Bonds, or other material events affecting the tax status of the Series 2018 Bonds; (7) modifications to rights of holders of the Series 2018 Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2018 Bonds, if material; (11) rating changes, (12) bankruptcy, insolvency, receivership, or similar event of the City; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of the trustee, if material. In addition, the City will provide timely notice of any failure by the City to provide information, data or financial statements and notice of events in accordance with its agreement described above under "Annual Reports" and in this paragraph. Neither the Ordinance nor the Series 2018 Bonds provide for property securing repayment of the Series 2018 Bonds (other than the subordinate lien on Net Revenues) or appointment of a trustee.

For the purposes of the event numbered (12) in the preceding paragraph, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

Availability of Information

The City has agreed to provide the foregoing information only to the MSRB. The information is expected to be available to holders of the Series 2018 Bonds from the MSRB through the EMMA website at www.emma.msrb.org; however, the City makes no representation regarding the availability of such information from the MSRB.

Limitations and Amendments

The City has agreed to update information and to provide notices of the events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell the Series 2018 Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of the Series 2018 Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status or type of operations of the City, but only if the agreement, as amended, would have permitted an underwriter to purchase or sell the Series 2018 Bonds in the offering made hereby in compliance with the Rule taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances and either the holders of a majority in aggregate principal amount of the Outstanding Series 2018 Bonds consent or any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the Beneficial Owners of the Series 2018 Bonds. The City may also amend or repeal the agreement if the Commission amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid, and the City may amend the agreement in its discretion in any other circumstance or manner, but in either case only to the extent that its right to do so would not prevent an underwriter from purchasing the Series 2018 Bonds in the offering made hereby in compliance with the Rule. If the City amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

Compliance with Prior Undertakings

On June 7, 2018, the City filed disclosures (the "Summarized Update") describing its compliance with its continuing disclosure undertakings during the previous five years, which disclosures are available by accessing the following link to EMMA (https://emma.msrb.org/IssuerHomePage/Issuer?id=122D8F57A31F0F0513F7133054BC213B&type=G) and locating the Summarized Update under the "Event-Based Disclosures" tab under the link "Other Event-based Disclosures: Summarized Update of Previous Disclosure Filings." The content of the Summarized Update is incorporated herein by reference.

No Continuing Disclosure Undertakings by Airlines

No airline has made any agreement regarding the continuing disclosure of information for the benefit of the holders and Beneficial Owners of the Series 2018 Bonds. However, certain of the certificated major domestic airlines (or their respective parent corporations) are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, and thus must file reports and other information with the Commission. See "THE AIRLINE INDUSTRY FINANCIAL INFORMATION." In addition, pursuant to the Rule, certain airlines may have agreed to continuing disclosure undertakings in connection with the issuance and sale of obligations other than the Series 2018 Bonds. In those instances the airlines would have undertaken, in a written agreement or contract for the benefit of the holders of such obligations, to provide to various information repositories certain annual financial information and operating data, including audited financial statements, and to provide notice to such repositories and the MSRB of certain specified material events. Such information is available to securities brokers and others who subscribe to receive the information from such repositories.

LEGAL PROCEEDINGS

The delivery of the Series 2018 Bonds is subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Bracewell LLP and West & Associates, LLP, Co-Bond Counsel for the City, as to the validity of the issuance of the Series 2018 Bonds under the Constitution and laws of the State of Texas. The opinion of Co-Bond Counsel will be based upon an examination of a transcript of certain certified proceedings of the City incident to the issuance and authorization of the Series 2018 Bonds. A copy of the proposed opinion of Bracewell LLP and West & Associates, LLP, to be delivered in connection with the Series 2018 Bonds, is attached to this Official Statement as APPENDIX C.

In their capacity as Co-Bond Counsel, Bracewell LLP, Houston, Texas, and West & Associates, LLP, Houston, Texas, have reviewed the statements and information contained in the Official Statement under the captions and sub-captions "PURPOSE AND PLAN OF FINANCING," "THE SERIES 2018 BONDS," "SECURITY FOR THE SERIES 2018 BONDS" (except for information under the sub-caption "Bondholders' Remedies," as to which no opinion is expressed), "COVENANTS AND TERMS OF THE ORDINANCE" (except for the information under the sub-caption "Rate Covenant – Other Factors Impacting Rate Covenant", as to which no opinion is expressed), "CONTINUING DISCLOSURE" (except for the information under the sub-captions "Compliance With Prior Undertakings" and "No Continuing Disclosure Undertakings by Airlines" as to which no opinion is expressed), and APPENDICES B-1 and B-2, and Co-Bond Counsel is of the opinion that the statements and information contained therein, insofar as such statements and information summarize certain provisions of the Ordinance and the Series 2018 Bonds, in all material respects fairly and accurately reflect the provisions of the Ordinance and the Series 2018 Bonds; further, Co-Bond Counsel has reviewed the statements and information contained in the Official Statement under the captions and sub-captions "TAX MATTERS" and "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," and Co-Bond Counsel is of the opinion that the statements and information contained therein are correct as to matters of law.

Such firms have not, however, independently verified any of the factual information contained in this Official Statement nor have they conducted an investigation of the affairs of the City or the Houston Airport System for the purpose of passing upon the fairness, accuracy or completeness of this Official Statement. No person is entitled to rely upon such firms' limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the fairness, accuracy or completeness of any of the information contained herein. The fees of Bracewell LLP, West & Associates, LLP, and Norton Rose Fulbright US LLP for their services with respect to the Series 2018 Bonds are contingent upon the sale and delivery of the Series 2018 Bonds.

Certain matters will be passed upon by for the City by its Special Disclosure Counsel, Norton Rose Fulbright US LLP, Houston, Texas. Certain other legal matters will be passed on for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P, Houston, Texas, and Mahomes Bolden PC, Houston, Texas.

Bracewell LLP, West & Associates, LLP, and Norton Rose Fulbright US LLP represent the Underwriters from time to time in matters unrelated to the issuance of Series 2018 Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Series 2018 Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

CO-FINANCIAL ADVISORS

Hilltop Securities Inc., which in turn has retained YaCari Consultants, LLC (together, the "Co-Financial Advisors"), has been retained by the City in connection with the issuance of the Series 2018 Bonds and, in such capacity, the Co-Financial Advisors have assisted the City in the preparation of documents. The fee for services rendered by the Co-Financial Advisors with respect to the sale of the Series 2018 Bonds is not contingent upon the issuance and delivery of the Series 2018 Bonds.

Although the Co-Financial Advisors have read and participated in the preparation of this Official Statement, they have not independently verified any of the information set forth herein. The information contained in this Official Statement has been obtained primarily from the City's records and from other sources that are believed to be reliable, including financial records of the City and other entities that may be subject to interpretation. No guarantee is made as to the accuracy or completeness of any such information. No person, therefor, is entitled to rely upon the participation of the Co-Financial Advisors as an implicit or explicit expression of opinion as to the completeness and accuracy of the information contained in this Official Statement.

INDEPENDENT AUDITORS

The financial statements of the Houston Airport System Fund, as of and for the years ended June 30, 2017 and 2016, included in this Official Statement as APPENDIX A, have been audited by McConnell & Jones LLP/Banks, Finley, White & Co., a Joint Venture Partnership known as M&J/BFW, independent auditors, as stated in their report appearing herein.

UNDERWRITING

Siebert Cisneros Shank & Co., L.L.C. as representative and on behalf of all of the Underwriters set forth on the cover page hereof, has agreed to purchase the Series 2018C Bonds, subject to certain conditions, and has agreed to pay therefor a price of $242,121,776.52 (reflecting the par amount of the Series 2018C Bonds, plus an offering premium of $30,097,696.95, less an underwriting discount of $795,920.43).

Siebert Cisneros Shank & Co., L.L.C. as representative and on behalf of all of the Underwriters set forth on the cover page hereof, has agreed to purchase the Series 2018D Bonds, subject to certain conditions, and has agreed to pay therefor a price of $410,986,373.54 (reflecting the par amount of the Series 2018D Bonds, plus an offering premium of $56,145,860.55, less an underwriting discount of $1,449,487.01).

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the issuer, for which they received or will receive customary fees and expenses. In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the Houston Airport System. The Underwriters and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

FORWARD LOOKING STATEMENTS

The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. It is important to note that the City's actual results could differ materially from those in such forward-looking statements.

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

GENERAL INFORMATION

All of the summaries of the statutes, ordinances and other related reports set forth herein are made subject to all of the provisions of such documents. The descriptions of the Series 2018 Bonds and the Ordinance herein do not purport to be complete and all such descriptions or references thereto contained in this Official Statement are qualified in their entirety by reference to the complete forms of the Series 2018 Bonds and of the Ordinance. Statements made herein involving estimates or projections, whether or not expressly identified as such, should not be construed to be statements of fact or as representations that such estimates or projections will ever be attained or will even approximate actual results.

Copies of the June 30, 2017 Comprehensive Annual Financial Report of the City of Houston, Texas are available to each of the prospective purchasers of the Series 2018 Bonds upon written request addressed to the office of the City Controller, P.O. Box 1562, Houston, Texas 77251. HOWEVER, THE SERIES 2018 BONDS ARE PAYABLE SOLELY FROM NET REVENUES OF THE HOUSTON AIRPORT SYSTEM AND CERTAIN RESERVES ESTABLISHED

PURSUANT TO THE ORDINANCE, AND NO IMPLICATION IS MADE THAT ANY OTHER REVENUES OR MONEY OF THE CITY ARE TO BE AVAILABLE FOR THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2018 BONDS. Copies of the Ordinance are available to each of the prospective purchasers of the Series 2018 Bonds upon written request to the Office of the City Attorney, 900 Bagby, 4th Floor, Houston, Texas 77002. This document was approved by the City Council.

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SCHEDULE I

SCHEDULE OF REFUNDED BONDS

Series 2018C Refunded Bonds

Airport System Subordinate Lien Revenue Bonds, Series 2000P-1 (AMT)

Airport System Subordinate Lien Revenue Bonds, Series 2000P-2 (AMT)

Airport System Subordinate Lien Revenue Bonds, Series 2002C (AMT)

Airport System Subordinate Lien Revenue Bonds, Series 2002D-1 (AMT)

Airport System Subordinate Lien Revenue Bonds, Series 2002D-2 (AMT)

Series 2018D Refunded Bonds

Airport System Senior Lien Revenue & Refunding Bonds, Series 2009A

The obligations to be refunded include all of the remaining outstanding maturities of each series of Refunded Bonds

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APPENDIX A

AIRPORT SYSTEM FUND FINANCIAL STATEMENTS

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CAFR

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEARS ENDED JUNE 30, 2017 AND JUNE 30, 2016

PREPARED BY OFFICE OF THE CITY CONTROLLER, CHRIS BROWN

HOUSTON AIRPORTS

THE AIRPORT SYSTEM FUND

AN ENTERPRISE FUND OF THE CITY OF HOUSTON, TEXAS

CITY OF HOUSTON TEXAS

Cover Art: *Houston, Can You Hear Me?*
Artist: Hana Hillerova

Airport System Fund
An Enterprise Fund of the
City of Houston, Texas
Comprehensive Annual
Financial Report

Fiscal Years Ended June 30, 2017 and June 30, 2016

Prepared by:
Office of City Controller

Chris Brown
City Controller

Carl Medley
Deputy Director Controller

CITY OF HOUSTON

TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

TABLE OF CONTENTS

CITY OF HOUSTON

TEXAS

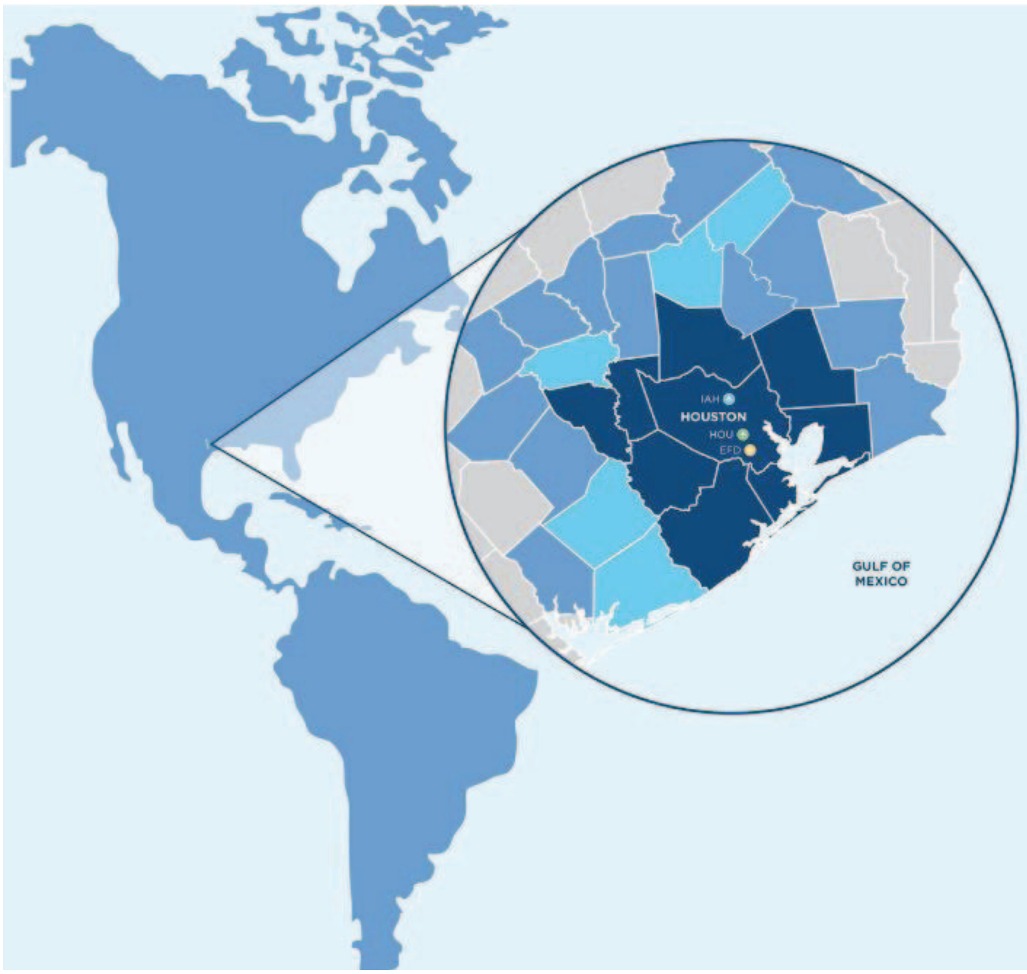
Elevator Core by Rachel Hecker

INTRODUCTORY SECTION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

CITY OF HOUSTON
TEXAS

HOUSTON AIRPORT SYSTEM



	Metropolitan Statistical Area (MSA) of Houston-The Woodlands-Sugar Land, TX includes 9 counties.
	Consolidated Statistical Area (CSA) of Houston-Woodlands, TX adds Matagorda, Trinity, Walker, Washington, and Wharton counties.

HOUSTON AIRPORTS

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Houston, Texas

Airport System Fund

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

Office of the City Controller
City of Houston, Texas

Chris B. Brown

November 20, 2017

To the Citizens, Mayor and Members of the City Council of the City of Houston, Texas:

I am pleased to present you with the Comprehensive Annual Financial Report (CAFR) for the City of Houston, Texas, Airport System Fund (the Fund) for the fiscal years ended June 30, 2017 and June 30, 2016, including the independent auditors' report. The Controller's Office and the Houston Airport System share responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the Fund.

The CAFR includes four sections: Introductory, Financial, Statistical, and Compliance. The Introductory Section includes this transmittal letter, a list of principal officials, and the Fund's organizational chart. The Financial Section includes Management's Discussion and Analysis and financial statements with accompanying notes, as well as the independent auditors' report on the financial statements. The Statistical Section includes selected financial trends, revenue capacity, debt capacity, demographic, economic, and operating information, generally presented on a ten-year basis. The Compliance Section includes the independent auditors' report on Passenger Facility Charge Program.

The Financial Section described above is prepared in accordance with Generally Accepted Accounting Principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB). The Management's Discussion and Analysis offers readers an overview and analysis of the financial activities of the Fund and should be read as an introduction to the financial statements. In addition, the notes to the financial statements offer additional important information and are essential to a full understanding of this report.

The Reporting Entity and Its Services

The Houston Airport System (HAS), under the administrative control of the Mayor, manages and operates the Fund. The City Controller, as the chief financial officer of the City of Houston (the City), maintains the books of account, prepares financial statements, and, with the Mayor, co-signs all warrants, contracts, and orders for payment of any public funds or money relating to the Fund.

The Fund is an enterprise fund of the City and is included in the City's Comprehensive Annual Financial Report, which is a matter of public record. An enterprise fund is used to account for services provided to the general public on a continuing basis with costs recovered primarily through user charges. The City's Airport System includes the following: George Bush Intercontinental Airport (Intercontinental); William P. Hobby Airport (Hobby); and Ellington Airport. United Airlines is the dominant air carrier operating at Intercontinental and Southwest Airlines is the dominant air carrier operating at Hobby.

Economic Conditions and Major Initiatives

Economic Conditions

The City of Houston is the nation's fourth most populous city and lies within the fifth largest metropolitan statistical area in the United States. The service region for the Houston Airport System, the nine county Houston-The Woodlands-Sugar Land Metropolitan Statistical Area, has a diverse economic base and is recognized as a major national and international energy, financial, medical, transportation, educational, and distribution center. Widely recognized as the "Energy Capital of the World," Houston is a global center for virtually every segment of the oil-and-gas industry. The City is also home to the Texas Medical Center, the world's largest concentration of biomedical research and healthcare institutions, and the Lyndon B. Johnson Space Center, NASA's center for human spaceflight training, research, and flight control, and related support firms specializing in aircraft and space vehicle manufacturing, research, and technology. The deepwater Port of Houston is the nation's busiest port as ranked by foreign tonnage and second-busiest port as ranked by total tonnage.

The Houston Airport System (HAS) consists of both a large hub airport (Bush Intercontinental) and a medium hub airport (Hobby), as classified by the Federal Aviation Administration (FAA). Based on total U.S. airport passenger traffic for calendar year 2016, Intercontinental ranked as the nation's 14th busiest airport, while Hobby ranked 34th busiest. Intercontinental is located approximately 22 miles north of the City's central business district and serves as Houston's primary international gateway, handling nearly 11 million international passengers (enplaned plus deplaned) in fiscal year 2017. Hobby is located approximately seven miles southeast of the central business district . A domestic-only airport since Intercontinental opened in 1969, a new international terminal opened in October 2015, allowing for new service to Mexico, the Carribean, and Central America. Ellington Airport (Ellington), located approximately 15 miles to the southeast of the central business district, serves as a general aviation airport and is also used by several governmental agencies such as NASA, the US Coast Guard and the Army and Air Force National Guard. HAS obtained a spaceport license for Ellington in June 2015 from the Federal Aviation Administration, allowing Ellington to accommodate horizontal-launch commercial spaceflight operations.

Key factors that will affect future airline traffic at the Houston Airport System include (1) the growth in the population and economy of the service region; (2) national and international economic and political conditions; (3) airline economics and air fares; (4) the price of aviation fuel; (5) airline service decisions; (6) the capacity of the air traffic control system; and (7) the capacity of the airports themselves. During fiscal year 2017, HAS systemwide passenger growth decreased 1.6% from fiscal year 2016, driven by a 3.4% decrease in passengers at Intercontinental which was partially offset by a 4.4% increase at Hobby. International passenger traffic for fiscal year 2017 was relatively flat, increasing 0.4% over fiscal year 2016, driven by growing international service at HOU. Fiscal year 2017 represented the third consecutive year in which the airport served more than 10 million international passengers (enplaned plus deplaned).

Capital Improvement Program

The Houston Airport System's (HAS) five-year Capital Improvement Plan (CIP) for fiscal years 2018-2022 has appropriation requirements of approximately $2.1 billion, with 39% of the appropriations planned for fiscal year 2018 as of June 30, 2017. This CIP was developed in connection with master planning studies for all three system airports. Future improvements will be funded with airport funds, the remaining proceeds from bond issues, proceeds from new bond issues, FAA and other grants, and passenger facility charges. The CIP excludes amounts funded on a permanent basis by airline tenants under the terms of special facilities leases. HAS continually reviews its CIP to address changing economic and air traffic demand levels, operating conditions, and assessments of facility condition.

At IAH, HAS is proceeding with the planning and procurement of design and construction support for the IAH Terminal Redevelopment Program (ITRP) that includes the newly constructed 11-gate concourse just west of the existing Terminal C North (becoming the "New Terminal C North") and reconstructing and integrating the existing Terminal C North and Terminal D into a new single common-use international facility (the Mickey Leland International Terminal (MLIT). The expansion of the terminal facilities will also necessitate an enlargement of certain components of the existing Federal Inspection Services (FIS) facility as well as related improvements to aircraft parking aprons and roadways. The terminal will be used by United Airlines and all foreign-flag airlines serving IAH and share the existing FIS Facility. The City awarded contracts for executive program manager and program management support services in fiscal year 2015 and in fiscal year 17 began the selection process for architectural/engineering and construction management firms.

At HOU, capital improvements are planned for the airfield as required by the FAA, as well as normal pavement management, and customer service enhancements for the HOU Central Concourse. Additionally, a new parking office is planned for development starting in late FY18.

At EFD, a new air traffic control tower is currently being constructed and procurement is underway for a Design/Build contract for Spaceport Infrastructure to provide roadways and utilities for future tenants.

Financial Information

Accounting Systems and Budgetary Controls

The Fund's financial accounting system utilizes an accrual basis of accounting. Internal accounting controls are an integral part of the Fund's accounting system and are designed to provide reasonable, but not absolute, assurance that assets are safeguarded from unauthorized use or disposition. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management.

The Fund controls current expenses at all division levels. The Houston Airport System's Deputy Directors are responsible for the expenses approved by the Division Managers reporting to them; in turn, Division Managers are responsible for budgetary items that are controllable at their organizational level. Budgetary control is maintained at the expenditure category (i.e., Personnel Services, Supplies, Other Services and Capital Outlay) through the encumbrance of estimated purchase amounts prior to the release of purchase orders or contracts to vendors. This is accomplished primarily through an automated encumbrance and accounts payable system.

The City Council approves the Fund's annual operations budget for current expenses. The Airport Fund as a whole is not budgeted. City Council authorizes capital project expenditures through individual appropriation ordinances based on a five-year Capital Improvement Plan that is proposed by the Mayor and the Houston Airport System Director and approved by City Council. City Council can legally appropriate only those amounts of money that the City Controller has certified.

Other Information

Independent Audit

An independent auditor audits the financial statements of the Airport System Fund each year. McConnell & Jones/Banks, Finley, White & Co. performed the fiscal year 2017 and 2016 audits. The financial section of this report includes the independent auditors' report on the basic financial statements.

The City is required to undergo an annual Single Audit in conformity with the provisions of the Single Audit Act, Title 2 of the US *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the State of Texas Single Audit Circular. These audits are conducted simultaneously with the Fund's annual financial statement audit. Information related to these Single Audits, including the schedules of financial assistance, findings and recommendations, is included in separate Single Audit Reports.

Awards/Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to City of Houston, Texas, Airport System Fund for its comprehensive annual financial report for the fiscal year ended June 30, 2016. This was the 23rd consecutive year that the Airport System Fund has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

The preparation of this comprehensive annual financial report was made possible by the dedicated service of the Finance Division of the Houston Airport System and the City Controller's Office.

Respectfully submitted,

Chris B. Brown
City Controller

INTRODUCTORY SECTION

LIST OF PRINCIPAL OFFICIALS

ELECTED OFFICIALS AS OF JUNE 30, 2017:

Left to Right: Mike Laster, Jack Christie, David Robinson, Karla Cisneros, Larry Green, Mike Knox, Ellen Cohen, Dwight Boykins, Sylvester Turner, Chris Brown, Jerry Davis, Brenda Stardig, Robert Gallegos, Amanda Edwards, Greg Travis, Dave Martin, Michael Kubosh, Steve Le. *Photo credit: Daniel Schein*

Mayor	Sylvester Turner
Controller	Chris Brown
Councilmember, At-Large, Position 1	Mike Knox
Councilmember, At-Large, Position 2	David Robinson
Councilmember, At-Large, Position 3	Michael Kubosh
Councilmember, At-Large, Position 4	Amanda Edwards
Councilmember, At-Large, Position 5	Jack Christie
Councilmember, District A	Brenda Stardig
Councilmember, District B	Jerry Davis
Councilmember, District C	Ellen Cohen
Councilmember, District D	Dwight Boykins
Councilmember, District E	Dave Martin
Councilmember, District F	Steve Le
Councilmember, District G	Greg Travis
Councilmember, District H	Karla Cisneros
Councilmember, District I	Robert Gallegos
Councilmember, District J	Mike Laster
Councilmember, District K	Larry Green

INTRODUCTORY SECTION

LIST OF PRINCIPAL OFFICIALS

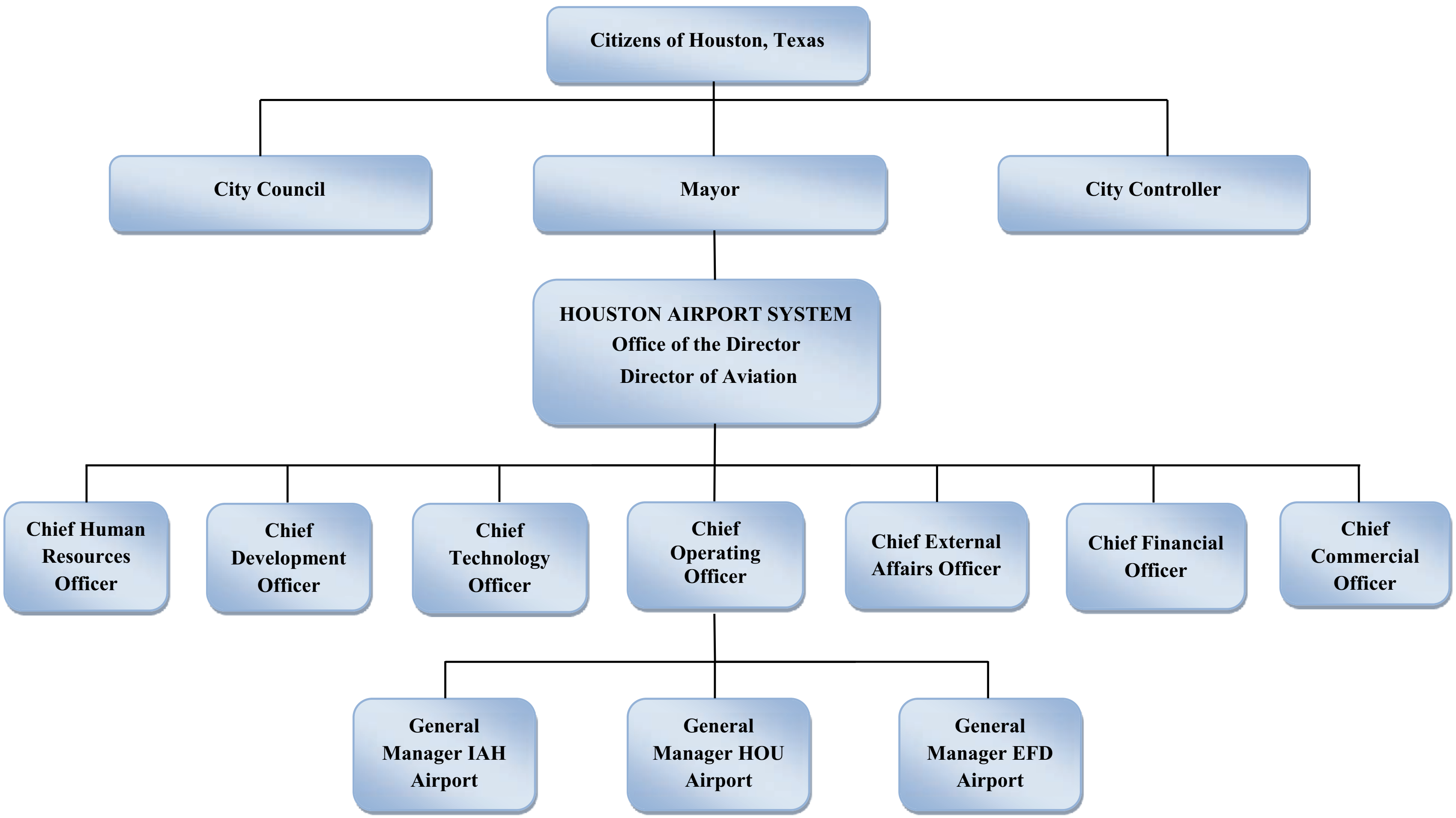
HOUSTON AIRPORT SYSTEM (a department of the City of Houston)
AS OF JUNE 30, 2017:

AS OF JULY 31, 2017:

Chief Technology Officer --Tanya Acevedo

INTRODUCTORY SECTION

ORGANIZATIONAL CHART AS OF JUNE 30, 2017



Call Ernie by Jim Love

FINANCIAL SECTION
COMPREHENSIVE ANNUAL FINANCIAL REPORT

CITY OF HOUSTON

TEXAS

Independent Auditors' Report

To the Honorable Mayor,
Members of City Council, and City Controller
City of Houston, Texas

We have audited the accompanying financial statements of the Airport System Fund (the "Fund") of the City of Houston, Texas (the "City"), which comprise the statement of net position as of June 30, 2017 and 2016 the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion in the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Honorable Mayor,
Members of City Council, and City Controller
City of Houston, Texas

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Airport System Fund of the City of Houston, Texas, as of June 30, 2017 and 2016 the changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statement presents only the Airport System Fund and do not purport to and do not, present fairly the net position of the City of Houston, Texas as of June 30, 2017 and 2016, the changes in its net position or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As explained in Notes 6 and 12 in the Fund's financial statements, substantive changes were made to the funding and benefit structure of the City's pension system, effecting the City's three pension plans during fiscal year 2017. Consistent with generally accepted accounting principles, the Fund's pension expense reflects a significant decrease due to the change in benefit terms and discount rates and corresponding reduction in net pension liability and an increase in net position.

Our opinion is not modified with respect to these matters

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 4 through 9) and the Pension System Supplementary Information and Other Post- Employment Benefits Supplementary Information (page 49) be presented to supplement the basic financials statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

BANKS, FINLEY, WHITE & CO.
CERTIFIED PUBLIC ACCOUNTANTS

To the Honorable Mayor,
Members of City Council, and City Controller
City of Houston, Texas

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Fund's basic financial statements. The Introductory Section, the Statistical Section and Compliance Section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Passenger Facility Charge Revenues and Disbursements Schedule and accompanying notes on pages 68 to 73 are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information to the underlying and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the procedures performed as describe above, the above-mentioned schedule is fairly stated in all material respects in relation to the financial statements as a whole.

The Introductory Section and the Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2017, on our consideration of the City of Houston, Texas's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Houston, Texas's internal control over financial reporting and compliance.

McConnell & Jones LLP   Banks, Finley, White & Co.

November 20, 2017

4828 Loop Central Drive • Suite 1000 • Houston, TX • 77081

As management of the Airport System Fund (Fund), we offer readers of the Fund's financial statements this narrative overview and analysis of the financial activities of the Fund for the fiscal years ended June 30, 2017 and June 30, 2016. Please read the Management's Discussion and Analysis (unaudited) section in conjunction with the financial statements and the notes to the financial statements, which follow this section. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

The Fund's net position increased by $128.1 million or 9.5% during fiscal year 2017 and increased $64.4 million or 5.0% during fiscal year 2016.

In fiscal year 2017, operating income increased $61.3 million or 1,035.5% due to the reduction in pension expense arising from the pension reform efforts of the City of Houston (City) See Notes 6 and 12. In fiscal year 2016, operating income decreased $18.2 million or 148.4% due to an increase in operating expenses of $30.8 million or 6.6 %.

Maintenance and operating expenses decreased $61.0 million or 19.3% in fiscal year 2017 and increased $28.9 million or 10.1% in fiscal year 2016. Depreciation expense increased $4.8 million or 2.7% in fiscal year 2017 and increased $1.9 million or 1.1% in fiscal year 2016.

Investment income decreased by $9.9 million or 74.3% in fiscal year 2017 and increased by $5.8 million or 76.9% in fiscal year 2016.

The Fund had a net increase before capital contributions of $92.5 million in fiscal year 2017, compared with a net increase before capital contributions of $41.9 million in fiscal year 2016.

The Fund implemented Governmental Accounting Standards Board (GASB) Statement No. 68 at the start of fiscal year 2015, to record a net pension liability based not on the City's legal funding requirement, but on an actuarial calculation of total pension liability less the net position of the Houston Municipal Employee Pension System (HMEPS). This resulted in an unrestricted net position of $(178.0) million as of June 30, 2015 and 2016. The unrestricted net position as of June 30, 2017 was reduced further to $(126.9) due to cost savings included in pension reforms implemented by the City. See Notes 1 and 6 for more information.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Fund's financial statements. The Airport System Fund's financial statements consist of the following components: this management's discussion and analysis, the financial statements, the notes to the financial statements, and required supplementary information. The notes are essential to a full understanding of this report. In addition, a statistical section is included for further analysis. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. An enterprise fund is used to account for a business-like activity within a government. The Airport System Fund is an enterprise fund of the City of Houston. The Houston Airport System (HAS), consisting of George Bush Intercontinental Airport (IAH), William P. Hobby Airport (HOU), and Ellington Airport (EFD), is managed and operated as a department of the City. The Airport System Fund is also included in the City of Houston's Comprehensive Annual Financial Report (CAFR).

The statement of net position presents information on all the Fund's assets, deferred outflows of resources (if any), liabilities, and deferred inflows of resources (if any), with the difference between these sections reported as net position. Changes in net position from year to year may serve as a useful indicator of whether the financial position of the Airport System Fund is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents information showing how the Fund's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The statement of cash flows reports how much cash was provided by or used for the Fund's operations, investing activities, non-capital financing activities, and capital and related financing activities.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension and other post employment benefits to its employees.

Net Position

Total net position at June 30, 2017 was $1,473.8 million, a 9.5% increase from June 30, 2016.
Total net position at June 30, 2016 was $1,345.8 million, a 5.0% increase from June 30, 2015.

NET POSITION
JUNE 30, 2017, JUNE 30, 2016, and JUNE 30, 2015
(in thousands)

	June 30, 2017	June 30, 2016	June 30, 2015
Assets			
Current assets	$ 452,246	$ 445,841	$ 379,126
Noncurrent assets	892,490	854,870	881,893
Net capital assets	2,883,432	2,958,464	2,918,004
Total assets	4,228,168	4,259,175	4,179,023
Deferred Outflows of Resources	81,177	59,367	43,490
Liabilities			
Current liabilities	218,419	318,700	188,524
Long term liabilities	2,612,622	2,651,555	2,750,775
Total liabilities	2,831,041	2,970,255	2,939,299
Deferred Inflows of Resources	4,487	2,526	1,847
Net Position			
Net investment in capital assets	542,363	537,172	466,196
Restricted net assets	1,058,392	986,592	993,174
Unrestricted (deficit)	(126,938)	(178,003)	(178,003)
Total net position	$ 1,473,817	$ 1,345,761	$ 1,281,367

More than a third of the Fund's total net position (36.8% in fiscal year 2017; 39.9% in fiscal year 2016) reflects net investment in capital assets (e.g., land, buildings, runways, equipment and infrastructure), less any related outstanding debt used to acquire those assets. The Fund uses these capital assets to operate the airports; consequently, these assets are not available for future spending. Although the Fund's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from airport revenue or other sources procured by the Fund, since the capital assets themselves cannot be used to liquidate these liabilities.

The other portions of the Fund's net position represent resources that are restricted and the unrestricted deficit. The restricted resources (71.8% in fiscal year 2017; 73.3% in fiscal year 2016) are subjected to external restrictions on how they may be used. Most of these restrictions are due to covenants made to the holders of the Fund's revenue bonds within ordinances passed by City Council. These covenants further require that any positive unrestricted net position carried in cash and cash equivalents at the end of the fiscal year be restricted for future capital improvements. The unrestricted (deficit) net position was $(126.9 million) as of June 30, 2017 and was $(178.0 million) as of June 30, 2016.

Changes in Net Position

From July 1, 2016 to June 30, 2017, net position of the Airport System Fund increased by $128.1 million or 9.5%.
From July 1, 2015 to June 30, 2016, net position of the Airport System Fund increased by $64.4 million or 5.0%.

CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2017, JUNE 30, 2016, and JUNE 30, 2015
(in thousands)

	June 30, 2017	June 30, 2016	June 30, 2015
Operating revenue:			
Landing area fees	$ 88,046	$ 86,870	$ 93,575
Rentals, building and ground areas	221,181	216,018	197,039
Parking and Concessions	178,888	177,685	180,684
Other	5,926	8,324	4,984
Total operating revenues	494,041	488,897	476,282
Nonoperating revenue:			
Investment income (loss)	3,403	13,260	7,496
Passenger facility charges	101,539	104,230	85,392
Customer Facility Charges	14,200	16,417	17,535
Gain on disposal of assets	7,554	54	-
Other nonoperating	4,141	70	7,969
Total nonoperating revenues	130,837	134,031	118,392
Total revenues	624,878	622,928	594,674
Operating expenses:			
Maintenance and operating	254,459	315,419	286,529
Depreciation and amortization	184,203	179,398	177,512
Total operating expenses	438,662	494,817	464,041
Nonoperating expenses:			
Interest expense	87,482	86,212	89,999
Loss on disposal of assets	6,099	-	1,856
Special facility cost	92	47	948
Total nonoperating expenses	93,673	86,259	92,803
Total expenses	532,335	581,076	556,844
Excess (deficit) before contributions	92,543	41,852	37,830
Capital contributions	35,513	22,542	36,432
Change in net position	128,056	64,394	74,262
Beginning net position as previously reported	1,345,761	1,281,367	1,385,108
Cumulative effect of implementation of new accounting principle	-	-	(178,003)
Total net position, July 1	1,345,761	1,281,367	1,207,105
Total net position, June 30	$ 1,473,817	$ 1,345,761	$ 1,281,367

Operating revenues increased by $5.1 million or 1.1% for fiscal year 2017 and increased by $12.6 million or 2.6% for fiscal year 2016. Total (enplaned and deplaned) system (IAH and HOU) passenger volume decreased 1.6% in fiscal year 2017. The effect of this decrease was offset by increases in rentals (2.4%) and concessions (4.1%). Operating revenue increases in fiscal year 2016 over fiscal year 2015 were primarily attributable to increases in nonairline revenues resulting from increases in parking fees and passenger volume. Detailed passenger statistics and comparative rates and charges can be found in the statistical section of this report.

For fiscal year 2017, total operating expenses decreased $56.2 million or 11.3%. Maintenance and operating expenses decreased $61.0 million or 19.3% and depreciation increased by $4.8 million or 2.7%. The 19.3% decrease in maintenance and operating expenses is due to the pension reform efforts of the City of Houston. For fiscal year 2016, total operating expenses increased $30.8 million or 6.6%. Maintenance and operating expenses increased by $28.9 million or 10.1% and depreciation increased by $1.9 million or 1.1%. The 10.1% increase in maintenance and operating expenses is due to higher services and personnel costs.

Capital contributions are grant awards that primarily related to reimbursements for expenses from construction projects. Amounts received from Federal Aviation Administration (FAA) discretionary, FAA entitlement and Transportation Security Administration (TSA) grants fluctuate year-to-year because of timing differences between the date of the award and the date of construction completion. In fiscal year 2017, capital contributions increased $13.0 million or 57.5% and in fiscal year 2016, capital contributions decreased $13.9 million or 38.1%.

For fiscal year 2017, non-operating revenues decreased by $9.3 million or 6.9 %, due to a $9.9 million decrease in investment income, a $4.9 million or 4.1% decrease in combined passenger facility charge and customer facility charge collections, due to a decline in passenger traffic, a $7.1 million refund to the airlines on prior year landing fees and terminal leasing charges, recordation of a prior year unearned grant award of $3.1 million, and a $1.4 million increase in revenues from the disposal of assets. Non-operating revenue increased by $15.6 million or 13.2% in fiscal year 2016, primarily due to an increase of $18.8 million or 22% in passenger facility charge collections. On January 20, 2015, the FAA approved an amendment to the existing PFC at both IAH and HOU increasing the rate from $3.00 per enplaned passenger to $4.50 per enplaned passenger. The new rate was effective March 1, 2015. Investment income decreased by $9.9 million or 74.3% in fiscal year 2017, due to a $12.6 decrease in net unrealized fair value adjustments, partly offset by an increase in realized investment income of $2.8 million related to a 26% increase in apportioned income from the City's General Taxable Pool. In fiscal year 2016, investment income increased $5.8 million or 76.9%, due mostly to a $3.7 million increase in the net unrealized fair value adjustments.

Interest expense and total non-operating expense increased by $1.3 million or 1.5% in fiscal year 2017. In fiscal year 2016, interest expense decreased by $3.8 million or 4.2% because $2.9 million more was capitalized with eligible construction projects in fiscal year 2016 than in fiscal year 2015.

Capital Assets

The Airport System Fund's investment in capital assets amounts to $5.74 billion at June 30, 2017, an increase of $110.2 million or 2.0%, from June 30, 2016. Capital assets at June 30, 2016 were $5.63 billion, an increase of $219.0 million or 4.0%, from June 30, 2015. See Note 3 for further information.

CAPITAL ASSETS
JUNE 30, 2017, JUNE 30, 2016, and JUNE 30, 2015
(in thousands)

	June 30, 2017	June 30, 2016	June 30, 2015
Land	$ 216,079	$ 222,886	$ 220,626
Rights & Intangibles - Non-Amortizable	9,569	9,752	9,387
Buildings and building improvements	2,970,950	2,900,383	2,703,195
Improvements other than buildings	2,145,180	2,072,292	2,009,275
Equipment	261,485	249,029	233,321
Rights & Intangibles - Amortizable	5,035	4,084	2,411
Construction work in progress	135,233	174,942	236,163
	$ 5,743,531	$ 5,633,368	$ 5,414,378

At IAH, HAS is proceeding with the planning and procurement of design and construction support for the IAH Terminal Redevelopment Program (ITRP) that includes the newly constructed 11-gate concourse just west of the existing Terminal C North (becoming the "New Terminal C North") and reconstructing and integrating the existing Terminal C North and Terminal D into a new single common-use international facility (the Mickey Leland International Terminal (MLIT). The expansion of the terminal facilities will also necessitate an enlargement of certain components of the existing Federal Inspection Services (FIS) facility as well as related improvements to aircraft parking aprons and roadways. The terminal will be used by United Airlines and all foreign-flag airlines serving IAH and share the existing FIS Facility. The City awarded contracts for executive program manager and program management support services in FY 2015 and in FY17 began the selection process for architectural/engineering and construction management firms.

At HOU, capital improvements are planned for the airfield as required by the FAA, as well as normal pavement management, and customer service enhancements for the HOU Central Concourse. Additionally, a new parking office is planned for development starting in late FY18.

At EFD, a new air traffic control tower is currently being constructed and procurement is underway for a Design/Build contract for Spaceport Infrastructure to provide roadways and utilities for future tenants.

Debt

At the end of the fiscal year, the Airport System Fund had total debt of $2.4 billion, which represents outstanding senior and subordinate lien revenue bonds net of unamortized discounts and premiums, senior lien commercial paper, and an inferior lien contract, all secured solely by Airport System Fund revenues. In addition, the Fund is responsible for $2.0 million of taxable general obligation pension bonds and $91.6 million of special facility revenue bonds (consolidated rental car facility). At the end of fiscal years 2016 and 2015, the Fund had total debt of $2.5 billion and $2.4 billion, respectively. See Note 5 for further information.

OUTSTANDING DEBT
JUNE 30, 2017, JUNE 30, 2016, AND JUNE 30, 2015
(in thousands)

	June 30, 2017	June 30, 2016	June 30, 2015
Senior lien debt:			
Current maturities-revenue bonds	$ 10,225	$ 9,740	$ 9,275
Long-term revenue bonds payable	420,420	430,645	440,385
Unamortized discounts and premium	(476)	(603)	(737)
Commercial paper	87,000	87,000	49,500
Total senior lien debt	517,169	526,782	498,423
Subordinate lien debt:			
Current maturities-revenue bonds	67,630	64,925	56,455
Long-term revenue bonds payable	1,512,135	1,579,765	1,644,690
Unamortized discounts and premium	59,061	65,705	72,562
Total subordinate lien debt	1,638,826	1,710,395	1,773,707
Inferior lien debt:			
Current maturities-contract	6,240	5,915	5,605
Long-term contract payable	-	6,240	12,155
Total inferior lien debt	6,240	12,155	17,760
Other debt:			
Current maturities-note payable	5,018	5,018	-
Long-term note payable	110,403	115,421	-
Pension obligation bonds	2,006	2,006	2,006
Special Facility Revenue Bonds - Consolidated Rental Car Facility:			
Current maturities	5,490	5,305	5,160
Long-term payable	86,100	91,590	96,895
Total other debt	209,017	219,340	104,061
Total outstanding debt	$ 2,371,252	$ 2,468,672	$ 2,393,951
Deferred Outflows of Resources:			
Unamortized costs of refunding debt	$ (27,329)	$ (30,154)	$ (33,044)

Total outstanding debt decreased $97.4 million or 3.9% during fiscal year 2017, due to retirement of existing debt. Total outstanding debt increased $74.7 million or 3.1% during fiscal year 2016, due to issuance of new commercial paper, retirement of existing debt, and the creation on October 15, 2015 of a note payable to Southwest Airlines for the construction of the Hobby International Terminal Project, with balances on June 30, 2017 and June 30, 2016 of $115.4 million and $120.4 million, respectively.

The underlying ratings of the Airport System Fund's obligations for fiscal year 2017:

	Senior Lien	Subordinate Lien	Consolidated Rental Car SFRB
Fitch's Bond Rating:	Not Rated	A	A-
Moody's Bond Rating:	Aa3	A1	A3
Standard & Poor's Bond Rating:	AA-	A+	A-

Requests for Information

This financial report is designed to provide a general overview of the City of Houston, Texas Airport System Fund finances for all of those with an interest in the fund's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Controller, 901 Bagby, 8th Floor, P.O. Box 1562, Houston, Texas 77251-1562.

STATEMENTS OF NET POSITION (in thousands)
JUNE 30, 2017 AND 2016

	2017	2016
Assets		
Current assets		
Equity in pooled cash and investments	$ 362,714	$ 389,411
Non-pooled cash	5	5
Restricted cash and cash equivalents	5,796	5,541
Accounts Receivable (net of allowance for doubtful accounts of $1,623 in 2017 and $777 in 2016)	44,224	3,347
Due from City of Houston	201	31,833
Inventory	1,875	1,632
Prepaids	2,938	2,817
Due from other governments - grants receivable	34,493	11,255
Total current assets	452,246	445,841
Noncurrent assets		
Equity in pooled cash and investments	853,294	817,877
Restricted cash and cash equivalents	37,813	35,512
Prepaids	1,383	1,481
Capital Assets		
Land	216,079	222,886
Rights and Intangibles	14,604	13,836
Buildings, improvements and equipment	5,377,615	5,221,704
Construction in progress	135,233	174,942
Total capital assets	5,743,531	5,633,368
Less accumulated depreciation and amortization	(2,860,099)	(2,674,904)
Net capital assets	2,883,432	2,958,464
Total noncurrent assets	3,775,922	3,813,334
Total assets	4,228,168	4,259,175
Deferred Outflows of Resources		
Deferred outflows from refunding of debt	27,329	30,154
Deferred outflows on pension liability	53,848	29,213
Total deferred outflows of resources	$ 81,177	$ 59,367

(continued)

The accompanying notes are an integral part of the financial statements

STATEMENTS OF NET POSITION (in thousands)
JUNE 30, 2017 AND 2016

	2017	2016
Liabilities		
Current Liabilities		
Accounts payable	$ 14,893	$ 14,087
Accrued payroll liabilities	3,366	3,133
Due to City of Houston	713	970
Advances and deposits	2,193	2,082
Unearned revenue	5,296	1,922
Claims for workers' compensation	777	868
Compensated absences	6,367	5,945
Revenue bonds payable	77,855	74,665
Special facility revenue bonds payable	5,490	5,305
Inferior lien contract payable	6,240	5,915
Commercial paper payable	-	87,000
Note payable	5,018	5,018
Accrued interest payable	45,689	47,125
Contracts and retainages payable	34,522	64,665
Other current liabilities	10,000	-
Total current liabilities	218,419	318,700
Long-term liabilities		
Revenue bonds payable, net	1,991,140	2,075,512
Special facility revenue bonds payable	86,100	91,590
Inferior lien contract	-	6,240
Commercial paper payable	87,000	-
Pension obligation bonds payable	2,006	2,006
Note payable	110,403	115,421
Claims for workers compensation	642	937
Compensated absences	6,254	6,835
Net pension liability payable	254,420	282,811
Other post employment benefits	74,657	70,203
Total long-term liabilities	2,612,622	2,651,555
Total liabilities	2,831,041	2,970,255
Deferred Inflows of Resources		
Deferred Inflows on pension liability	4,487	2,526
Total deferred inflows of resources	4,487	2,526
Net position		
Net Investment in capital assets	542,363	537,172
Restricted net position		
Restricted for debt service	287,858	333,635
Restricted for maintenance and operations	54,805	54,942
Restricted for special facility	29,369	26,944
Restricted for renewal and replacement	10,000	10,000
Restricted for capital improvements	676,360	561,071
Unrestricted (deficit)	(126,938)	(178,003)
Total net position	$ 1,473,817	$ 1,345,761

The accompanying notes are an integral part of the financial statements

CITY OF HOUSTON, TEXAS

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (in thousands)
FOR YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Operating Revenues		
Landing area fees	$ 88,046	$ 86,870
Rentals, building and ground area	221,181	216,018
Parking	99,752	101,650
Concessions	79,136	76,035
Other	5,926	8,324
Total operating revenues	494,041	488,897
Operating Expenses		
Maintenance and operating	254,459	315,419
Depreciation and amortization	184,203	179,398
Total operating expenses	438,662	494,817
Operating income (loss)	55,379	(5,920)
Nonoperating revenues (expenses)		
Investment income (loss)	3,403	13,260
Interest expense	(87,482)	(86,212)
Gain / (Loss) on disposal of assets	1,455	54
Passenger facility charges	101,539	104,230
Customer facility charges	14,200	16,417
Special facility cost	(92)	(47)
Other revenue	4,141	70
Total nonoperating revenues (expenses)	37,164	47,772
Income/(loss) before capital contributions	92,543	41,852
Capital contributions	35,513	22,542
Change in net position	128,056	64,394
Total net position, July 1	1,345,761	1,281,367
Total net position, June 30	$ 1,473,817	$ 1,345,761

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CASH FLOWS (in thousands)
FOR YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Cash flows from operating activities		
Receipts from customers	$ 454,955	$ 504,457
Payments to employees	(102,834)	(101,054)
Payments to suppliers	(116,498)	(123,101)
Payments to the City of Houston	(34,214)	(94,776)
Claims paid	(777)	(868)
Other receipts	4,141	70
Net cash provided by operating activities	204,773	184,728
Cash flows from investing activities		
Sale of investments	1,548,829	1,687,735
Purchase of investments	(1,473,462)	(1,629,945)
Investment income (loss)	3,403	13,260
Net cash (used for) provided by investing activities	78,770	71,050
Cash flows from noncapital financing activities		
Interest expense for pension obligation bonds	(106)	(107)
Net cash (used for) provided by noncapital financing activities	(106)	(107)
Cash flows from capital and related financing activities		
Retirement of revenue bonds	(74,665)	(65,730)
Interest expense on debt	(99,558)	(98,308)
Proceeds from issuance of commercial paper	-	37,500
Retirement of inferior lien contract	(5,915)	(5,605)
Retirement of special facility bonds	(5,305)	(5,160)
Passenger facility charges	95,710	105,154
Customer facility charges	14,068	16,640
Grant receipts	12,132	17,930
Acquisition of capital assets	(133,260)	(174,264)
Net cash (used for) capital and related financing activities	(196,793)	(171,843)
Net increase (decrease) in cash and cash equivalents	86,644	83,828
Cash and cash equivalents, beginning of year	128,299	44,471
Cash and cash equivalents, end of the year	$ 214,943	$ 128,299
Current restricted cash and cash equivalents	$ 5,796	$ 5,541
Nonpooled cash	5	5
Noncurrent restricted cash and cash equivalents	37,813	35,512
Equity in pooled cash and cash equivalents	171,329	87,241
Cash and cash equivalents, end of the year	$ 214,943	$ 128,299

The accompanying notes are an integral part of the financial statements

(continued)

STATEMENTS OF CASH FLOWS (in thousands)
FOR YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Noncash transactions		
Capitalized interest expense	$ 9,789	$ 8,788
Capital additions included in note payable	(5,018)	120,440
Capital additions included in other liabilities	(30,142)	29,251
Grants included in receivables	23,238	4,612
Bond amortization expense	3,595	3,729
Gain (loss) on disposal of assets	(6,073)	(129)
Noncash transactions	$ (4,611)	$ 166,691
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	$ 55,379	$ (5,920)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Terminal space revenue-note payable	(7,656)	(5,153)
Depreciation	184,203	179,398
Capital improvement plan expense	5,243	4,616
Other receipts	4,141	70
Changes in assets and liabilities		
Accounts receivable	(34,916)	20,666
Due from the City of Houston	31,632	(30,960)
Inventory and prepaids	(364)	(16)
Accounts payable	806	(579)
Accrued payroll liabilities	233	634
Other current liabilities	10,000	-
Due to the City of Houston	(257)	609
Advances and deposits	3,485	48
Other post-employment benefits	4,454	5,042
Pension related payables and deferred amounts	(51,065)	16,375
Claims for workers' compensation	(386)	(332)
Compensated absences	(159)	230
Net cash provided by operating activities	$ 204,773	$ 184,728

The accompanying notes are an integral part of the financial statements

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1. Summary of Significant Accounting Policies

Reporting Entity

The Airport System Fund (Fund), an enterprise fund of the City of Houston (City), is responsible for the operations, maintenance, and development of the City's Airport System. The Airport System consists of the George Bush Intercontinental Airport (Intercontinental), William P. Hobby Airport (Hobby) and Ellington Airport.

The Mayor and City Council members serve as the governing body that oversees operation of the Fund. The Fund is operated by the Houston Airport System (HAS) as a self-sufficient enterprise and is administered by the Houston Airport System Director, who reports to the City's Mayor.

The Fund is not financially accountable for any other operations, and accordingly, is accounted for as a single major enterprise fund with no component units. The Fund is included in the City's Comprehensive Annual Financial Report, which is a matter of public record.

Basis of Accounting

The City accounts for the Fund as a proprietary fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the City is that the cost of operations, including depreciation, be financed or recovered through user charges. The Fund is accounted for on a cost of services or "economic resources" measurement focus using the accrual basis of accounting, under which revenues are recognized in the accounting period in which they are earned and the related expenses are recorded in the accounting period incurred, if measurable. All assets and liabilities, deferred outflow/inflow of resources, current, noncurrent and capital are included on the statement of net position.

The financial statements presented in this report conform to the reporting requirements of the Governmental Accounting Standards Board (GASB) which establishes combined statements as the required level for governmental entities that present financial statements in accordance with generally accepted accounting principles. The Fund defines operating revenues as receipts from customers and other receipts that do not result from transactions defined as capital and related financing, non-capital financing, or investing activities. All other revenue is recognized as non-operating. The Fund defines operating expenses as personnel and supply costs, utilities and other charges for service, the purchase of furniture and equipment with a value of less than $5,000, and other expenses that do not result from transactions defined as capital or related financing, non-capital financing, or investing activities. All other expense is recognized as non-operating.

In June 2015, the GASB issued Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans". This statement will improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2016. The City and the Fund have implemented GASB No. 74 in this annual report.

In June 2015, the GASB issued Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". This statement will improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017. The City and the Fund are evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In August 2015, the GASB issued Statement No. 77, "Tax Abatement Disclosures". This statement will improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2015. The City has implemented GASB No. 77 and the Fund has no tax abatements.

1. **Summary of Significant Accounting Policies, continued:**

In December 2015, the GASB issued Statement No. 78, "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans". This statement will address a practice issue regarding the scope and applicability of Statement No. 68. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2015. The City and the Fund have implemented GASB No. 78 in this annual report.

In December 2015, the GASB issued Statement No. 79, "Certain External Investment Pools and Pool Participants". This statement will enhance comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2015. The City and the Fund have implemented GASB No. 79 in this annual report.

In January 2016, the GASB issued Statement No. 80, "Blending Requirements for Certain Component Units-an amendment of GASB Statement No. 14". This statement will enhance the comparability of financial statements among governments. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2016. The City has implemented GASB No. 80 and the Fund has no component units.

In March 2016, the GASB issued Statement No. 81, "Irrevocable Split-Interest Agreements". This statement will enhance the comparability of financial statements by providing accounting and financial reporting guidance for irrevocable split-interest agreements in which a government is a beneficiary. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2016. The City and the Fund are evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In March 2016, the GASB issued Statement No. 82, "Pension Issues". This statement will improve financial reporting by enhancing consistency in the application of financial reporting requirements to certain pension issues. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2016. The City and the Fund have implemented GASB No. 82 in this annual report.

In November 2016, the GASB issued Statement No. 83, "Certain Asset Retirement Obligations". This statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain ARO's, including obligations that may not have been previously reported. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2018. The City and the Fund are evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In January 2017, the GASB issued Statement No. 84, "Fiduciary Activities". This statement will enhance consistency and comparability for establishing specific criteria for identifying activities that should be reported as fiduciary activities and clarifying whether and how business-type activities should report their fiduciary activities. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2018. The City and the Fund are evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In March 2017, the GASB issued Statement No. 85, "Omnibus 2017". This statement will enhance consistency in the application of accounting and financial reporting requirements. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017. The City and the Fund are evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In May 2017, the GASB issued Statement No. 86, "Certain Debt Extinguishment Issues". This statement will increase consistency in accounting and financial reporting for debt extinguishments by establishing uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in a irrevocable trust for the purpose of extinguishing that debt were acquired. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2017. The City and the Fund are evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

1. **Summary of Significant Accounting Policies, continued:**

In June 2017, the GASB issued Statement No. 87, "Leases". This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2019. The City and the Fund are evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

Inventories of Material and Supplies

Inventories of material and supplies are valued at average cost and charged to expense as used. Fuel is carried at market/replacement cost.

Capital Assets

The Fund defines capital assets as assets with an initial cost of $5,000 or more. Acquired or constructed property is recorded at historical cost or estimated historical cost. Donated property is recorded at the acquisition value on the date received. Construction costs (excluding land and equipment) are added to construction work-in-progress until the assets are placed in service and are depreciated following completion. Depreciation on equipment begins in the year of acquisition. Interest costs on funds borrowed to finance the construction of capital assets are capitalized based on the weighted average interest rate of the outstanding debt applied to the average on-going construction in progress during the fiscal year. In the year ended June 30, 2017, $9.8 million in interest costs was capitalized. In the year ended June 30, 2016, $8.8 million in interest costs was capitalized.

Depreciation on Airport System buildings and improvements is computed using the straight-line method on the component asset base over the estimated useful life, ranging from fifteen (15) to forty-five (45) years. Depreciation on equipment is computed using the straight-line method over the estimated useful life, ranging from four (4) to fifteen (15) years. Depreciation on depreciable intangibles is computed using the straight-line method over a useful life that is dependent on the nature of the individual asset.

Passenger Facility Charges

The Federal Aviation Administration (FAA) approved a $3.00 passenger facility charge (PFC) per enplaned passenger to be used for the construction of FAA approved airport capital assets at George Bush Intercontinental (IAH) effective December 1, 2008 and at William P. Hobby Airport (HOU) effective November 1, 2006. On January 20, 2015, the FAA approved an amendment to the existing PFC at both IAH and HOU increasing the rate from $3.00 to $4.50 per enplaned passenger effective March 1, 2015. On April 20, 2016, a second PFC application was approved at HOU with an effective date of October 1, 2017 and provided FAA approval to use PFC's on additional capital assets at HOU most notably a new international facility and the existing Central Concourse. The airlines collect and remit this revenue, and the Fund records it as non-operating revenue. See Compliance Section for further information.

Compensated Absences

Full-time civilian employees of the City are eligible for 10 days of vacation leave per year. After four years, employees receive 15 days. The amount of vacation time gradually increases after that, reaching a maximum of 25 days per year after 18 years of service. Employees may accumulate up to 105 days of vacation leave (60 days for employees hired after December 31, 1999). However, upon termination or retirement, full-time employees are paid a maximum of 90 days of unused vacation leave (45 days for employees with a computation date after December 31, 1999) which is based on the average rate of pay during the employee's highest paid 60 days of employment. Part-time and temporary employees (those working less than 30 hours per week) are not eligible for vacation or sick leave benefits.

1. **Summary of Significant Accounting Policies, continued:**

Most full-time civilian employees are covered under the compensatory sick leave plan and receive a leave time allowance of 2.5 hours per payroll period (bi-weekly) up to a maximum of 65 hours per year. Employees who use fewer than 65 hours during the benefit year will receive a match of additional hours equal to the number of hours accrued minus the number of hours used. Once an employee's balance has reached 1,040 hours, no additional match for unused hours is given. Upon termination, all unused sick leave time allowances in excess of 1,040 hours are payable to the employee at the employee's rate of pay at the time of termination. An employee who uses less than 16 hours of sick leave in any benefit year receives up to three days of personal leave in the next year. Personal leave may be used in place of vacation leave, but will not accumulate and will not be paid out at termination. The other remaining full time civilian employees are covered by a sick plan that was closed to employees in 1985. That plan accumulates a cash value for every sick day not used, which is payable upon resignation or retirement.

The City also has adopted policies of compensatory time to comply with the Fair Labor Standards Act. These policies provide limits to the accumulation of compensatory time and also provide that time not used will be paid in cash. Only classified employees and civilian employees in certain pay grades routinely earn compensatory time.

Vacation and other compensatory time benefits are accrued as liabilities as the benefits are earned, to the extent that the City's obligation is attributable to employees' services already rendered, and it is probable that the City will compensate the employees for the benefits through paid time off or some other means, such as cash payments.

Bond Premiums, Discounts and Issuance Costs

Bond premiums and discounts and prepaid bond insurance in the Airport Fund are amortized over the term of the bonds using the effective interest method for fixed rate bonds and the straight-line method for variable rate bonds. Gains or losses on bond refunding are reported as net inflows or outflows and amortized over the term of the new bonds or the refunded bonds, whichever is lesser, using the same respective methods. Debt issuance costs are recognized as expense when incurred.

Statements of Net Position and Cash Flow – Cash and Cash Equivalents

All highly liquid securities with a maturity date of three months or less are considered to be cash equivalents.

Statements of Net Position – Contracts and Retainages Payable

The portion of the contracts and retainages payable which is attributable to the acquisition, construction, or improvement of capital assets is allocated and applied to net investment in capital assets.

Statements of Net Position – Net Position Classification

Net position is displayed in three separate categories: net investment in capital assets; restricted net position; and unrestricted net position, based on the accessibility of the underlying assets. Net investment in capital assets includes all capital assets, however acquired, including accumulated depreciation, and the outstanding debt and deferred inflows of resources used to finance the construction, acquisition, or improvement of capital assets.

Restricted net position includes assets, net of related liabilities, which are limited as to the manner in or purpose for which they may be used. Restrictions reported by the Fund are imposed either by other governments, as in grants or passenger facility charges, or through legally enforceable City ordinances, passed by City Council, which prioritize the use of Fund revenue as a protection to Airport System bondholders.

1. **Summary of Significant Accounting Policies, continued:**

Restricted net position – Restricted for debt service

This category includes net assets in the interest and sinking funds, debt service funds, and debt reserve funds that pay principal and interest for the Revenue Bonds, the Inferior Lien Contract, and the Special Facility Revenue Bonds (Consolidated Rental Car Facility Project). Unexpended Passenger Facility Charges are also included in this category, as they are primarily held, through agreements with the Federal Aviation Administration (FAA), for the repayment of capital financing.

Restricted net position – Restricted for maintenance and operations

This category primarily consists of a reserve fund dedicated to operating and maintenance expense, mandated by the various City ordinances which authorized the issuance of revenue and revenue refunding bonds. At fiscal year end, the reserve fund is required to hold a balance representing at least 60 days of operating expense, based on the annual operating budget authorized by City Council for the next fiscal year. At June 30, 2017, the net position restricted for maintenance and operations also included $3.1 million, Fund 8037, received under an agreement with the FAA, for the demolition of the IAH Traffic Control Tower and Terminal Radar Approach Control.

Restricted net position – Restricted for special facility

This category holds Customer Facility Charges dedicated to administrative costs and facility improvements for the Consolidated Rental Car Facility (CRCF). These funds are held by The Bank of New York Mellon Trust Company, under a trust indenture authorized by City Council in conjunction with the issuance of the Special Facility Revenue Bonds and Revenue Refunding Bonds (CRCF Project).

Restricted net position – Restricted for renewal and replacement

The Renewal and Replacement (R&R) Fund was created by the various City ordinances which authorized the issuance of airport revenue and revenue refunding bonds. The R&R Fund is intended to replace depreciable assets, and to make major repairs and renovations. Airport revenue is transferred to this fund if it is not needed for maintenance and operations, or for the debt service and reserve funds, or for the operating and maintenance reserve. The R&R fund can also be used for operations or debt service, if other funds are exhausted. If the R&R fund does not have a net position of at least $10 million at the end of a fiscal year, then additional revenue must be transferred in the next fiscal year. If the R&R fund has a net position that is greater than $10 million, then the excess is restricted for capital improvements.

Restricted net position – Restricted for capital improvements

This category consists primarily of the Airport Improvement Fund (AIF), created by the various City ordinances which authorized the issuance of revenue bonds. After maintenance and operating expenses are paid, and after all other transfers mandated by City ordinances are made, any net revenue remaining is required to be transferred to the AIF. The AIF is intended for capital expenditures, but it can also be used to cure deficiencies in the R&R fund. If the unappropriated AIF balance is (1) sufficient to cover the capital improvement program for 24 months, or (2) $50 million, whichever is greater, then the AIF may be used by the City for any lawful purpose not inconsistent with the terms of any Federal grants or aid or any contracts to which the City is a party. Net position restricted for capital improvements also includes grant or contract funds received from the FAA or Transportation Security Administration (TSA) for the construction or acquisition of capital assets. Unspent proceeds from debt issuance are included in this category, along with an allocated portion of the associated unpaid debt, if the debt was issued for capital construction, improvement, or acquisition.

1. **Summary of Significant Accounting Policies, continued:**

Net position – Unrestricted (deficit)

This category is defined as any portion of net position that is not classified as either net investment in capital assets or restricted net position. The Fund's Master Ordinance for the Issuance of Revenue Obligations requires that system revenue not used for specific defined purposes be restricted for capital improvement. Before the Fund's implementation of GASB No. 68, "Accounting and Financial Reporting for Pensions," the Fund defined compliance with the ordinance as the annual restriction of net revenue so that unrestricted net position would always be zero. The unrestricted deficit in net position on June 30, 2016 is the amount of the Fund's net pension liability that was not covered by Fund assets when the Fund implemented GASB No. 68 on July 1, 2014. The reduction in the unrestricted deficit in net position on June 30, 2017 is due to the passage of Texas Senate Bill 2190, which reduced the Fund's net pension liability. See Note 6 for further information.

2. **Deposits and Investments**

Deposits

The City's investment policy requires all deposits to be fully collateralized with depository insurance; obligations of the United States of America or its agencies and instrumentalities (excluding those mortgage backed securities prohibited by the Public Funds Investment Act); or in any other manner and amount provided by law for the deposits of the City. At all times, such securities should have a fair value of not less than 102% of the amount of the deposits collateralized thereby, adjusted by the amount of applicable depository insurance. There were no deposits with custodial risk at year end.

Pooled Cash and Investments

The City maintains a cash and investment pool that is available for use by all funds. The Fund's portion of this pool is displayed on the Statement of Net Position as "Pooled Cash and Investments." Participation in the Pool is limited to normal operating activities of the fund and other funds that are restricted because of statutory or contractual considerations, but does not include cash on hand (petty cash and change funds). Earnings from the Pool are allocated to the funds based upon each fund's average daily balance in the Pool. The Fund's balance in pooled and non-pooled accounts follows.

Fiscal Year	Pooled Cash and Cash Equivalents	Investments	Equity in Pooled Cash and Investments	Non-Pooled	Total Cash and Investments
2017	$ 171,328,365	$ 1,044,679,159	$ 1,216,007,524	$ 43,614,720	$ 1,259,622,244
2016	$ 87,241,303	$ 1,120,045,742	$ 1,207,287,045	$ 41,058,569	$ 1,248,345,614

The Airport Fund had petty cash and change funds totaling $5,450 included in the non-pooled cash at June 30, 2017 and June 30, 2016.

2. Deposits and Investments, continued:

Investments and Risk Disclosures

The following describes the investment positions of the City's operating funds as of June 30, 2017 and June 30, 2016. On these dates, the City had $3.6 billion and $3.5 billion, respectively, in high grade, fixed income investments. All investments are governed by state law and the City's Investment Policy, which dictates the following objectives, in order of priority:

1. Safety
2. Liquidity
3. Return on Investment
4. Legal Requirements

These funds are managed internally by City personnel within a City-wide investment pool. The investments listed below do not include the City's three pension funds, which are described separately in this report. This pool consists of all working capital, construction, and debt service funds which are not subject to yield restriction under IRS arbitrage regulations. The funds of the City's enterprise systems which include the Airport Fund, as well as the general fund, are commingled in this pool in order to gain operational efficiency. Approximately 98.3% of the City's total investable funds are contained in this portfolio on June 30, 2017 and June 30, 2016.

City of Houston Investment	(1)(2) FY2017 & FY2016 Credit Quality Ratings	June 30, 2017 Fair Value ($ in millions)	June 30, 2017 WAM* (years)	June 30, 2016 Fair Value ($ in millions)	June 30, 2016 WAM* (years)
U.S. Treasury Securities	N/A	$ 1,757.01	1.595	$ 1,733.99	1.303
Government Agency Securities (3)	AAA	999.72	1.522	963.71	1.402
Government Agency Securities (State of Israel Bond)	A+	4.98	1.173	-	-
Government Agency Securities (3) (4)	Not Rated	26.02	0.392	130.40	0.763
Government Mortgaged Backed Seurities (3) (4)	Not Rated	15.71	1.894	24.60	2.018
MMF - TexSTAR Cash Reserves	AAA Short Term	210.00	0.088	-	-
Commercial Paper	A-1+/P-1 Short Term	314.09	0.215	49.85	0.378
Municipal Securities	AAA Long Term	100.06	1.279	95.93	1.410
Municipal Securities	AA Long Term	195.64	1.230	210.45	1.202
Municipal Securities	A Long Term	8.78	1.681	-	-
Total Investments		**$ 3,632.01**	**1.332**	**$ 3,208.93**	**1.255**

* Weighted Average Maturity (WAM) is computed using average life of mortgage backed securities and effective maturity of callable securities.

(1) Fitch Ratings Inc. has assigned an AAA credit quality rating and V1 volatility rating to the City's General Investment Pool. The AAA signifies the highest level of credit protection, and the V1 rating signifies volatility consistent with a portfolio of government securities maturing from one to three years.

(2) All credit ratings shown are either actual Fitch ratings, or if a Fitch credit rating is not available, the equivalent Fitch credit rating is shown to represent the actual Moody's or Standard & Poor's credit rating.

(3) These are securities issued by government sponsored enterprises, including the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Corporation (Fannie Mae) and Federal Farm Credit Bank.

(4) These securities were issued by the Federal Home Loan Bank, Freddie Mac, Fannie Mae, and Farmer Mac. While these individual issues were not rated, senior lien debt of these entities is rated AAA.

2. **Deposits and Investments, continued:**

Risk Disclosures:

Interest Rate Risk. In order to ensure the ability of the City to meet obligations and to minimize potential fair value losses arising from rising interest rate environments, the City's investment policy limits this investment portfolio's dollar-weighted average maturity to 2.5 years maximum. As of June 30, 2017, this investment portfolio's dollar-weighted average maturity was 1.332 years. Modified duration was 1.306 years. Modified duration can be used as a multiplier to determine the percent change in price of a bond portfolio for every 100 basis point (1%) change in yield. For example, a portfolio with a modified duration of 1.306 years would experience approximately a 1.306% change in market price for every 100 basis point change in yield.

Credit Risk – Investments. The U.S. Treasury Securities and Housing and Urban Development Securities are direct obligations of the United States government. Government Agency Securities and Mortgage Backed Securities were issued by government sponsored enterprises but are not direct obligations of the U.S. Government. The Money Market Mutual Funds were rated AAA. Municipal Securities were rated at least AA-. The City's investment policy limits investments in the General Investment Pool to high quality securities with maximum maturity of five years for all U.S. Treasuries, Government Agency, and Municipal Securities with the exception of Government Mortgaged Backed Securities which can have maximum maturity of 15 years. Certificates of Deposit maximum maturity is two years, and Commercial Paper maximum maturity is 270 days. The General Investment Pool maximum sector exposure are as follow: U.S. Treasuries up to 100%; Government Agency Securities up to 85% with maximum exposure to any one Agency issuer is 35%; Mortgage Backed Securities up to 20%; Municipal Securities up to 20% with a rating not less than A by a nationally recognized rating agency; Certificates of Deposit up to 15%; and Commercial Paper up to 15%.

Credit Risk – Securities Lending. Under its securities lending program, the City receives 102% of fair value for its U.S. Treasury securities at the time the repurchase agreements are signed, and agreements are limited to 90 days by policy and have been less than 35 days by practice. At June 30, 2017 there were no securities lending agreements outstanding.

Custodial Credit Risk. The custodial credit risk for investments is the risk that in the event of failure of a counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are not registered in the name of the City, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. As of June 30, 2017, none of the City's investments in the General Investment Pool 9900 were subject to custodial credit risk.

Foreign Currency Risk. Foreign currency risk is the risk that investments will change value due to changes in exchange rates between time of purchase and reporting or sale. The City's general pool investments are limited by policy to US dollar denominated investments and not subject to this risk.

2. Deposits and Investments, continued:

A summary of the Pool's investment under the requirements of the fair value hierarchy follows:

Fair Value Measurements Using ($ in millions)

Investments by fair value level	Total June 30, 2017	Quoted prices (Level 1)	Other significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total June 30, 2016	Quoted prices (Level 1)	Other significant observable inputs (Level 2)
U.S. Treasury Securities	$ 1,757.01	$ 1,757.01	$ -	$ -	$ 1,733.99	$ 1,733.99	$ -
Government Agency Securities	1,025.74	-	1,025.74	-	1,094.11	-	1094.11
Government Agency Securities (State of Israel Bd)	4.98	-	-	4.98	-	-	-
Government Mortgaged Backed Seurities	15.71	-	15.71	-	24.60	-	24.60
Municipal Securities	304.48	-	304.48	-	306.38	-	306.38
Commercial Paper	314.09	-	314.09	-	49.85	-	49.85
Total Investments by Fair Value Level	$ 3,422.01	$ 1,757.01	$ 1,660.02	$ 4.98	$ 3,208.93	$ 1,733.99	$ 1,474.94
Investments measured at the net asset value (NAV)							
MMF - TexSTAR Cash Reserves	$ 210.00	-	$ 210.00	-	$ -	-	-
Total investments measured at the net asset value (NAV)	$ 210.00	-	$ 210.00	-	$ -		-
Total investments measured at fair value and NAV	$ 3,632.01	$ 1,757.01	$ 1,870.02	$ 4.98	$ 3,208.93	$ 1,733.99	$ 1,474.94

Security Valuation Disclosure

Debt securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique provided by third party custodians. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

TexSTAR uses the fair value method to report its investments. Under the fair value method, fixed income securities are valued each day by independent or affiliated commercial pricing services or third party broker-dealers. When sufficient market activity exists, the pricing services or broker-dealers may utilize a market-based approach through which quotes from market makers are used to determine fair value. In instances where sufficient market activity may not exist or is limited, the broker-dealers or pricing services also utilize proprietary valuation models which may consider market transactions in comparable securities and the various relationships between securities in determining value and/or market characteristics such as benchmark yield curves, option adjusted spreads, credit spreads, estimated default rates, coupon-rates, anticipated timing of principal repayments, underlying collateral, and other unique security features in order to estimate the relevant cash flows, which are then discounted to calculate the fair values.

2. Deposits and Investments, continued:

Restricted Cash and Cash Equivalents - Miscellaneous Money Market Accounts

In addition to its investment pools, the City maintains several money market accounts for various purposes. These accounts are considered cash and cash equivalents on the Statements of Cash Flows because they maintain a weighted average maturity of less than three months. The Airport's portion of these is as follows:

	FY2017 Credit Quality Ratings	Fair Value June 30, 2017 ($ in millions)	FY2016 Credit Quality Ratings	Fair Value June 30, 2016 ($ in millions)	FY2017 & FY2016 Weighted Average Maturity
Blackrock Federal Institutional Fund Balances held for Consolidated Rental Car Facility operations, improvements, debt service	AAA	$ 36.632	AAA	$ -	< 60 days
Blackrock Institutional Temporary Liquidity Fund: Balances held for Consolidated Rental Car Facility (CRCF) operations, improvements, debt service	AAA	$ -	AAA	$ 34.269	< 60 days
JP Morgan US Government Money Market Fund: Balances held for Airport System Special Facilities Revenue Bd Series 1997A debt service	AAA	6.594	AAA	6.590	< 60 days
JP Morgan US Treasury Securities Money Market Fund: Balances held for auction bonds debt service	AAA	0.376	AAA	0.189	< 60 days
First American US Treasury Money Market Fund: Balance held for commercial paper debt service	AAA	0.007	AAA	0.005	< 60 days
Total Fair Value - Money Market Accounts		**$ 43.609**		**$ 41.053**	

Risk Disclosures:

Interest Rate Risk. These money market funds maintain an average maturity of less than 60 days and seek to maintain a stable net asset value of $1.00. These funds are redeemable on a same day notice.

Credit Risk. These funds hold only US dollar denominated securities that present minimal credit risk. They have the highest credit ratings.

Custodial Credit Risk. As of June 30, 2017, none of the City's investments in this pool were subject to custodial credit risk.

Foreign Currency Risk. The City's investments in these accounts are all US dollar denominated and not subject to foreign currency risk.

A summary of investments under the requirements of the fair value hierarchy follows:

	Fair Value Measurements Using ($ in millions)					
Investments measured at the net asset value (NAV)	Total June 30, 2017	Quoted prices (Level 1)	Other significant observable inputs (Level 2)	Total June 30, 2016	Quoted prices (Level 1)	Other significant observable inputs (Level 2)
JP Morgan US Government MMF (Airport System Special Facilities Revenue Bd Series 1997A)	$ 6.594	$ -	$ 6.594	$ 6.590	$ -	$ 6.590
BlackRock FedFund-Institutional	36.632	-	36.632	34.269	-	34.269
JP Morgan US Treasury Securities MMF	0.376	-	0.376	0.189	-	0.189
First American US Treasury MMF	0.007	-	0.007	0.005	-	0.005
Total investments measured at the net asset value (NAV)	$ 43.609	$ -	$ 43.609	$ 41.053	$ -	$ 41.053

3. Capital Assets

Summaries of changes in fixed assets for the years ended June 30, 2017 and June 30, 2016 follow (in thousands):

	June 30, 2016	Additions	Retirements	Transfers	June 30, 2017
Capital assets not being depreciated :					
Land	$222,886	5,390	($12,649)	$452	$216,079
Rights & Intangibles - Non-Amortizable	9,752	-	-	(183)	9,569
Construction work in progress	174,942	105,020	-	(144,729)	135,233
Total capital assets not being depreciated	407,580	110,410	(12,649)	(144,460)	360,881
Other capital assets:					
Buildings and building improvements	2,900,383	296	-	70,271	2,970,950
Improvements other than buildings	2,072,293	3,451	-	69,436	2,145,180
Equipment	249,028	8,280	(576)	4,753	261,485
Rights & Intangibles - Amortizable	4,084	951	-	-	5,035
Total other capital asset	5,225,788	12,978	(576)	144,460	5,382,650
Less accumulated depreciation for:					
Buildings and building improvements	(1,227,227)	(101,538)	-	49	(1,328,716)
Improvements other than buildings	(1,259,750)	(68,217)	-	(20)	(1,327,987)
Equipment	(186,464)	(14,403)	576	(29)	(200,320)
Rights & Intangibles	(1,463)	(1,613)	-	-	(3,076)
Total accumulated depreciation	(2,674,904)	(185,771) *	576	-	(2,860,099)
Other capital assets, net	2,550,884	(172,793)	-	144,460	2,522,551
Total Capital assets, net	$2,958,464	($62,383)	($12,649)	-	$2,883,432

	June 30, 2015	Additions	Retirements	Transfers	June 30, 2016
Capital assets not being depreciated :					
Land	$220,626	-	($776)	$3,036	$222,886
Rights & Intangibles - Non-Amortizable	9,387	-	-	365	9,752
Construction work in progress	236,163	213,242	-	(274,463)	174,942
Total capital assets not being depreciated	466,176	213,242	(776)	(271,062)	407,580
Other capital assets:					
Buildings and building improvements	2,703,195	117	-	197,071	2,900,383
Improvements other than buildings	2,009,275	514	-	62,504	2,072,293
Equipment	233,321	5,865	(1,056)	10,898	249,028
Rights & Intangibles - Amortizable	2,411	907	-	766	4,084
Total other capital asset	4,948,202	7,403	(1,056)	271,239	5,225,788
Less accumulated depreciation for:					
Buildings and building improvements	(1,128,938)	(98,289)	-	-	(1,227,227)
Improvements other than buildings	(1,194,454)	(65,296)	-	-	(1,259,750)
Equipment	(171,671)	(15,661)	1,045	(177)	(186,464)
Rights & Intangibles	(1,311)	(152)	-	-	(1,463)
Total accumulated depreciation	(2,496,374)	(179,398)	1,045	(177)	(2,674,904)
Other capital assets, net	2,451,828	(171,995)	(11)	271,062	2,550,884
Total Capital assets, net	$2,918,004	$41,247	($787)	-	$2,958,464

Interest Cost: (in thousands)	FY2017	FY2016	Percentage Change
Total Interest Cost	$ 97,271	$ 94,999	2.4%
Capitalized Interest	(9,789)	(8,787)	11.4%
Interest Expense	$ 87,482	$ 86,212	1.5%

* The $185.771 million addition to accumulated depreciation differs from the $184.203 million depreciation expense reflected on the Statements of Revenues, Expenses, and Changes in Net Position because of an adjustment for found buildings and improvements that was recorded at book value which increased accumulated depreciation but did not affect current year depreciation.

HAS retired $12,649,049.34 of land due to the sale of 147 acres and the write-down of a Bahr Woods preserve mitigation easement originally recorded as land. The Bahr Woods easement is entrusted to Legacy Land Trust, and Houston Airport System has no obligation or duty to the asset.

Construction in progress decreased 22% from FY16 to FY17 due to completion of the Hobby Parking Garage, Satellite Utility Plant and Advance Surveillance Program, and delays on other major projects, including construction of the Program Management Office Building and a restoration project on Taxiway WB.

4. **Leases**

A. The Fund as Lessee

The Airport System has obtained equipment through long-term operating leases. The total cost for such leases was $263,826 for the year ended June 30, 2017.

B. The Fund as Lessor

The Airport System is the lessor of approximately ten percent of its land and substantially all of its buildings and improvements. These lease agreements are non-cancelable operating leases with fixed minimum rentals and non-cancelable operating use and lease agreements with annually adjusted rates. Rental income is earned from leasing various parcels of land with asset costs of $21,607,879 to airlines, fixed base operators and various corporations for hangars, aircraft maintenance facilities, flight kitchens and cargo buildings; to auto rental companies for their service facilities and storage lots; and to a variety of other entities for buildings and other permanent improvements. Airlines and airport concessionaires lease various sections of City owned airport buildings and improvements for ticket counters, passenger hold rooms, baggage carousels, restaurants, retail stores and other facilities. Leased buildings, improvements and equipment have asset costs of $5,377,614,428 and carrying costs of $2,517,515,592. Accumulated depreciation on all these assets is $2,860,098,836.

Minimum guaranteed income on such non-cancelable operating leases is as follows (in thousands):

Year Ending June 30	Minimum Rental Income
2018	$ 72,261
2019	72,036
2020	70,936
2021	60,131
2022	56,360
2023-2027	233,380
2028-2032	66,245
2033-2037	52,837
2038-2042	52,211
2043-2047	40,878
2048-2052	39,403
2053-2055	11,377
Total	$ 828,055

Contingent income associated with these non-cancelable operating leases was approximately $10,697,316 and $10,047,554 for the years ended June 30, 2017 and 2016, respectively. Contingent income is earned when a concessionaire's payment, based on a percentage of sales, is higher than the minimum amount guaranteed to the Airport System under the terms of the lease. In addition, income is earned from certain non-cancelable operating use and lease agreements for landing fees and terminal building rentals. Such income is adjusted annually based on a compensatory formula to recover certain operating and capital costs of the related facilities. Compensatory income for the years ended June 30, 2017 and 2016 is as follows (in thousands):

	Compensatory Income	
	2017	2016
Landing Fees	$ 86,966	$ 89,505
Terminal Space – Airline	194,191	189,568
	$ 281,157	$ 279,073

5. Long-Term Liabilities

Changes in long-term liabilities for the years ended June 30, 2017 and 2016 are summarized as follows (in thousands):

	Balance June 30, 2016	Additions	Retirements/ Transfers	Balance June 30, 2017	Amounts Due within One Year
Revenue bonds payable	$ 2,085,075	$ -	$ (74,665)	$ 2,010,410	$ 77,855
Plus unamortized premium	68,118	-	(6,816)	61,302	-
Less unamortized discount	(3,016)	-	299	(2,717)	-
Revenue bonds payable, net	2,150,177	-	(81,182)	2,068,995	77,855
Inferior lien contract	12,155	-	(5,915)	6,240	6,240
Special facility bonds payable	96,895	-	(5,305)	91,590	5,490
Commercial paper payable	87,000	-	-	87,000	-
Pension obligation bonds	2,006	-	-	2,006	-
Note payable	120,439	-	(5,018)	115,421	5,018
Claims for workers compensation	1,805	390	(776)	1,419	777
Compensated absences	12,780	9,849	(10,008)	12,621	6,367
Net pension liability payable	282,811	-	(28,391)	254,420	-
Other post employment benefits	70,203	4,454	-	74,657	-
Total long-term liabilities	$ 2,836,271	$ 14,693	$ (136,595)	$ 2,714,369	$ 101,747

	Balance June 30, 2015	Additions	Retirements/ Transfers	Balance June 30, 2016	Amounts Due within One Year
Revenue bonds payable	$ 2,150,805	$ -	$ (65,730)	$ 2,085,075	$ 74,665
Plus unamortized premium	75,141	-	(7,023)	68,118	-
Less unamortized discount	(3,316)	-	300	(3,016)	-
Revenue bonds payable, net	2,222,630	-	(72,453)	2,150,177	74,665
Inferior lien contract	17,760	-	(5,605)	12,155	5,915
Special facility bonds payable	102,055	-	(5,160)	96,895	5,305
Commercial paper payable	49,500	37,500	-	87,000	87,000
Pension obligation bonds	2,006	-	-	2,006	-
Note payable	-	123,785	(3,346)	120,439	5,018
Contract payable - Southwest Airlines	111,620	-	(111,620)	-	-
Claims for workers compensation	2,137	535	(867)	1,805	868
Compensated absences	12,550	9,912	(9,682)	12,780	5,945
Net pension liability payable	248,348	34,463		282,811	-
Other post employment benefits	65,161	5,042	-	70,203	-
Total long-term liabilities	$ 2,833,767	$ 211,237	$ (208,733)	$ 2,836,271	$ 184,716

Purpose of Debt

The Fund issues revenue bonds and commercial paper for the purpose of enlarging, maintaining and improving the Houston Airport System. The Fund has issued refunding bonds from time to time when there has been an economic gain. These refundings have been structured as legal defeasances of the old debt as ruled by the Texas Attorney General, and such debt has been removed from the Fund's books.

5. Long-Term Liabilities, continued:

Debt Service Requirements to Maturity

Aggregate future Airport system debt service payments to maturity as of June 30, 2017 were as follows (in thousands):

Year Ending June 30	Airport System Total Future Requirements Principal	Interest	Total
2018	$ 94,603	$ 100,467	$ 195,070
2019	89,253	96,418	185,671
2020	99,303	92,365	191,668
2021	92,443	88,042	180,485
2022	200,528	82,907	283,435
2023-2027	615,472	327,659	943,131
2028-2032	734,379	176,816	911,195
2033-2037	282,341	48,318	330,659
2038-2042	104,345	8,200	112,545
Total	$ 2,312,667	$ 1,021,192	$ 3,333,859

Year Ending June 30	Airport System Note - Southwest Airlines Principal	Interest
2018	$ 5,018	$ 2,528
2019	5,018	2,418
2020	5,018	2,308
2021	5,018	2,198
2022	5,018	2,088
2023-2027	25,092	8,792
2028-2032	25,092	6,045
2033-2037	25,092	3,297
2038-2042	15,055	659
Total	$ 115,421	$ 30,333

Year Ending	Airport System Senior Lien Revenue Bonds		Airport System Subordinate Lien Revenue Bonds		Airport System Commercial Paper	
June 30	Principal	Interest	Principal	Interest	Principal	Interest
2018	$ 10,225	$ 22,613	$ 67,630	$ 68,271	$ -	$ 1,502
2019	10,735	22,089	67,785	65,133	-	1,502
2020	11,275	21,538	77,050	61,870	-	1,504
2021	11,835	20,961	69,350	58,396	-	1,502
2022	12,430	20,354	88,575	54,818	87,000	850
2023-2027	72,120	91,553	469,835	212,030	-	-
2028-2032	92,385	70,628	603,380	98,864	-	-
2033-2037	120,350	41,811	136,160	3,131	-	-
2038-2042	89,290	7,541	-	-	-	-
Total	$ 430,645	$ 319,088	$ 1,579,765	$ 622,513	$ 87,000	$ 6,860

Year Ending	Airport System Inferior Lien Contract		Airport System Special Facility Bonds - Rental Car Facility		Airport System Pension Obligations	
June 30	Principal	Interest	Principal	Interest	Principal	Interest
2018	$ 6,240	$ 171	$ 5,490	$ 5,275	$ -	$ 107
2019	-	-	5,715	5,170	-	106
2020	-	-	5,960	5,038	-	107
2021	-	-	6,240	4,878	-	107
2022	-	-	7,505	4,691	-	106
2023-2027	-	-	48,425	14,752	-	532
2028-2032	-	-	12,255	843	1,267	436
2033-2037	-	-	-	-	739	79
Total	$ 6,240	$ 171	$ 91,590	$ 40,647	$ 2,006	$ 1,580

5. Long-Term Liabilities, continued:

Revenue bonds payable at June 30, 2017 and 2016 (in thousands):

	Maturity Year	Original Interest Rate Range	Face Value Outstanding June 30, 2017	Face Value Outstanding June 30, 2016
Airport System Subordinate Lien Revenue Bonds:				
Series 2000B, $269,240,000 original principal	2030	5.45%-5.7%	$ 44,515	$ 44,515
Series 2002A, $200,050,000 original principal	2032	5%-5.625%	20,005	20,005
Series 2002B, $274,455,000 original principal	2032	5%-5.5%	27,450	27,450
Periodic Auction Reset Securities				
Series 2000P-1, $50,000,000 original principal	2030	N/A	34,100	37,275
Series 2000P-2, $50,000,000 original principal	2030	N/A	33,875	35,425
Auction Rate Securities				
Series 2002C, $100,000,000 original principal	2032	N/A	76,875	79,425
Series 2002D-1, $75,000,000 original principal	2032	N/A	55,800	58,400
Series 2002D-2, $75,000,000 original principal	2032	N/A	53,825	56,400
Airport System Subordinate Lien Revenue Refunding Bonds:				
Series 2007B, $298,670,000 original principal	2032	4%-5%	274,315	278,390
Series 2011A, $449,975,000 original principal	2026	3%-5%	283,580	319,795
Series 2011B, $116,930,000 original principal	2026	3%-5%	82,040	90,985
Series 2012A, $286,585,000 original principal	2032	5%	283,545	286,585
Series 2012B, $217,135,000 original principal	2032	5%	217,135	217,135
Variable Rate Debt Obligations				
Series 2010, $93,730,000 original principal	2030	N/A	92,705	92,905
Airport System Senior Lien Revenue and Refunding Bonds:				
Series 2009A, $449,660,000 original principal	2039	5%-5.5%	430,645	440,385
Total principal			$ 2,010,410	$ 2,085,075
Less: Total current maturities			(77,855)	(74,665)
Unamortized discount			(2,717)	(3,016)
Unamortized premium			61,302	68,118
Total revenue bonds payable - long term			$ 1,991,140	$ 2,075,512

5. **Long-Term Liabilities, continued:**

Security for Airport Debt

To the extent it legally may do so, the Fund covenants in its bond ordinances to charge rates for use of the Airport System in order that in each fiscal year the net revenues will be not less than 125% of the debt service requirements for Senior Lien Bonds for such fiscal year and 110% of the debt service requirements for Subordinate Lien Bonds for such fiscal year. Generally, the bonds may be redeemed prior to their maturities in accordance with the bond ordinances and at prices which include premiums ranging downward from 1%.

The Fund presently has three outstanding Senior Lien Debt Service Reserve Fund Surety Policies issued by Financial Guaranty Insurance Corporation (FGIC) and reinsured by National Public Finance Guarantee Corporation for any outstanding Senior Lien Notes. These policies have an aggregate maximum amount of $12,374,996 and terminate on October 25, 2023 and July 1, 2030. Using proceeds of the Series 2009A Bonds, the Fund has also deposited $33,095,994 into the Senior Lien Bond Reserve Fund.

The Fund has purchased Subordinate Lien Debt Service Reserve Fund Surety Policies that unconditionally guarantee the payment of the current principal and interest on all outstanding Airport System subordinate lien issues. The surety policies terminate on dates ranging from July 1, 2017 to July 1, 2032. Each of the draws made against the surety policies shall bear interest at the prime rate plus two percent, not to exceed a maximum interest rate of 12%. The repayment provisions require one-twelfth of the policy costs for each draw to be repaid monthly, beginning the first month following the date of each draw. The policies were issued by (1) FGIC in the aggregate maximum amount of $108,444,369, reinsured by National Public Finance Guarantee Corporation; (2) Assured Guarantee Municipal Corporation in the aggregate maximum amount of $31,921,384; and (3) Syncora Guarantee in the aggregate maximum amount of $15,756,228. While the Syncora policies are still active, the Fund has made a supplemental cash deposit of $15,756,228 in the Subordinate Lien Bond Reserve Fund.

Airport System Inferior Lien Contract

On July 1, 2004 the City and United Airlines, formerly Continental Airlines, Inc., entered into a Sublease Agreement associated with the Special Facilities Lease for the Automated People Mover System and the City's Airport System Special Facilities Revenue Bonds (Automated People Mover Project) Series 1997A (1997A Special Facilities Bonds). The City assumed United Airlines' interest in the project upon completion of the expansion of the Automated People Mover System on January 25, 2005. As part of the Sublease, the City agreed to make sublease payments that include amounts equal to the debt service on the 1997A Special Facilities Bonds. The payments are payable from Airport System net revenues on the same priority as inferior lien bonds. Accordingly, the principal amount remaining on the 1997A Special Facilities Bonds, totaling $6,240,000 at June 30, 2017, is recorded as an Inferior Lien Contract. The 1997A Bonds will reach final maturity on July 15, 2017.

Variable Rate Debt

The Fund has issued variable rate debt in Airport System Subordinate Lien Revenue Bonds Series 2000P-1 and Series 2000P-2. They were issued as auction reset securities with Series 2000P-1 to be auctioned every 7 days, and Series 2000P-2 to be auctioned every 28 days. On July 20, 2005, Series P-2 changed to being auctioned every 7 days. The rate in effect at June 30, 2017, including dealer and auction fees, was 2.5785% for Series 2000P-1 and 2.5175% Series 2000P-2. Additional variable rate debt was issued as Series 2002C, Series 2002D-1, and Series 2002D-2 as auction rate securities to be auctioned every 35 days. These changed to being auctioned every 7 days as of August 10, 2005, August 3, 2005, and July 13, 2005, respectively. Rates in effect at June 30, 2017, including dealer and auction fees, were 2.507% for Series 2002C and Series 2002D-1, and 2.495% also for Series 2002D-2. Starting in February 2008, various auction rate securities began, and continue, to not be remarketed. Auction rate bonds that cannot be sold remain with the bondholder.

However, if the auction is not successful, the rate is reset based on predetermined formulae which include the rating of the insurer, or the underlying rating of the Fund if it is higher than the insurer's rating. The formula for the Series 2000P-1 and Series 2000P-2 was 125% of the commercial paper rate until July 30, 2009, 150% until April 16, 2010 and 200% thereafter. The formula for the Series 2002C, Series 2002D-1, and Series 2002D-2 is 200% of LIBOR.

5. **Long-Term Liabilities, continued:**

Additional variable rate debt was issued as Series 2005A as variable rate demand obligations with a weekly reset. Series 2005A was refunded by Series 2010 on December 21, 2010. Series 2010 is also a variable rate demand obligations issue with a weekly reset. The rate in effect at June 30, 2017, including remarketing fees, was 1.00%. Should Series 2010 be tendered and not remarketed, principal and interest will be paid by a letter of credit issued by Barclay's Bank, PLC, expiring on December 22, 2017 unless extended or terminated. The letter of credit covers the outstanding par value of the bonds plus 35 days accrued interest at a 12% annual rate. The facility fee rate for the letter of credit is .425%. The Fund has made no draws on the letter of credit through June 30, 2017. Because the Series 2010 Bonds were issued as multi-modal bonds, the Houston Airport System can elect to convert the Bonds into long-term fixed rate bonds that would not require a letter of credit.

Arbitrage Rebate

Arbitrage rebate rules, under Chapter 148 of the Federal Tax Code, require generally that a tax-exempt bond issuer pay to the federal government any profit made from investing bond proceeds at a yield above the bond yield, when investing in a taxable market. Payments based on cumulative profit earned by bonds are due, in general, every five years. During Fiscal Year 2017, the Airport Fund paid $1,682 of arbitrage rebate on interest income earned by commercial paper notes. At June 30, 2017 and June 30, 2016, yield restriction and arbitrate rebate payable by the Airport Fund was $0 and $0, respectively.

Commercial Paper

Airport System Commercial Paper Notes (Notes) were originally authorized for $150 million for Series A and B and $150 million for Series C to establish, improve, enlarge, and extend the Houston Airport System, acquire land, and pay interest on the Notes. Between July 1, 2013 and December 20, 2013, Series A and B were collateralized by a direct pay letter of credit issued by Bank of America, N.A. On November 20, 2013, the City re-authorized and amended the Series A and B Notes. A new direct pay letter of credit was issued by the Royal Bank of Canada on December 18, 2013, covering $150 million in face value plus $11.1 million in respect of 270 days accrued interest computed at 10%. This letter of credit expired on December 16, 2016 and was replaced by a letter of credit for the same amount issued by Sumitomo Mitsui Banking Corporation, which will expire on December 15, 2021. On June 30, 2017 and June 30, 2016 there were $87.0 million in Series A Notes outstanding.

Forward Delivery Bond Purchase Agreement

On October 21, 2015, the City terminated its authorization for the $150 million Series C Commercial Paper Notes, and instead authorized the issuance of $450 million in Airport System Inferior Lien Revenue Bonds in one or more series. The City also authorized the execution of a forward delivery bond purchase agreement. This authorization is valid until October 21, 2017 unless extended by a separate City Council action. Please refer to Note 12, titled "Subsequent Events". On November 5, 2015, The City executed a forward delivery bond purchase agreement for the issuance of up to $450 million of Airport System Inferior Lien Revenue Bonds with the Royal Bank of Canada. The agreement expires on November 5, 2022. No bonds have been issued as of June 30, 2017.

Pledged Revenues

The Fund has pledged airport system revenues, net of operation and maintenance expenses, to pay principal and interest on outstanding Senior Lien Commercial Paper Notes, Senior Lien Revenue Bonds, Subordinate Lien Revenue Bonds, and an Inferior Lien Contract, with outstanding principal amounts of $87.0 million, $430.2 million, $1,638.8 million and $6.2 million respectively at June 30, 2017. The Commercial Paper Notes and Revenue Bonds are issued to establish, improve, enlarge, extend and repair the Airport System. The Inferior Lien Sublease Agreement with United Airlines pays debt service on the Airport System Special Facilities Bonds, (Automated People Mover Project) Series 1997A.

Pledged airport system revenues exclude: proceeds of any bonds, replacement proceeds, or any investment income earned by bond proceeds; fair value adjustments to investment income; passenger facility charges; grants or gifts for construction or acquisition; insurance proceeds; revenue from special facilities pledged to Special Facility Bonds; taxes collected for others; and proceeds from the sale of property. Pledged airport system revenues, net of operation and maintenance expense, totaled $256.0 million in Fiscal Year 2017, covering principal of $82.7 million and interest of $92.3 million. In addition to pledged airport system revenue, passenger facility charges totaling $54.7 million were available to pay debt service in Fiscal Year 2017, making the ratio of net pledged revenue to cover debt service costs 2.13%.

5. Long-Term Liabilities, continued:

Special Facility Bonds

The Airport System Special Facilities Taxable Revenue Bonds, (Consolidated Rental Car Facility Project), Series 2001, original par value $130,250,000, financed the design and construction at Intercontinental of a common car customer service building, a parking structure, maintenance, storage and administrative facilities for each car rental company lessee, a common bus fleet and maintenance facility, and related infrastructure. The City holds legal title to the completed Consolidated Rental Car Facility ("CRCF"), as it was constructed on airport property, but the facility is operated and maintained by IAH RACS, LLC, a limited liability company formed by various car rental companies. The bonds are payable from customer facility charges collected by the car rental companies from their customers and remitted to a trustee for payment of debt service and other uses allowable by a trust indenture. As of June 30, 2017, the daily usage charge per customer is set at $4.00. The trust indenture determines when and how the City is responsible for changing the rate. The bonds are limited special obligations of the City, payable solely from and secured by pledged customer facility charges. There is no pledge of the car rental companies' revenues, or against any general revenue of the City or Fund.

On September 4, 2014, the City issued $38,225,000 in Airport System Special Facilities Taxable Revenue Refunding Bonds (Consolidated Rental Car Facility Project), Series 2014, at coupons ranging from 6.49% to 7.13%. The stated interest rate was 3.117%. The bonds mature in varying amounts from 2015 to 2021. Proceeds of the bonds were used to refund $37,245,000 of the City's outstanding Airport System Special Facilities Taxable Revenue Bonds (CRCF), Series 2001, and to pay costs of issuance. Net present value saving related to the refunded bonds totaled $5,078,199 or 13.63% of the refunded bonds and reduced total debt service by $6,110,108. The bonds are limited special obligations of the City, payable solely from and secured by pledged customer facility charges. These bonds do not constitute a debt or pledge of the faith or credit of the City or the Fund.

In reporting periods prior to FY2015, the Airport Fund elected not to report the CRCF facility or the Special Facility Revenue Bonds (CRCF) on its financial statements, under the Governmental Accounting Standards Board guidance for conduit debt obligations. Beginning in the fiscal year ended June 30, 2015, the Airport Fund elected to change its method of accounting, and to report the CRCF assets, revenues, and associated debt and expenses, with retroactive adjustments on comparative data. At June 30, 2017 and June 30, 2016, special facilities revenue and refunding bonds (CRCF) outstanding totaled $91.6 million and $96.9 million, respectively.

Note Payable

In February, 2013, the City entered into a contract with Southwest Airlines Co. ("Southwest") under which Southwest would construct five international gates, a Federal Inspection Service Facility, and associated enabling projects (the "Project") at William P. Hobby Airport. Southwest was responsible for the initial funding of all costs of the Project including any related financing costs, but title to the Project was passed to the City at each point in construction. During construction, the Airport Fund has recorded Southwest's cost of construction in process as a long term contract payable, with a balance of $111,620,000 on June 30, 2015. The Airport Fund has no responsibility for any financing costs of the Project that may have been incurred by Southwest. The new gates and facility opened on October 15, 2015.

At any time after final completion of the Project, the City has the right to pay off Southwest's note payable for the unamortized costs of the Project, calculated at an annual amortization rate equal to 2.19% over a 25-year period, with final maturity at June 30, 2040. Should the City pay off Southwest's note payable, Southwest will then be responsible for the payment of its share of the Airport Fund's capital cost through rates and charges on the new facilities. As long as the City does not pay off Southwest's note payable for the facilities, then the Airport Fund will record a note payable to Southwest for the unamortized costs of the Project. Southwest will be invoiced monthly using rates that will recover operation and maintenance expenses. Southwest will also be invoiced monthly for the capital cost amortization of the facilities, but a corresponding credit memo will be issued to offset the capital invoice. Capital costs charged to other user airlines will be remitted to Southwest. The Airport Fund has recorded the initial note payable on October 15, 2015 as $123,785,000, with $115,421,000 still outstanding on June 30, 2017.

6. Defined Benefit Pension Plan

As a department of the City, the Houston Airport System Fund participates in the pension plan of the City of Houston's municipal employees, for which separately published financial statements are available. Since the plan does not separately account for the Fund, the following disclosures, as well as those in Note 7, generally relate to the City as a whole. A complete copy of the summary plan description and the stand-alone financial reports can be obtained from the Houston Municipal Employees Pension System at 1201 Louisiana St., Suite 900, Houston, Texas 77002-2555 or via http://hmeps.org.

Plan Description

The Houston Municipal Employees' Pension System (HMEPS) of the City is a single employer defined benefit pension plan that covers all eligible municipal employees, including all employees of the Fund. This pension plan was established under the authority of Texas statutes (Vernon's Texas Civil Statutes, Article 6243g), which establish the various benefit provisions. An independent Board of Trustees administers each plan. The fiscal year of each pension fund ends June 30. In this CAFR, the Fund reports separately from the City and is required to report as a cost-sharing plan since it is allocated a proportionate share of the Houston Municipal Employees Pension System liability. The schedules of Net Pension Liability, Pension Expense, and Deferred Outflows and Inflows of Resources show the Fund's cost share of the City's plan.

Benefits Provided

The Houston Municipal Employees' Pension System includes a contributory group and two noncontributory groups and provides for service-connected disability and death benefits to eligible members and surviving spouse and/or dependents, with no age or service eligibility requirements. Pension benefits are based on a participant's average monthly salary and years of debited service, as defined in the Pension Statute. Pension benefits are adjusted annually for a fixed cost of living adjustment of 3% for eligible recipients. The maximum pension benefit is 90% of the participant's average monthly salary. A Deferred Retirement Option Plan (DROP) is available to eligible members.

Contributions

For the Houston Municipal Employees' Pension System, employer and employee obligations to contribute, as well as employee contribution rates, are included in the enabling pension statutes, and some requirements are delineated in an amended and restated meet and confer agreement, effective July 1, 2011. Additionally, these laws provide that employer funding be based on periodic actuarial valuations, statutorily approved amounts or, in the cases of the Municipal Employees' Pension System, amounts agreed to in meet and confer agreements. The employer contribution rate is a percentage of base salary which was 29.36% for fiscal year 2017 and 27.6% for fiscal year 2016. All pension plans provide service, disability, death, and survivor benefits. In addition, each pension plan recognizes participant and employer contributions as revenues in the period in which they are due pursuant to formal commitments and recognizes benefits and refunds when they are due and payable in accordance with the terms of the pension statutes.

As of most recent measurement date of the net pension liability, membership data for the pension plan are as follows:

Retirees and beneficiaries currently receiving benefits	10,289
Former members entitled to benefits but not yet receiving them	3,432
Former members - not entitled to benefits	2,174
Active members:	
Vested	7,966
Non-vested	4,137
Total participants	27,998

6. Defined Benefit Pension Plan, continued:

Net Pension Liability

The Airport System Fund's liability for the net pension liability in the City's pension plan was allocated and reported on the statement of net position.

The "Net Pension Liability" (NPL) is the difference between the "Total Pension Liability" (TPL) and the plan's "Fiduciary Net Position" (FNP). The TPL is the present value of pension benefits that are allocated to current members due to past service by entry age normal actuarial cost method. The TPL includes benefits related to projected salary and service, and automatic cost of living adjustments (COLA's). In addition, ad hoc COLA's are also included in the TPL to the extent they are substantively automatic. The FNP is determined on the same basis used by the pension plans. The City's net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. A schedule of Net Pension Liability, in addition to the information above, includes multi-year trend information (beginning with FY 2015) and is presented in the Required Supplementary Information section.

Net Pension Liability (in thousands)

Measurement Date	June 30, 2017		June 30, 2016	
	Municipal Employees' Pension	The Fund's proportionate share of NPL	Municipal Employees' Pension	The Fund's proportionate share of NPL
Total Pension Liability	$ 4,959,510	$ 535,376	$ 5,034,390	$ 540,464
Fiduciary Net Position	(2,602,665)	(280,956)	(2,400,023)	(257,653)
Net Pension Liability	$ 2,356,845	$ 254,420	$ 2,634,367	$ 282,811

The Fund's proportionate percentage of NPL is 10.79% and 10.74% for fiscal years 2017 and 2016.

Schedule of Changes in Net Pension Liability (in thousands)

	June 30, 2017			June 30, 2016		
	Total Pension Liability	Plan Fiduciaty Net Position	Net Pension Liability	Total Pension Liability	Plan Fiduciaty Net Position	Net Pension Liability
Service Cost	$ 75,961	$ -	$ 75,961	$ 68,968	$ -	$ 68,968
Interest on the Total Pension Liability	331,166	-	331,166	379,781	-	379,781
Benefit Changes	(724,683)	-	(724,683)	-	-	-
Difference between Expected and Actual Experience	(38,387)	-	(38,387)	(16,194)	-	(16,194)
Employer Contributions	-	182,558	(182,558)	-	159,958	(159,958)
Employees Contributions	-	15,902	(15,902)	-	15,874	(15,874)
Pension Plan Net Investment Income	-	290,911	(290,911)	-	27,639	(27,639)
Assumptions Changes	562,237		562,237	91,248	-	91,248
Benefit Payments	(280,456)	(280,456)	-	(253,178)	(253,178)	-
Refunds	(718)	(718)	-	(1,105)	(1,105)	-
Administrative Expense	-	(6,827)	6,827	-	(7,360)	7,360
Other	-	1,272	(1,272)	-	1,651	(1,651)
Net Change	(74,880)	202,642	(277,522)	269,520	(56,521)	326,041
Net Pension Liability Beginning	5,034,390	2,400,023	2,634,367	4,764,870	2,456,544	2,308,326
Net Pension Liability Ending	$ 4,959,510	$ 2,602,665	$ 2,356,845	$ 5,034,390	$ 2,400,023	$ 2,634,367

6. **Defined Benefit Pension Plan, continued:**

Pension Expense

For the years ended June 30, 2017 and June 30, 2016, the City recognized pension expense as follows (in thousands):

	June 30, 2017	June 30, 2016
Changes for the year:		
Service Cost	$ 75,961	$ 68,969
Interest	331,166	379,781
Difference between Expected and Actual Experience	141,691	12,616
Differences between Projected and Actual Earnings on plan investments	32,011	57,210
Member Contributions	(15,902)	(15,874)
Net Investment Income	(164,912)	(193,157)
Administrative Expense	6,827	7,360
Assumption Changes	(724,683)	-
Other	(1,272)	(1,651)
Total Pension Expense	$ (319,113)	$ 315,254

The Fund's proportionate shares of pension expenses are ($32.6) million and $33.3 million for June 30, 2017 and June 30, 2016, respectively.

Schedule of Deferred Outflows and Inflow of Resources

Deferred outflows of resources and deferred inflows of resources by source reported by the Fund at June 30, 2017 and June 30, 2016 (in thousands).

	June 30, 2017		June 30, 2016	
	Deferred Outflows of Resources	Deferred Inflow of Resources	Deferred Outflows of Resources	Deferred Inflow of Resources
Differences between expected actual experience	$ -	$ 4,487	$ -	$ 2,526
Changes of assumptions	-	-	7,286	-
Employers contribution subsequent to measurment date	-	-	265	-
Net difference between projected and actual earnings on pension plan investments	53,848	-	21,662	-
Total	$ 53,848	$ 4,487	$ 29,213	$ 2,526

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at June 30, 2017 for the Fund will be recognized in pension expense as follows (in thousands):

Year ended June 30:	
2018	$ 18,099
2019	18,681
2020	14,420
2021	(1,839)
2022	-
Thereafter	-
Total	$ 49,361

6. Defined Benefit Pension Plan, continued:

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability for Municipal Employees' Pension plan, calculated using the current discount rate, as well as what the Fund's net pension liability would have been if they were calculated using a discount rate that is 1-percent-point lower and 1-percent-point higher than the current rate (in thousands):

	1% Decrease	Current Discount Rate	1% Increase
	6.00%	7.00%	8.00%
Municipal Employees' Pension	$ 2,910,598	$ 2,356,845	$ 1,921,993
The Fund's proportionate share of NPL	$ 314,197	$ 254,420	$ 207,478

Schedule of Assumptions

Inflation	3%
Salary changes	3.25% to 5.5%
Investment rate of return	7.00%
Valuation Date	7/1/2015
Actuarial Cost Method	Entry Age Normal Cost
Amortization Method	Level Percent of Payroll
Amortization Period	30 years
Asset Valuation Method	5 Year Smoothed, direct offset of deferred gains and losses
Ad hoc OPEB and Ad Hoc COLA	3% to 6%
Mortality assumption	RP-2000 Table scaled by 125% for males and 112% for females

7. Other Employee Benefits

Post-Retirement Health Insurance Benefits

Pursuant to a City Ordinance, the City provides certain health care benefits for retired employees. Substantially all of the City's employees become eligible for these benefits if they reach normal retirement age while working for the City. Contributions are recognized in the year paid. The cost of retiree health care premiums incurred by the City (employer and subscriber) amounted to approximately $90,273,155 and $82,127,507 for the years ended June 30, 2017 and June 30, 2016, respectively. Retiree health care is accounted for in the Health Benefits Fund, an Internal Service Fund. At June 30, 2017, there were 10,830 retirees including active survivors eligible to receive benefits. Effective August 1, 2011, all Medicare Eligible Retirees must enroll in an insured Medicare Advantage Program Plan.

No stand-alone financial report is issued on the plan.

The City of Houston OPEB plan is a single-employer plan, and calculations are based on the OPEB benefits provided under the terms of the plan in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point.

Actuarial valuations for OPEB plans involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made into the future.

The schedule of funding progress for the postemployment defined benefit plan immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

Airport System Fund Liability

The Fund's liability for the net OPEB obligation in the City's pension plan was allocated and reported on the statement of net position.

Annual Other Post Employment Benefits (OPEB) Cost and Net OPEB Obligation

The annual OPEB cost associated with the City's retiree health care costs for the current year is as follows (in thousands):

		OPEB	
	June 30, 2017	June 30, 2016	June 30, 2015
Annual required contribution	$ 188,579	$ 200,034	$ 192,519
Interest on net OPEB obligation	67,350	61,209	54,620
Adjustment to annual required contribution	(66,914)	(60,466)	(54,266)
Annual OPEB cost	189,015	200,777	192,873
Contribution made	(39,820)	(38,543)	(36,855)
Change in net OPEB Obligation	149,195	162,234	156,018
Net OPEB obligation beginning of year	1,683,743	1,521,509	1,365,491
Net OPEB obligation end of year	$ 1,832,938	$ 1,683,743	$ 1,521,509

The Fund's proportionate share of the net OPEB obligation is $74,657 and $70,203 as of June 30, 2017 and 2016, respectively.

7. **Other Employee Benefits, continued:**

Fiscal Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	$192,873	19.1%	$1,521,509
2016	$200,777	19.2%	$1,683,743
2017	$189,015	21.1%	$1,832,938

Schedule of Funding Progress (in millions)

Year Ended June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio	Covered Payroll (c)	UAAL As a % of Covered Payroll ((b-a)/c)
2015	$0	$2,068	$2,068	0%	$1,266.0	163.3%
2016	$0	$2,055	$2,055	0%	$1,299.0	158.2%
2017	$0	$2,153	$2,153	0%	$1,327.4	162.2%

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as to the actuarial valuation used for purposes of the financial statements is as follows:

Valuation Date	July 1, 2016
Actuarial cost method	Entry age Normal Cost
Amortization method	Level percent of payroll over an open period of 30 years
Discount Rate	4.0%
Inflation Rate	3.0%
Annual increase attributable to seniority/ merit	2.0% to 14.0%
Medical trend rates	4.5% to 6.5%

Health Benefits Internal Service Fund

Effective May 1, 2011, the City elected to be substantially self-insured and on May 1, 2014 once again awarded CIGNA a three year contract with two (2) one-year renewal options for 4 new health plans. All have a heavy emphasis on a wellness component, and include: 1) a limited network HMO-type plan, 2) an open access PPO type plan with out-of-network coverage, 3) a consumer driven high deductible health plan, partnered with a health reimbursement account, and, 4) a specific plan for retirees, mostly those under age 65, who live outside the limited network service area but who live in Texas. Effective May 1, 2013, the City no longer purchases individual and aggregate stop-loss coverage. The City has assumed the financial risk of catastrophic and overall claim liability. The plan is administered by CIGNA.

Premiums paid (employer and subscriber) for current employees to third party administrators including claim liability totaled $243,918,034 and $234,737,096 for the year ended June 30, 2017 and June 30, 2016, respectively.

7. Other Employee Benefits, continued:

The changes in the actuarial estimate of claims liability for the City related to the CIGNA plans are as follows (in thousands):

	Schedule of Changes in Liability	
	June 30, 2017	June 30, 2016
Beginning actuarial estimate of Claims liability, July 1	$ 18,065	$ 18,577
Catastrophic claim reserve	13,000	13,000
Incurred claims for fiscal year	294,001	276,825
Payments on claims	(293,995)	(277,337)
Actuarial adjustment	1,065	-
Ending estimate of claims liability, June 30	$ 32,136	$ 31,065

The City also provides one times the salary of basic life insurance, with a minimum of $15,000, at no cost to the employee. The employee, at no cost to the City, may then obtain additional life insurance up to four times their annual salary. The current cost for active employees for both basic and voluntary life insurance totaled $6,064,196 and $5,989,860 for the year ended June 30, 2017 and June 30, 2016, respectively.

Long-Term Disability Plan (LTD)

The long-term disability plan, accounted for as an internal service fund of the City, is a part of the Income Protection Plan implemented effective September 1, 1985 (renamed the Compensable Sick Leave Plan (CSL) in October, 1996) and is provided at no cost to City employees who are members of CSL. Coverage is effective the later of September 1, 1985 or upon completion of one year of continuous service. When an employee cannot work because of injury or illness, the plan provides income equal to 50% of base pay plus longevity or 70% of base plus longevity when combined with income benefits available from other sources. Plan benefits may be payable after all CSL scheduled sick leave benefits, including frozen sick leave days, have been used, however, not before six months absence from work. The plan is administered by Hewitt Associates LLC, which is reimbursed from the fund for claims as they are paid along with a fee for administrative services.

	Schedule of Changes in Liability (in thousands)	
	June 30, 2017	June 30, 2016
Beginning actuarial estimate of claims liability, July 1	$ 8,371	$ 8,720
Incurred claims for fiscal year	1,331	1,267
Payments on claims	(1,074)	(1,125)
Actuarial adjustment	(444)	(491)
Ending actuarial estimate of claims liability, June 30	$ 8,184	$ 8,371

Deferred Compensation Plan

The City offers its employees a deferred compensation plan (Plan), created in accordance with Internal Revenue Code Section 457 as a separately administered trust. The Plan, available to all City employees permits employees to defer a portion of their salary until future years. The deferred compensation funds are not available until termination, retirement, death or unforeseeable emergency. However, the Plan now offers loans to participant employees. The maximum amount is the lesser of $50,000 or 50% of the total account balance, less any outstanding loans. The minimum loan amount is $1,000. Pursuant to tax law changes, the Plan's assets are no longer subject to the City's general creditors and are not included in these financial statements.

7. Other Employee Benefits, continued:

Workers' Compensation Self-Insurance Plan

The City has established a Workers' Compensation Self-Insurance Plan, accounted for within the various operating funds. The plan is administered by Tristar Insurance Group, Inc. Funds are wire transferred to Tristar as needed to pay claims.

At June 30, 2017, the City has an accumulated liability in the amount of $61 million covering estimates for approved but unpaid claims and incurred but not reported claims (calculated on an actuarial basis) recorded in the government-wide Statement of Net Position and Enterprise Funds. The amount of liability is based on an actuarial study.

Schedule of Changes in Liability (in thousands)

	June 30, 2017	June 30, 2016
Beginning actuarial estimate of claims liability, July 1	$ 58,761	$ 56,932
Incurred claims for fiscal year	10,002	9,648
Payments on claims	(16,135)	(14,893)
Actuarial adjustment	8,616	7,074
Ending actuarial estimate of claims liability, June 30	$ 61,244	$ 58,761

8. Transactions with City of Houston

Interfund Services

The City charges the Fund for certain services performed by other City funds on behalf of the Airport System Fund. Such charges were as follows for the years ended June 30, 2017 and 2016 (in thousands):

	June 30, 2017	June 30, 2016
Police services	$ 28,662	$ 28,188
Fire services	20,048	19,943
Indirect support services	3,168	3,259
Water and sewer services	3,507	2,808
Other	10,205	10,227
Total	$ 65,590	$ 64,425

Indirect costs are incurred in connection with the general administration of City affairs, which cannot be directly associated with specific funds. Such costs include finance, materials management, legal, human resources, and administration. These costs are allocated to the Fund each year based on an annual indirect cost study.

The Fund also pays for services provided by other City departments and funds, including the Combined Utility Fund for water and wastewater services and the internal service funds for risk financing activities.

In FY2017 HAS started performing administrative work for vendors seeking airport related permits. Per an Memorandum of Understanding entered into between HAS and PWE, HAS began to receive proceeds from permitting revenues from PWE. HAS was reimbursed $312,908 in permitting fees as a result of this agreement.

Due to and Due from the City of Houston

Amounts due to and due from other funds of the City at June 30, 2017 and 2016 are as follows (in thousands):

	June 30, 2017		June 30, 2016	
	Due to	Due From	Due to	Due From
General Fund	$ 713	$ 201	$ 735	$ 7,162
Grants Revenue Fund	-	-	235	1,652
Internal Service Fund	-	-	-	5,446
Nonmajor Governmental Funds	-	-	-	7,225
Debt Service	-	-	-	2,860
Capital Projects	-	-	-	7,488
Total	$ 713	$ 201	$ 970	$ 31,833

9. Major Customers

In fiscal 2017, the Fund earned 42.7% of its operating revenues from two major customers, United Continental Holdings, Inc. and Southwest Airlines Company. No other company represents more than 2.4% of revenue. The two major companies and their respective percentage of revenue are as follows:

	Percentage of Operating Revenue	
	2017	2016
United Continental Holdings, Inc.	33.4%	33.0%
Southwest Airlines Co.	9.3%	9.2%

10. Conduit Debt

The City has authorized various issues of Special Facilities Bonds to enable United Airlines, Inc. (successor to Continental Airlines, Inc.) a private company, to construct facilities at Intercontinental that were deemed to be in the public interest (Special Facilities). These bonds are limited special obligations of the City, payable solely from and secured by a pledge of revenues generated from lease agreements with United Airlines. Collected pledged revenues are remitted directly to a trustee by United Airlines. Under the terms of the related lease agreements, United Airlines operates, maintains, and insures the terminal, and manages and retains revenues from all concessions operated in the Terminal B and E Special Facilities. The City operates, maintains, insures, and manages and retains revenues from all concessions operated in all other terminal facilities.

The City holds legal title to the completed facilities, as they are constructed on airport property, but the constructed facilities are operated and controlled by private companies through long-term leases, and the Fund will enjoy no direct financial benefit from these facilities for the term of the lease agreements. Accordingly, the Fund accounts for the United Airlines' Special Facilities Bonds shown in the following table as conduit debt, and neither the debt nor the related assets have been recorded in the accompanying financial statements.

Conduit debt outstanding at June 30, 2017 and 2016 (in thousands):	June 30, 2017	June 30, 2016
Airport System Special Facilities Revenue Bonds (Continental Airlines, Inc. Terminal Improvement Projects), Series 2011 (AMT), $113,305,000 original principal, matures in 2038	$ 113,305	$ 113,305
Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Terminal E Project), Series 2014 (AMT), $308,660,000 original principal, matures in 2029	308,660	308,660
Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Terminal Improvement Projects), Series 2015B-1 (AMT), $176,650,000 original principal, matures in 2035	176,650	176,650
Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Terminal Improvement Projects), Series 2015B-2 (AMT), $47,390,000 original principal, matures in 2020	47,390	47,390
Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2015C (AMT), $65,785,000 original principal, matures in 2020	65,785	65,785
Total conduit debt outstanding	$ 711,790	$ 711,790

On March 16, 2015, the City issued $176,650,000 in Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Terminal Improvement Projects), Series 2015B-1 (AMT) on behalf of United Airlines, to finance the construction of a new North Concourse building at Terminal B with jet bridge loading, and to make improvements to related facilities. The bonds were issued with a coupon rate of 5.00%, and a yield of 4.75%, to mature in varying amounts from 2026 to 2035.

10. Conduit Debt Obligations, continued:

The Airport System Special Facilities Revenue Bonds, (Continental Airlines, Inc., Terminal Improvement Projects) Series 1997B and 1998B financed various leasehold improvements for United Airlines in Terminals B, C and D. On March 16, 2015, the City issued $47,390,000 in Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Terminal Improvement Projects), Series 2015B-2 (AMT) on behalf of United Airlines, with a 5.00% coupon rate, to mature on July 15, 2020. Proceeds of the bonds were used to refund the outstanding Airport System Special Facilities Revenue Bonds, Series 1997B and 1998B and to pay costs of issuance. Net present value savings for United Airlines related to the refunded bonds totaled $12,049,244 or 18.36% of the refunded bonds and reduced total debt service by $45,281,400.

The Airport System Special Facilities Revenue Bonds, (Continental Airlines, Inc., Airport Improvement Projects) Series 1997C and 1998C, financed the construction of an aircraft hangar, maintenance and parts storage facility, mail sort facility, flight simulator, and inflight training facility. On March 26, 2015, the City issued $65,785,000 in Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2015C, on behalf of United Airlines, with a coupon rate of 5.00%, to mature on July 15, 2020. Proceeds of the bonds were used to refund the outstanding Airport System Special Facilities Revenue Bonds, Series 1997C and 1998C, and to pay costs of issuance. Net present value savings for United Airlines related to the refunded bonds totaled $14,553,627 or 20.95% of the refunded bonds and reduced total debt service by $40,135,502.

The Airport System Special Facilities Revenue Bonds, (Continental Airlines, Inc. Terminal E Project), Series 2001, financed the construction of international Terminal E and related airport facilities for the exclusive use of United Airlines (Terminal E Special Facilities). On May 8, 2014, the City issued $308,660,000 in Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Terminal E Project) Series 2014 on behalf of United Airlines, at coupon rates ranging from 4.50% to 5.00%. The bonds mature in varying amounts from 2020 to 2029. Proceeds of the bonds were used to refund a portion of the City's outstanding Airport System Special Facilities Revenue Bonds (Continental Airlines, Inc. Terminal E project) Series 2001 and to pay costs of issuance. Net present value savings for United Airlines related to the refunded bonds totaled $40,519,909 or 13.31% of the refunded bonds and reduced total debt service by $58,675,823.

The Airport System Special Facilities Revenue Bonds (Continental Airlines, Inc. Terminal Improvement Projects), Series 2011 (AMT) financed the replacement of two flight stations at Terminal B with a new South Concourse building to serve United Airlines' regional jet operations (Terminal B Special Facilities). The Terminal B Special Facilities went into service in March, 2014.

11. Commitments and Contingencies

Litigation and Claims

The City is the defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its municipal and enterprise activities, certain of which seek substantial damages. These matters affecting the Airport System Fund are primarily contract and real property disputes. The status of such litigation ranges from early discovery to various levels of appeal, against which the City will continue to vigorously defend itself. Additionally, there are also various personal injury claims filed against the Airport System Fund which will also be vigorously defended. The amount of damages is limited in certain cases under the Texas Torts Claim Act and is subject to appeal. Management has determined the amounts of loss, if any, would not be material in these financial statements.

11. Commitments and Contingencies, continued:

Environmental Liabilities

Houston Airport System is aware of pollution remediation which must occur prior to the commencement of a new hangar addition project at George Bush Intercontinental Airport. Currently, third party assessments have been completed of the site with estimated costs of $10 million. Scope of work will encompass vapor intrusion mitigation and soil & groundwater remediation. A pollution remediation liability related to the hangar expansion project has been recorded in these financial statements in accordance with GASB 49.

The Houston Airport System management is aware of additional sites polluted by asbestos, mold, and soil contamination. The assessment and remediation of asbestos, mold and groundwater contamination are ongoing and included in the costs of the capital project at the time it becomes an obligating event under GASB 49. Management has determined the costs of this additional remediation for which Houston Airport System is ultimately liable would not be material in these financial statements.

Commitments for Capital Facilities

At June 30, 2017 and 2016, the Fund had contracted for, but not spent, $400,036,024 and $326,962,314 respectively, for capital projects.

Risk Management

The City purchases fidelity coverage to comply with City ordinance, boiler and machinery insurance with a per occurrence loss limit of $100 million and commercial property insurance with a per occurrence loss limit of $175 million. The commercial property insurance sublimit for flood is $100 million. Property insurance provides deductibles as follows: $2.5 million per occurrence for all perils except; 3% of the damaged insured value for windstorm or hail from a named storm, subject to a $2.5 million minimum and a $15 million maximum deductible; and 3% of the damaged insured value for flood, subject to a $2.5 million minimum and a $15 million maximum deductible. Should a named storm event occur that involves both perils of windstorm and flood, the maximum deductible is $15 million.

The City has a separate terrorism policy which covers insured property value. The policy insures up to $250 million aggregate loss limit (including nuclear, chemical, biological and radiation coverage) with a $500,000 deductible on all claims except a 48-hour waiting period deductible on business interruption.

Self-insured claims are reported as liabilities in the accompanying financial statements when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. This determination is based on reported pending claims, estimates of claims incurred but not yet reported, actuarial reports and historical analysis. All claims are accounted for in the Government-wide Statement of Net Position.

Claims that are expected to be paid with expendable, available financial resources are accounted for in the General Fund and the appropriate Enterprise Funds.

For unemployment claims, the City pays claims as they are settled. Unemployment claim activity is as follows:

Unemployment Claim Activity

	June 30, 2017	June 30, 2016
Unpaid claims, beginning of fiscal year	$ 198,257	$ 137,742
Incurred claims (including IBNRs)	687,143	760,324
Claim payments	(732,382)	(699,809)
Unpaid claims, end of fiscal year	$ 153,018	$ 198,257

11. Commitments and Contingencies, continued:

Electricity Futures Contracts

At June 30, 2017, the City had entered into agreements to lock rates for part of the natural gas component of its expected electricity use from July 1, 2017 through June 30, 2018. The total committed price is approximately $97 million for expected usage. The City may pay a different amount if actual electricity usage varies. This amount will be appropriated in future annual budgets.

12. Subsequent Events

Hurricane Harvey Disaster

The City of Houston experienced a substantial natural disaster on August 23 – 27, 2017 resulting from Hurricane Harvey, when up to 50 inches of rain in the Houston area caused flooding in portions of the City. Houston Airport System (The Fund) sustained water damage to various buildings and components of the airfield at all three airports. The estimate of the total damage to owned facilities is approximately $4 million. The Fund also incurred disaster-related expenses for debris removal, protective measures, and the costs of emergency personnel overtime. The Fund anticipates most of these will be covered by insurance and grants from the Federal Emergency Management Agency (“FEMA”) and the State of Texas.

Shortly after the storm, the Fund established a “Disaster Recovery O&M Fund” in the Fund’s accounts to serve as an appropriation source for disaster related expenses, pending insurance and reimbursement by FEMA. The Fund has transferred $5 million from the Airport Improvement Fund to the Disaster Recovery O&M Fund following the approval of City Council.

The Fund continues to evaluate the cost of damages from the storm and will submit additional requests for reimbursement to FEMA and its insurance carriers, if necessary.

Pension Reform

The Texas Legislature adopted Senate Bill 2190, which was signed by the governor on May 31, 2017 (the “Pension Reform Legislation”) to enact reforms and substantive changes to the funding and benefit structure of the Pension Systems. The Pension Reform Legislation was effective July 1, 2017 (the “Reform Effective Date”), the first day of Fiscal Year 2018. The Pension Reform Legislation is the culmination of an effort to reform the Pension Systems to control costs, reduce the unfunded liability and better manage future pension costs and liabilities. The risk-sharing corridor implemented in the Pension Reform Legislation provides the City with more budget certainty by establishing minimum and maximum City contribution rates, and mandates management of unfunded liabilities by the City and the Pension Systems.

Under the Pension Reform Legislation, the City will pay off the unfunded liability (the “Legacy Liability”) over a fixed maximum 30-year amortization period ending in 2047. The Legacy Liability is calculated using a standard actuarial cost methodology, based on the market value of each pension system’s assets as of July 1, 2016, after giving effect to the Pension Reform legislation and delivery of $1 billion of Pension Obligation Bond proceeds by December 31, 2017 (to be contributed to HMEPS and HPOPS only), with earnings at the 7% per annum discount rates and allocable City contributions from July 1, 2016 through the Reform Effective Date. Any future actuarial loss liabilities will have an amortization period of 30 years from the date the loss is recognized, with a corresponding final payoff year and credits for any future gains.

On November 7, 2017, the voters approved a referendum authorizing the City to issue the Pension Obligation Bonds.

On November 15, 2017, City Council approved an ordinance authorizing preparation for the sale of Taxable Pension Obligation Bonds, secured by ad valorem taxes, in an amount not to exceed $1,010,000,000 at a stated interest rate not to exceed 7%, out of which approximately $250,000,000 could be used to fund a portion of the unfunded liability of the Houston Municipal Employees Pension System. It is not certain what amount, if any, of the debt service of these bonds, might be assigned to the Airport System Fund for future payments. The Bonds have not been issued as of the date of this report.

12. Subsequent Events, continued:

Debt

On October 4, 2017, the City extended its authorization of $450 million in Inferior Lien Airport System Revenue Bonds through October 3, 2018, while confirming the forward delivery bond purchase agreement with the Royal Bank of Canada.

On November 15, 2017 City Council authorized the issuance of the Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Technical Operations Center Project (UTOC)), Series 2017 (AMT), in an amount not to exceed $120,000,000, and the Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2017C (AMT), in an amount not to exceed $60,000,000. Proceeds of the Series 2017 UTOC Bonds will be used to construct or acquire a technical operations center at George Bush Intercontinental Airport consisting of a new wide body aircraft hangar and service facility, and a storage facility for ground service equipment, with additional non-terminal improvements to be built in support. Series 2017C Bonds will be used to improve, renovate, repair or expand existing facilities. Pursuant to lease agreements between United Airlines, Inc. and the City of Houston, United shall be unconditionally obligated to pay net rent equal to all amounts to become due and owing with respect to the Series 2017 UTOC and Series 2017C Special Facilities Revenue Bonds. These Bonds will be payable solely from and secured by a pledge of revenues generated by the lease agreements. The Bonds have not been issued as of the date of this report.

On November 15, 2017, City Council approved an ordinance authorizing the issuance of one or more series of City of Houston, Texas Airport System Subordinate Lien Revenue and/or Refunding Bonds, and authorizing the Mayor, City Controller, and other designated City officials to approve the amount, interest rates, prices, and terms. The Bonds will redeem or defease outstanding bonds and other obligations, provide financing for any authorized system purposes, including reimbursement of amounts previously spent, fund capitalized interest and costs of issuance, and increase the Subordinate Lien Bond Reserve Fund. The Bonds have not been issued as of the date of this report.

Houston Municipal Pension System Supplementary Information (unaudited)

Schedule of Changes in the Municipal Net Pension Liability and Related Ratios for the Fiscal Years ended June 30, (in thousands)

	2017	2016	2015
Total Pension Liability			
Service Cost	$75,961	$68,968	$65,810 (1)
Interest	331,166	379,781	361,007
Changes of benefit terms	(724,683)	-	-
Differences between expected and actual experience	(38,387)	(16,194)	(23,380)
Changes of assumptions	562,237	91,248	-
Benefit payments including refunds of employee contributions	(280,456)	(253,178)	(234,955)
Refunds	(718)	(1,105)	(1,549)
Net change in total pension liability	(74,880)	269,520	166,933
Total pension liability - beginning	5,034,390	4,764,870	4,597,937
Total pension liability - ending (a)	4,959,510	5,034,390	4,764,870
Plan fiduciary net position			
Contributions-employer	182,558	159,958	145,007
Contributions-employee	15,902	15,874	16,198
Net investment income	290,911	27,639	73,370
Benefit payments, including refunds of employee contributions	(280,456)	(253,178)	(234,955)
Administrative expense	(718)	(1,105)	(1,549)
Refunds	(6,827)	(7,360)	(7,007)
Other	1,272	1,651	1,041
Net change in plan fiduciary net position	202,642	(56,521)	(7,895)
Plan fiduciary net position-beginning	2,400,023	2,456,544	2,464,439
Plan fiduciary net position-ending (b)	2,602,665	2,400,023	2,456,544
City's net pension liability-ending (a)-(b)	$2,356,845	$2,634,367	$2,308,326
Plan fiduciary net position as percentage of the total pension Liability	52.48%	47.67%	51.56%
Covered-employee payroll	$607,975	$593,285	$580,395
Net position liability as a percentage of covered employee payroll	387.65%	444.03%	397.72%

1. The 2015 amounts are based on 8.0% per City actuary.

The Fund's proportionate share of NPL is as follows (in thousands):

	2017	2016	2015
Total Pension Liability	$ 535,376	$ 540,464	$ 512,642
Fiduciary Net Position	(280,956)	(257,653)	(264,294)
Net Pension Liability	$ 254,420	$ 282,811	$ 248,348
Proportionate Percentage	10.79%	10.74%	10.76%

Schedule is intended to show information for 10 years. 2015 is the first year for this presentation. Additional years will be included as they become available.

REQUIRED PENSION SYSTEM AND OTHER POST-EMPLOYMENT COST SUPPLEMENTARY INFORMATION

Schedule of City Contributions for Municipal Pension Plans for the Fiscal Years ended June 30, (in thousands)

	2017	2016	2015	2014
Actuarially determined contribution	$ 184,733	$ 162,230	$ 155,299	$ 144,953
Contributions in relation to the actuarially determined contribution	182,558	159,959	145,007	128,274
Contribution deficiency (excess)	$ 2,175	$ 2,271	$ 10,292	$ 16,679
Covered-employee payroll	607,975	593,285	580,395	557,226
Contributions as a percentage of covered-employee payroll	30.0%	27.0%	25.0%	23.0%

Schedule of the Fund's Contributions for Municipal Pension Plans for the Fiscal Years ended June 30, (in thousands)

	2017	2016	2015	2014
Actuarially determined contribution	$ 18,898	$ 17,148	$ 16,306	$ 15,626
Contributions in relation to the actuarially determined contribution	18,676	17,171	15,547	14,029
Contribution deficiency (excess)	$ 223	$ (23)	$ 759	$ 1,597
Covered-employee payroll	62,196	62,710	60,941	60,069
Contributions as a percentage of covered-employee payroll	30.0%	27.4%	25.5%	23.4%

Schedule is intended to show information for 10 years. 2014 is the first year for this presentation. Additional years will be included as they become available.

Houston Other Post Employment Benefits Supplementary Information (unaudited)
Schedule of Funding Progress (in millions)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (Surplus UAAL) (b-a)	Funded Ratio (a/b)	Projected Annual Covered Payroll (c)	UAAL as Percentage Of Covered Payroll ((b-a)/c)
June 30, 2009	$0.00	$3,031	$3,031	0%	$1,193.5	254.1%
June 30, 2010	$0.00	$1,984	$1,984	0%	$1,208.9	164.1%
June 30, 2010	$0.00	$1,984	$1,984	0%	$1,164.5	170.4%
June 30, 2012	$0.00	$2,090	$2,090	0%	$1,178.1	177.4%
June 30, 2012	$0.00	$2,090	$2,090	0%	$1,227.2	170.3%
June 30, 2014	$0.00	$2,068	$2,068	0%	$1,266.0	163.3%
June 30, 2014	$0.00	$2,068	$2,068	0%	$1,298.0	158.2%
June 30, 2016	$0.00	$2,153	$2,153	0%	$1,327.4	162.2%

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Somewhere Between Here And There by Chris Sauter

(Unaudited) STATISTICAL SECTION
COMPREHENSIVE ANNUAL FINANCIAL REPORT

Statistical Section

This section contains statistical information and differs from the financial statements because it usually covers more than one fiscal year and may present non-accounting data.

This information is presented in five categories:

Financial Trend – intended to assist users in understanding and assessing how the Houston Airport System's financial position has changed over time.

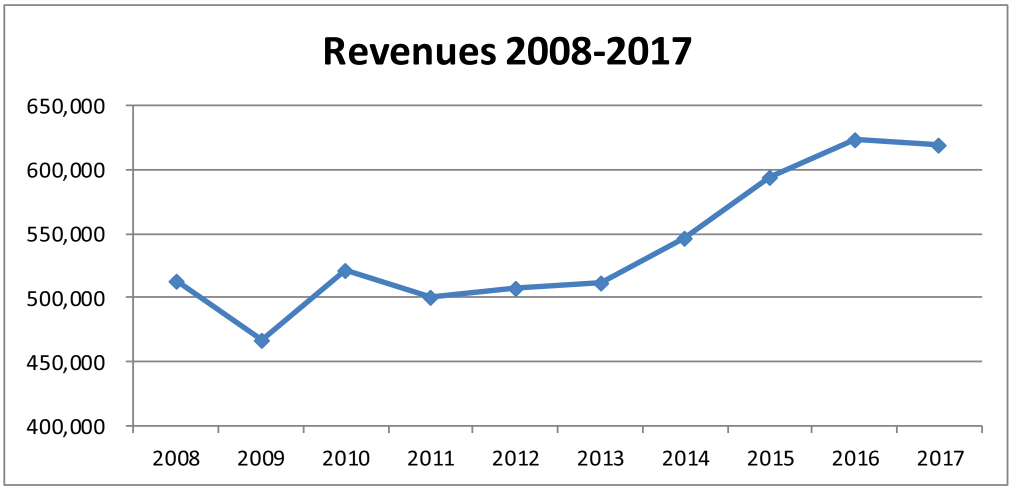
Revenue Capacity – intended to assist users in understanding and assessing the factors affecting the Houston Airport System's ability to generate its own sources of revenues.

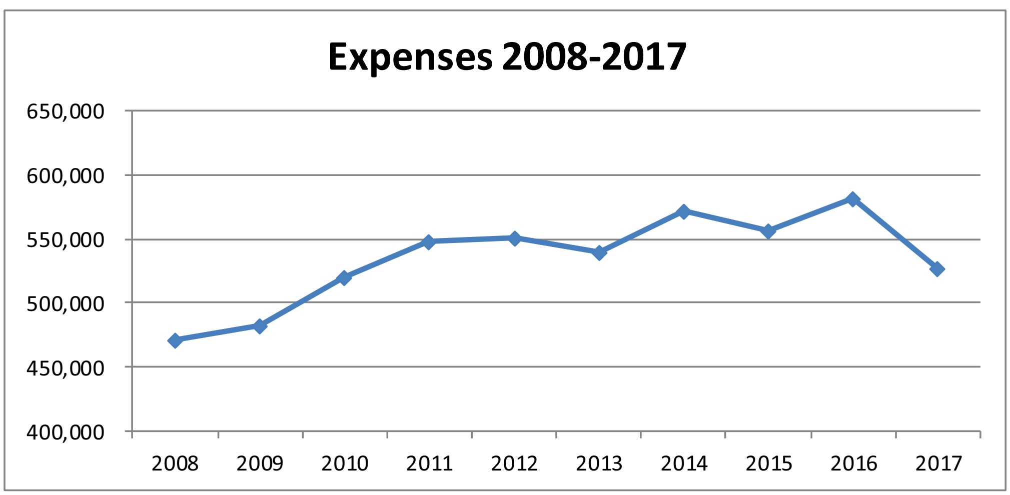
Debt Capacity – intended to assist users in understanding and assessing the Houston Airport System's debt burden and its ability to cover and issue additional debt.

Operational Information – intended to provide contextual information about the Houston Airport System's operations and resources to assist readers in using financial statement information to understand and assess the Houston Airport System economic condition.

Demographic and Economic – intended to assist users in understanding the socioeconomic environment within which the Houston Airport System operates and to provide information that facilitates comparisons of financial statement information over time and among similar entities.

TOTAL ANNUAL REVENUES AND TOTAL ANNUAL EXPENSES (in thousands)
STATISTICAL SECTION





TOTAL ANNUAL REVENUES AND EXPENSES (in thousands)
STATISTICAL SECTION

CHANGE IN NET POSITION	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
OPERATING REVENUES										
Landing area fees	$ 99,017	$ 82,823	$ 94,165	$ 90,384	$ 86,935	$ 91,059	$ 88,342	$ 93,575	$ 86,870	$ 88,046
Building and ground area fees	211,786	174,433	182,105	181,182	182,320	181,701	186,505	197,039	216,018	221,181
Concession, parking, and other revenues	136,373	128,501	130,309	138,836	148,295	160,234	177,260	185,668	186,009	184,814
TOTAL OPERATING REVENUES	447,176	385,757	406,579	410,402	417,550	432,994	452,107	476,282	488,897	494,041
NONOPERATING REVENUES										
Investment income (loss)	42,360	37,507	30,488	9,735	5,636	(1,934)	11,170	7,496	13,260	3,403
Passenger facility charges	11,608	32,398	66,383	63,138	63,550	61,195	62,602	85,392	104,230	101,539
Customer facility charges	11,197	10,171	10,981	13,478	15,904	17,104	17,152	17,535	16,417	14,200
Other nonoperating revenues	514	1,093	7,525	3,409	4,644	1,978	3,225	7,969	124	5,596
TOTAL NONOPERATING REVENUES	65,679	81,169	115,377	89,760	89,734	78,343	94,149	118,392	134,031	124,738
TOTAL REVENUES	512,855	466,926	521,956	500,162	507,284	511,337	546,256	594,674	622,928	618,779
OPERATING EXPENSES										
Maintenance and operating										
Personnel costs	102,511	105,974	109,681	111,861	107,532	104,162	108,520	114,947	123,872	56,721
Supplies	6,449	6,061	5,817	6,534	7,290	7,344	8,823	7,933	8,140	7,794
Services	119,656	126,939	128,761	143,327	139,612	140,019	149,957	159,577	177,677	184,032
Non-capital outlay	935	2,329	792	22,585	9,626	14,052	10,202	4,072	5,730	5,912
Impairment to capital assets	-	-	-	-	-	6,514	7,710	-	-	
Total M & O Expenses	229,551	241,303	245,051	284,307	264,060	272,091	285,212	286,529	315,419	254,459
Depreciation expense	128,553	139,157	166,788	165,657	193,266	173,448	174,825	177,512	179,398	184,203
TOTAL OPERATING EXPENSES	358,104	380,460	411,839	449,964	457,326	445,539	460,037	464,041	494,817	438,662
NONOPERATING EXPENSES										
Interest expense and others	112,272	102,036	107,444	97,515	94,012	93,749	112,350	92,803	86,259	87,574
TOTAL NONOPERATING EXPENSES	112,272	102,036	107,444	97,515	94,012	93,749	112,350	92,803	86,259	87,574
TOTAL EXPENSES	470,376	482,496	519,283	547,479	551,338	539,288	572,387	556,844	581,076	526,236
CONTRIBUTIONS	91,175	70,936	51,457	44,135	15,029	12,761	44,614	36,432	22,542	35,513
TOTAL CHANGE IN NET POSITION	$ 133,654	$ 55,366	$ 54,130	$ (3,182)	$ (29,025)	$ (15,190)	$ 18,483	$ 74,262	$ 64,394	$ 128,056

(continued)

CHANGES IN NET POSITION AND PASSENGER FACILITY CHARGE COLLECTIONS (in thousands)
STATISTICAL SECTION

NET POSITION AT YEAR END	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net investment in capital assets	649,798	754,848	661,854	624,507	580,636	518,464	469,971	466,196	537,172	542,363
Restricted net assets										
Restricted for debt service	72,333	82,436	160,873	168,841	189,966	213,064	242,558	303,371	333,635	287,858
Restricted for maintenance and operations	41,048	41,899	42,405	43,320	44,023	46,309	49,736	53,912	54,942	54,805
Restricted for special facility	12,811	12,353	12,444	15,081	20,025	26,026	30,986	25,732	26,944	29,369
Restricted for renewal and replacement	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Restricted for capital improvement	518,536	458,356	526,446	549,091	537,165	552,762	581,857	600,159	561,071	676,360
Unrestricted (deficit)	-	-	-	-	-	-	-	(178,003)	(178,003)	(126,938)
TOTAL NET POSITION	$ 1,304,526	$ 1,359,892	$ 1,414,022	$ 1,410,840	$ 1,381,815	$ 1,366,625	$ 1,385,108	$ 1,281,367	$ 1,345,761	$ 1,473,817

Passenger Facility Charge Collections (in thousands)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Intercontinental	$ -	$ 23,046	$ 54,284	$ 50,982	$ 50,358	$ 47,464	$ 48,181	$ 66,491	$ 80,574	$ 77,351
Hobby	11,608	9,352	12,099	12,156	13,192	13,731	14,421	18,901	23,656	24,188
Total	$ 11,608	$ 32,398	$ 66,383	$ 63,138	$ 63,550	$ 61,195	$ 62,602	$ 85,392	$ 104,230	$ 101,539
Year-over-Year Change	77.76%	179.10%	104.90%	-4.89%	0.65%	-3.71%	2.30%	36.40%	22.06%	-2.58%

PLEDGED REVENUES (in thousands)
STATISTICAL SECTION

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Operating revenues:										
Landing area fees:										
Landing fees	$ 95,730	$ 80,420	$ 91,032	$ 87,163	$ 83,059	$ 86,911	$ 84,098	$ 89,426	$ 82,703	$ 84,036
Aviation fuel	1,522	1,313	1,329	1,378	1,382	1,444	1,529	1,521	1,527	1,350
Aircraft parking	1,765	1,090	1,804	1,843	2,494	2,704	2,715	2,628	2,640	2,660
Subtotal	99,017	82,823	94,165	90,384	86,935	91,059	88,342	93,575	86,870	88,046
Building and ground area revenues:										
Terminal space rentals	193,375	155,396	161,960	160,563	160,247	158,237	$ 163,297	$ 173,392	$ 191,321	$ 196,162
Cargo building rentals	2,469	2,374	2,490	2,511	2,473	2,397	2,432	2,506	2,484	2,448
Other rentals	5,054	5,017	5,158	5,067	5,394	5,848	6,174	6,252	6,808	6,453
Hangar rental	3,473	4,051	4,920	5,446	6,165	6,675	6,605	6,355	6,577	6,813
Ground rental	7,415	7,595	7,577	7,595	8,041	8,544	7,997	8,534	8,828	9,305
Subtotal	211,786	174,433	182,105	181,182	182,320	181,701	186,505	197,039	216,018	221,181
Parking, concession, and other revenues:										
Retail concessions	29,454	27,023	27,996	34,426	38,429	41,604	41,444	41,855	35,215	39,999
Auto parking	72,958	66,565	70,127	70,681	72,833	77,596	90,173	97,515	101,650	99,752
Auto rental concession	24,529	24,389	22,889	23,932	26,771	29,522	32,783	31,991	30,737	28,735
Ground transportation	4,806	4,724	4,987	5,946	6,186	6,639	8,301	9,323	10,083	10,402
Other operating revenues	4,626	5,800	4,310	3,851	4,076	4,873	4,559	4,984	8,324	5,926
Subtotal	136,373	128,501	130,309	138,836	148,295	160,234	177,260	185,668	186,009	184,814
Total operating revenues	$ 447,176	$ 385,757	$ 406,579	$ 410,402	$ 417,550	$ 432,994	$ 452,107	$ 476,282	$ 488,897	$ 494,041

Gross revenues include all operating revenue of the Airport Fund, and all non-operating revenue except for revenue with legal spending restrictions. Maintenance and operating expensesinclude all operating expenses of the system except for depreciation and capital expenses. Net revenues in each fiscal year are required to be at least equal to the larger of either: (1) the debt service and reserve transfer requirements of each fiscal year or; (2) 125%, 110% and 100% of the debt service requirements for such fiscal year of the Senior Lien Bonds (or Commercial Paper assumed to be refinanced as Senior Lien Revenue Bonds), Subordinate Lien Revenue Bonds and Inferior Lien debt, respectively.

(continued)

PLEDGED REVENUES (in thousands), continued:
STATISTICAL SECTION

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net revenues										
Operating revenue	$ 447,176	$ 385,757	$ 406,579	$ 410,402	$ 417,550	$ 432,994	$ 452,107	$ 476,282	$ 488,897	$ 494,041
Interest on investments - revenue fund	30,064	23,664	15,988	12,889	9,826	7,029	5,499	6,014	6,986	9,306
Other nonoperating revenues	90	300	2,504	341	2,289	1,222	3,162	7,526	(52)	7,177
Gross revenues	477,330	409,721	425,071	423,632	429,665	441,245	460,768	489,822	495,831	510,524
Less: Maintenance and operating expenses	(221,309)	(242,449)	(245,147)	(262,668)	(255,507)	(252,745)	(268,745)	(283,557)	(314,715)	(254,506) *
Net pledged revenue	$ 256,021	$ 167,272	$ 179,924	$ 160,964	$ 174,158	$ 188,500	$ 192,023	$ 206,265	$ 181,116	$ 256,018
Debt Service										
Principal	$ 45,996	$ 49,692	$ 51,832	$ 61,136	$ 59,575	$ 56,800	$ 60,419	$ 71,999	$ 79,093	$ 82,707
Interest	111,250	100,746	93,298	97,546	91,736	97,138	96,005	91,320	84,811	92,316
	157,246	150,438	145,130	158,682	151,311	153,938	156,424	163,319	163,904	175,023
Less PFC revenue available for debt service	(2,690)	(15,847)	(27,087)	(38,828)	(36,619)	(34,390)	(35,614)	(38,054)	(42,320)	(54,673)
Less grant revenue available for debt service	(25,332)	(38,835)	(29,084)	(17,999)	(7,360)	-	(22,942)	(16,399)	(13,888)	-
Total debt service	$ 129,224	$ 95,756	$ 88,959	$ 101,855	$ 107,332	$ 119,548	$ 97,868	$ 108,866	$ 107,696	$ 120,350
Coverage of debt service	1.98	1.75	2.02	1.58	1.62	1.58	1.96	1.89	1.68	2.13
Net Required revenue per bond rate covenant	$ 141,856	$ 105,208	$ 98,571	$ 112,873	$ 119,343	$ 133,552	$ 108,369	$ 122,822	$ 120,125	$ 134,348
Ratio of required revenue	1.80	1.59	1.83	1.43	1.46	1.41	1.77	1.68	1.51	1.91

Debt service requirements is equal to interest expense (excluding amortization of bond discount and amounts provided for payment of interest by bond proceeds and other sources and deposited into a restricted fund for that purpose) for each respective fiscal year ended June 30, plus principal payment payable on the next July 1. Certain grant revenue and passenger facility charge revenue is available to cover net required revenue and required debt service. In FY2016, $6,250,000 in remaining series 2009A proceeds were used to pay senior lien bond debt service.

Net revenues in each fiscal year are required to be at least equal to the larger of either: (1) the debt service and reserve transfer requirements of each fiscal year or; (2) 125%, 110% and 100% of the debt service requirements for such fiscal year of the Senior Lien Bonds (or Commercial Paper assumed to be refinanced as Senior Lien Revenue Bonds), Subordinate Lien Revenue Bonds and Inferior Lien debt, respectively.

Revenues and expenses cannot be included in net pledged revenue if they are accounted for outside of the Airport Revenue Fund, and do not affect amounts available for transfer to debt service funds.

*** Operating and maintenance expense for debt coverage calculations decreased by $60.2 million between FY17 and FY16, primarily due to a $67.4 million decrease in pension expense associated with pension reform enacted in 2017. Without the effects of pension reform, it is estimated that debt service coverage would have been 1.63.**

PLEDGED REVENUES FOR CONSOLIDATED RENTAL CAR FACILITY
STATISTICAL SECTION

	For Years Ended December 31:									
(not rounded to the nearest thousand)	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Customer facility charge collections	$ 11,303,826	$ 11,323,569	$ 9,523,308	$ 12,300,253	$ 14,596,573	$ 16,444,942	$ 17,317,058	$ 17,451,368	$ 17,359,920	$ 17,451,368
Interest income	303,656	146,789	8,417	7,961	475	318	731	785	3,840	29,003
Transfers from Rate Stabilization Account	-	-	1,142,458	-	-	-	-	-	-	-
Transfers from Coverage Account	3,169,143	3,169,143	3,169,143	3,169,143	3,169,143	3,169,143	3,169,143	3,169,143	3,169,143	3,169,143
Total resources available for debt service	$ 14,776,625	$ 14,639,501	$ 13,843,326	$ 15,477,357	$ 17,766,191	$ 19,614,403	$ 20,486,932	$ 20,621,296	$ 20,532,903	$ 20,649,514
Total annual debt service:										
Special Facility Revenue Bonds, Series 2001:										
Principal	$ 1,945,000	$ 2,170,000	$ 2,415,000	$ 2,675,000	$ 2,960,000	$ 3,260,000	$ 3,590,000	$ -	$ -	$ -
Interest	8,501,952	8,386,419	8,255,351	8,108,278	7,944,033	7,759,329	7,552,645	6,006,288	4,691,128	4,691,128
Subtotal Series 2001	10,446,952	10,556,419	10,670,351	10,783,278	10,904,033	11,019,329	11,142,645	6,006,288	4,691,128	4,691,128
Special Facility Refunding Bonds, Series 2014:										
Principal	-	-	-	-	-	-	-	4,355,000	5,160,000	5,305,000
Interest	-	-	-	-	-	-	-	230,243	691,019	652,835
Subtotal Series 2014	-	-	-	-	-	-	-	4,585,243	5,851,019	5,957,835
Total annual debt service	$ 10,446,952	$ 10,556,419	$ 10,670,351	$ 10,783,278	$ 10,904,033	$ 11,019,329	$ 11,142,645	$ 10,591,531	$ 10,542,147	$ 10,648,963
Debt service coverage ratio	1.41	1.39	1.30	1.44	1.63	1.78	1.84	1.95	1.95	1.94

- Customer Facility Charges are used first to pay debt service on the Airport System Special Facilities Taxable Revenue Bonds (Consolidated Rental Car Facility Project), Series 2001 and on the Airport System Special Facilities Taxable Revenue Refunding Bonds (Consolidated Rental Car Facility Project), Series 2014. Additional collections are used to pay administrative costs for the special facility agreement, and then for capital improvements and major repairs on the special facility. Customer facility charges are kept and invested separately by BNYMellon Bank as trustee, and cannot be used for any other City or Airport Fund purpose as long as any Special Facility Revenue Bonds (CRCF) remain outstanding.
- No other City or Airport Fund revenues are pledged toward the payment of Special Facility Revenue Bonds (CRCF).
- The Special Facilities Revenue Bond (CRCF) covenants require the Airport Fund to maintain a debt service coverage ratio of at least 125%
- The City imposed a $3.00 Customer Facility Charge as of April 1, 2001, which was 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, and reduced again to $3.00 effective April 1, 2016, and increased to $4.00 effective April 1, 2017.
- For purposes of coverage calculation, collections are considered available for debt service when they are received by the trustee.
- For purposes of coverage calculation, interest and principal is calculated on the accrual basis, for instance, in 2008, funding is accumulated for payments due on 7/1/2008 and 1/1/2009.
- For more information on the Consolidated Rental Car Facility assets and debt, see Notes 1 and 5.

OUTSTANDING DEBT (in thousands)
STATISTICAL SECTION

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Outstanding debt by type (1):										
Senior lien revenue bonds, fixed rate	$ -	$ -	$ 449,660	$ 449,660	$ 449,660	$ 449,660	$ 449,660	$ 449,660	$ 440,385	$ 430,645
Subordinate lien revenue bonds, fixed rate	1,695,455	1,660,055	1,622,090	1,582,080	1,464,905	1,419,125	1,376,505	1,331,765	1,284,860	1,232,585
Subordinate lien revenue bonds, periodic auction rate	337,950	330,300	322,775	315,550	305,425	298,525	286,300	276,275	266,925	254,475
Subordinate lien revenue bonds, variable rate	92,900	92,900	92,900	93,730	93,630	93,505	93,305	93,105	92,905	92,705
Subtotal, revenue bonds payable	2,126,305	2,083,255	2,487,425	2,441,020	2,313,620	2,260,815	2,205,770	2,150,805	2,085,075	2,010,410
Unamortized discount	(15,686)	(15,153)	(18,071)	(16,216)	(4,176)	(3,905)	(3,619)	(3,317)	(3,016)	(2,717)
Unamortized premium	11,458	10,853	12,319	11,583	96,928	89,587	82,318	75,141	68,118	61,302
Revenue bonds payable, net	$ 2,122,077	$ 2,078,955	$ 2,481,673	$ 2,436,387	$ 2,406,372	$ 2,346,497	$ 2,284,469	$ 2,222,629	$ 2,150,177	$ 2,068,995
Senior lien commercial paper payable	83,000	93,000	6,000	-	-	-	1,200	49,500	87,000	87,000
Inferior lien contract payable	49,700	45,820	41,735	37,430	32,895	28,115	23,075	17,760	12,155	6,240
Pension obligation bonds payable (2)	2,006	2,006	2,006	2,006	2,006	2,006	2,006	2,006	2,006	2,006
Note payable (3)									120,439	115,421
Special facilities revenue bonds, rental car (4)	122,500	120,330	117,915	115,240	112,280	109,020	105,430	102,055	96,895	91,590
Total outstanding debt payable	$ 2,379,283	$ 2,340,111	$ 2,649,329	$ 2,591,063	$ 2,553,553	$ 2,485,638	$ 2,416,180	$ 2,393,950	$ 2,468,672	$ 2,371,252
Total enplaned passengers	26,202,152	24,030,602	24,531,054	24,944,816	25,303,825	25,132,792	25,944,623	26,903,969	27,813,447	27,364,057
Outstanding debt per enplaned passenger	$ 90.80	$ 97.38	$ 108.00	$ 103.87	$ 100.92	$ 98.90	$ 93.13	$ 88.98	$ 88.76	$ 86.66
Outstanding conduit debt:										
Special facilities revenue bonds (5)	$ 466,265	$ 462,940	$ 459,395	$ 455,895	$ 565,500	$ 561,500	$ 561,470	$ 711,790	$ 711,790	$ 711,790

(1) Includes both current and long-term liabilities
(2) A portion of the City of Houston Taxable General Obligation Pension Bonds, Series 2005, has been allocated to the Airport Fund for payment.
(3) The Note is payable to Southwest Airlines with rent credits over a 25 year term with interest, to reimburse Southwest for the construction of the Hobby International Terminal project.
(4) The Special Facilities Revenue and Refunding Bonds (Consolidated Rental Car Facility), Series 2001 and Series 2014, are included in the Airport Fund financial statements (See Note 1 and 5).
(5) These Special Facilities Revenue Bonds are conduit bonds secured solely by lease payments from United Airlines. No revenues of the Airport System Fund are pledged to pay these bonds.

SUMMARY OF CERTAIN FEES AND CHARGES
STATISTICAL SECTION

IAH	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Landing Rates (1) (5)	3.010	3.014	2.931	2.737	2.743	2.850	2.844	2.803	2.812	2.642
Terminal Space Rentals (2) (5)	25.00-87.21	25.26-83.48	24.36-82.96	23.88-80.97	21.38-79.14	21.67-78.25	20.77-72.51	21.75-75.45	22.41-75.77	22.70-74.97
Apron Rentals (2) (5)	2.480-3.050	2.166-3.223	1.926-2.626	1.841-2.613	1.712-2.612	1.927-2.702	2.051-2.576	2.114-2.597	2.326-2.854	2.289-2.832
Aircraft Parking (per day) (4)	70.00-300.00	70.00-300.00	70.00-300.00	70.00-300.00	100.00-400.00	100.00-400.00	100.00-400.00	100.00-400.00	100.00-400.00	100.00-400.00
Cargo (per day) (3)	125.00-450.00	125.00-450.00	125.00-450.00	125.00-450.00	200.00-600.00	200.00-600.00	200.00-600.00	200.00-600.00	200.00-600.00	200.00-600.00
Parking Rates (6)										
Economy (Ecopark) Uncovered (7)	6.00	6.00	5.00	5.00	5.00	5.00	6.00	6.00	6.00	6.00
Economy (Ecopark) Covered (7)			7.00	7.00	7.00	7.00	8.00	8.00	8.00	8.00
Economy (Ecopark2) Covered (8)	-	-	-	-	-	-	-	-	5.00	6.00
Structured (9)	15.00	15.00	17.00	17.00	17.00	17.00	19.00	19.00	20.00	22.00
Sure Park (10)	17.00	17.00	20.00	20.00	20.00	20.00	23.00	23.00	24.00	24.00
Valet (10)	-	-	-	-	-	23.00	25.00	25.00	26.00	26.00

HOU	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Landing Rates (1) (5)	2.013	2.202	2.568	2.227	1.941	1.925	1.768	2.113	1.835	1.982
Terminal Space Rentals (2) (5)	88.69-90.10	84.82-103.79	88.95-110.29	96.91-99.41	90.77-93.27	85.95-88.45	87.73-90.23	92.77-95.27	87.62-90.12	64.79-67.29
Apron Rentals (2) (5)	1.884	2.004	2.355	1.973	1.787	1.815	1.891	2.209	1.765	1.652-1.853
Aircraft Parking (per day) (4)	70.00-300.00	70.00-300.00	70.00-300.00	70.00-300.00	100.00-400.00	100.00-400.00	100.00-400.00	100.00-400.00	100.00-400.00	100.00-400.00
Cargo (per day) (3)	125.00-450.00	125.00-450.00	125.00-450.00	125.00-450.00	200.00-600.00	200.00-600.00	200.00-600.00	200.00-600.00	200.00-600.00	200.00-600.00
Parking Rates (6)										
Economy (Ecopark) (11)	6.00	6.00	8.00	8.00	10.00	10.00	12.00	-	-	-
Economy (Ecopark2) (12)	-	-	6.00	6.00	6.00	6.00	10.00	10.00	10.00	10.00
Structured (9)	15.00	15.00	17.00	17.00	17.00	17.00	19.00	19.00	20.00	22.00
Valet (10)	-	-	-	-	-	23.00	25.00	25.00	26.00	26.00

(1) Per 1,000 pounds of landing weight
(2) Range per square foot
(3) Daily cargo rates increased on August 1, 2011 at Intercontinental and Hobby to a range of $200-$600
(4) Daily aircraft parking rates increased on August 1, 2011 at Intercontinental and Hobby to a range of $100-$400
(5) 2008-2016 actual rates provided versus budgeted, as reported in CAFR 2016 & prior; 2017 budgeted rates provided.
(6) Maximum per day
(7) New rates effective September 1, 2013
(8) New rates effective October 1, 2016
(9) New rates effective May 1, 2017
(10) New rates effective July 1, 2015
(11) Ecopark 1 at Hobby closed March 18, 2014
(12) New rates effective May 5, 2014

PASSENGER STATISTICS
LAST TEN YEARS

Domestic Passengers								
	Intercontinental		Hobby		Ellington Airport		Total	
Fiscal Year	Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change
2008	35,200	-0.2%	9,097	5.3%	-	-	44,297	0.9%
2009	31,995	-9.1%	8,286	-8.9%	-	-	40,281	-9.1%
2010	32,093	0.3%	8,755	5.7%	-	-	40,848	1.4%
2011	31,666	-1.3%	9,434	7.8%	-	-	41,100	0.6%
2012	31,778	0.4%	10,192	8.0%	-	-	41,970	2.1%
2013	30,830	-3.0%	10,690	4.9%	-	-	41,520	-1.1%
2014	30,832	0.0%	11,609	8.6%	-	-	42,441	2.2%
2015	31,968	3.7%	11,837	2.0%	-	-	43,805	3.2%
2016	31,959	0.0%	12,208	3.1%	-	-	44,167	0.8%
2017	30,809	-3.6%	12,423	1.8%	-	-	43,232	-2.1%

International Passengers							HAS Passengers	
	Intercontinental		Hobby		Total		Total	
Fiscal Year	Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change
2008	7,976	5.6%	-	-	7,976	5.6%	52,273	1.6%
2009	7,642	-4.2%	-	-	7,642	-4.2%	47,923	-8.3%
2010	8,138	6.5%	-	-	8,138	6.5%	48,986	2.2%
2011	8,732	7.3%	-	-	8,732	7.3%	49,832	1.7%
2012	8,686	-0.5%	-	-	8,686	-0.5%	50,656	1.7%
2013	8,795	1.3%	-	-	8,795	1.3%	50,315	-0.7%
2014	9,470	7.7%	-	-	9,470	7.7%	51,911	3.2%
2015	10,018	5.8%	4	-	10,022	5.8%	53,827	3.7%
2016	10,901	8.8%	519	12875.0%	11,420	13.9%	55,587	3.3%
2017	10,606	-2.7%	860	65.7%	11,466	0.4%	54,698	-1.6%

PASSENGER STATISTICS BY CARRIER
FOR YEARS ENDED JUNE 30, 2017 AND 2016

Domestic	Intercontinental				Hobby			
	Fiscal Year 2016		Fiscal Year 2017		Fiscal Year 2016		Fiscal Year 2017	
Airlines	Total Passengers (in thousands)	Market Share	Total Passengers (in thousands)	Market Share	Total Passengers (in thousands)	Market Share	Total Passengers (in thousands)	Market Share
Alaska Airlines	137,433	0.3%	185,191	0.5%	-	0.0%	-	0.0%
American Airlines, Inc.	1,475,647	3.5%	1,749,382	4.2%	-	0.0%	17,213	0.1%
Compass Airlines - AE	139,995	0.3%	147,057	0.4%	-	0.0%	-	0.0%
EpressJet Airlines Inc. - AE	254	0.0%	70	0.0%	44,520	0.4%	25,307	0.2%
Mesa Airlines, Inc. - AE	173,746	0.4%	70,301	0.2%	-	0.0%	146,187	1.1%
Republic Airlines - AE	147,419	0.3%	122,752	0.3%	-	0.0%	-	0.0%
SkyWest Airlines -AE	-	0.0%	91,704	0.2%		0.0%	-	0.0%
Envoy (American Eagle) - AA	45,614	0.1%	63,960	0.1%	116,741	0.8%	107,094	0.8%
American Airlines, Inc. Subtotal	**1,982,675**	**4.6%**	**2,245,226**	**5.4%**	**161,261**	**1.2%**	**295,801**	**2.2%**
Delta	713,550	1.7%	733,804	1.8%	365,340	2.9%	408,046	3.1%
Atlantic Southeast - DL	15,085	0.0%	-	0.0%	63,893	0.5%	39,345	0.3%
Compass Airlines - DL	11,335	0.0%	24,988	0.1%	-	0.0%	-	0.0%
ExpressJet Airlines Inc. - DL	165,258	0.4%	88,483	0.2%		0.0%	-	0.0%
GO JET - DL	11,857	0.0%	48,881	0.1%	-	0.0%	-	0.0%
Endeavor (Pinnacle Airlines, Inc.) - DL	235,024	0.5%	155,063	0.4%	-	0.0%	-	0.0%
Republic Airlines Inc. - DL	-	0.0%	67,960	0.2%	-	0.0%	-	0.0%
Shuttle America Corporation - DL	77,399	0.2%	88,748	0.2%	-	0.0%	-	0.0%
SkyWest Airlines - DL	230,974	0.6%	267,422	0.6%	-	0.0%	38	0.0%
Delta Subtotal	**1,460,482**	**3.4%**	**1,475,349**	**3.6%**	**429,233**	**3.4%**	**447,429**	**3.4%**
Frontier	494,804	1.2%	421,582	1.0%	-	0.0%	-	0.0%
JetBlue	-	0.0%	-	0.0%	165,993	1.3%	190,099	1.4%
Kalitta Charters, LLC		0.0%	1	0.0%	20	0.0%	22	0.0%
Seaport	3,195	0.0%	-	0.0%		0.0%	-	0.0%
Southwest Airlines Company	-	0.0%	-	0.0%	11,271,835	88.5%	11,484,628	86.5%
Southwest Airlines Company Subtotal	**-**	**0.0%**	**-**	**0.0%**	**11,271,835**	**88.5%**	**11,484,628**	**86.5%**
Spirit Airlines	1,678,712	3.9%	1,769,051	4.3%	-	0.0%	-	0.0%
United Airlines Inc.	16,487,410	38.5%	16,252,312	39.2%	-	0.0%	-	0.0%
Mesa Airlines, Inc. - UA	2,290,086	5.2%	2,820,852	6.8%	-	0.0%	-	0.0%
Republic Airlines Inc. - UA	179,327	0.4%	1,015,256	2.4%	-	0.0%	-	0.0%
Trans States - UA	371,322	0.9%	44,096	0.1%	-	0.0%	-	0.0%
ExpressJet Airlines, Inc. - UA	3,894,897	9.1%	3,544,987	8.6%	-	0.0%	-	0.0%
Shuttle America Corporation - UA	508,631	1.2%	4,083	0.0%	-	0.0%	-	0.0%
SkyWest Airlines - UA	1,829,778	4.3%	1,016,617	2.5%	-	0.0%	-	0.0%
United Airlines Inc. Subtotal	**25,561,451**	**59.6%**	**24,698,203**	**59.6%**	**-**	**0.0%**	**-**	**0.0%**
US Airways	587,593	1.4%	-	0.0%	-	0.0%	-	0.0%
Mesa Airlines, Inc. - US	16,820	0.0%	-	0.0%	171,325	1.4%	-	0.0%
Republic Airlines - US	31,025	0.1%	-	0.0%	-	0.0%	-	0.0%
US Airways Subtotal	**635,438**	**1.5%**	**-**	**0.0%**	**171,325**	**1.4%**	**-**	**0.0%**
Charter Airlines	5,173	0.0%	14,185	0.0%	8,475	0.1%	5,379	0.0%
Total Domestic	31,959,363	74.5%	30,808,788	74.4%	12,208,142	95.9%	12,423,358	93.5%

Domestic	Houston Airport System			
	Fiscal Year 2016		Fiscal Year 2017	
Airlines	Total Passengers (in thousands)	Market Share	Total Passengers (in thousands)	Market Share
Alaska Airlines	137,433	0.2%	185,191	0.3%
American Airlines, Inc.	1,475,647	2.7%	1,766,595	3.2%
Compass Airlines - AE	139,995	0.3%	147,057	0.3%
EpressJet Airlines Inc. - AE	44,774	0.1%	25,377	0.0%
Mesa Airlines, Inc. - AE	173,746	0.3%	216,488	0.4%
Republic Airlines - AE	147,419	0.2%	122,752	0.2%
SkyWest Airlines -AE	-	0.0%	91,704	0.2%
Envoy (American Eagle) - AA	162,355	0.3%	171,054	0.3%
American Airlines, Inc. Subtotal	**2,143,936**	**3.9%**	**2,541,027**	**4.6%**
Delta	1,078,890	1.9%	1,141,850	2.0%
Atlantic Southeast - DL	78,978	0.1%	39,345	0.1%
Compass Airlines - DL	11,335	0.0%	24,988	0.0%
ExpressJet Airlines Inc. - DL	165,258	0.3%	88,483	0.2%
GO JET - DL	11,857	0.0%	48,881	0.1%
Endeavor (Pinnacle Airlines, Inc.) - DL	235,024	0.5%	155,063	0.3%
Republic Airlines Inc. - DL	-	0.0%	67,960	0.1%
Shuttle America Corporation - DL	77,399	0.1%	88,748	0.2%
SkyWest Airlines - DL	230,974	0.5%	267,460	0.5%
Delta Subtotal	**1,889,715**	**3.4%**	**1,922,778**	**3.5%**
Frontier	494,804	0.9%	421,582	0.8%
JetBlue	165,993	0.2%	190,099	0.4%
Kalitta Charters, LLC	20	0.0%	23	0.0%
Seaport	3,195	0.0%	-	0.0%
Southwest Airlines Company	11,271,835	20.3%	11,484,628	21.0%
Southwest Airlines Company Subtotal	**11,271,835**	**20.3%**	**11,484,628**	**21.0%**
Spirit Airlines	1,678,712	3.1%	1,769,051	3.2%
United Airlines Inc.	16,487,410	29.7%	16,252,312	29.7%
Mesa Airlines, Inc. - UA	2,290,086	4.1%	2,820,852	5.2%
Republic Airlines Inc. - UA	179,327	0.3%	1,015,256	1.8%
Trans States - UA	371,322	0.7%	44,096	0.1%
ExpressJet Airlines, Inc. - UA	3,894,897	7.0%	3,544,987	6.5%
Shuttle America Corporation - UA	508,631	0.9%	4,083	0.0%
SkyWest Airlines - CO	1,829,778	3.3%	1,016,617	1.9%
United Airlines Inc. Subtotal	**25,561,451**	**46.0%**	**24,698,203**	**45.2%**
US Airways	587,593	1.1%	-	0.0%
Mesa Airlines, Inc. - US	188,145	0.3%	-	0.0%
Republic Airlines - US	31,025	0.1%	-	0.0%
US Airways Subtotal	**806,763**	**1.5%**	**-**	**0.0%**
Charter Airlines	13,648	0.0%	19,564	0.0%
Total Domestic	44,167,505	79.5%	43,232,146	79.0%

CITY OF HOUSTON, TEXAS

AIRPORT SYSTEM FUND

PASSENGER STATISTICS BY CARRIER TOTAL
FOR YEARS ENDED JUNE 30, 2017 AND 2016

International	Intercontinental				Hobby			
	Fiscal Year 2016		Fiscal Year 2017		Fiscal Year 2016		Fiscal Year 2017	
	Total Passengers (in thousands)	Market Share	Total Passengers (in thousands)	Market Share	Total Passengers (in thousands)	Market Share	Total Passengers (in thousands)	Market Share
AeroMexico	255,215	0.5%	255,782	0.6%	-	0.0%	-	0.0%
All Nippon Airways Company, Ltd. - ANA	140,370	0.3%	147,727	0.4%	-	0.0%	-	0.0%
American	545	0.0%	1,304	0.0%	-	0.0%	-	0.0%
Mesa Airlines - AE	-	0.0%	154	0.0%	-	0.0%	-	0.0%
American Airlines, Inc. Subtotal	**545**	**0.0%**	**1,458**	**0.0%**	**-**	**0.0%**	**-**	**0.0%**
Air China	132,565	0.3%	117,743	0.3%	-	0.0%	-	0.0%
Air France	144,162	0.3%	152,537	0.4%	-	0.0%	-	0.0%
Air New Zealand	72,132	0.2%	141,272	0.3%	-	0.0%	-	0.0%
Atlas Air	22,599	0.1%	16,131	0.0%	-	0.0%	-	0.0%
British Airways	243,464	0.6%	240,874	0.6%	-	0.0%	-	0.0%
Emirates	253,140	0.6%	202,812	0.5%	-	0.0%	-	0.0%
EVA Airways Corporation	120,942	0.3%	175,392	0.4%	-	0.0%	-	0.0%
Interjet	132,349	0.3%	136,881	0.3%	-	0.0%	-	0.0%
Jazz Air - AC	290,184	0.7%	302,752	0.7%	-	0.0%	-	0.0%
KLM	156,409	0.4%	165,431	0.4%	-	0.0%	-	0.0%
Kalitta Charters, LLC	-	0.0%	-	0.0%	3	0.0%	1	0.0%
Korean Air Lines Co., Ltd.	99,933	0.2%	79,779	0.2%	-	0.0%	-	0.0%
Lufthansa	278,409	0.6%	291,713	0.7%	-	0.0%	-	0.0%
Qatar Airways	159,583	0.4%	154,652	0.4%	-	0.0%	-	0.0%
Scandinavian Airlines	5,090	0.0%	-	0.0%	-	0.0%	-	0.0%
Singapore Airlines	79,342	0.2%	83,037	0.2%	-	0.0%	-	0.0%
Spirit Airlines	217,865	0.5%	120,767	0.3%	-	0.0%	-	0.0%
Southwest Airlines Company	-	0.0%	-	0.0%	519,473	4.1%	860,206	6.5%
TACA	57,093	0.1%	63,924	0.2%	-	0.0%	-	0.0%
Turkish Airlines	193,892	0.6%	167,402	0.4%	-	0.0%	-	0.0%
United Airlines Inc.	6,467,458	15.1%	6,229,253	15.0%	-	0.0%	-	0.0%
ExpressJet Airlines, Inc. - UA	451,177	1.1%	281,987	0.7%	-	0.0%	-	0.0%
Mesa Airlines - UA	124,619	0.3%	844,395	2.0%	-	0.0%	-	0.0%
Republic Airlines Inc. - UA	565	0.0%	1,177	0.0%	-	0.0%		0.0%
Shuttle America Corporation - UA	1,108	0.0%	-	0.0%	-	0.0%	-	0.0%
SkyWest Airlines - UA	645,101	1.5%	75,915	0.2%	-	0.0%	-	0.0%
United Airlines Inc. Subtotal	**7,690,028**	**18.0%**	**7,432,727**	**17.9%**	**-**	**0.0%**	**-**	**0.0%**
WestJet Airlines	45,055	0.1%	61,524	0.2%	**-**	**0.0%**	**-**	**0.0%**
Viva Aerobus	63,103	0.1%	40,879	0.1%	-	0.0%	-	0.0%
Volaris Airline	40,550	0.1%	48,660	0.1%	-	0.0%	-	0.0%
Charter Airlines	6,634	0.0%	4,599	0.0%	-	0.0%	-	0.0%
Total International	10,900,653	25.5%	10,606,455	25.6%	519,476	4.1%	860,207	6.5%
Total Airlines	42,860,016	100.0%	41,415,243	100.0%	12,727,618	100.0%	13,283,565	100.0%

International	Houston Airport System			
	Fiscal Year 2016		Fiscal Year 2017	
Airlines	Total Passengers (in thousands)	Market Share	Total Passengers (in thousands)	Market Share
AeroMexico	255,215	0.5%	255,782	0.5%
All Nippon Airways Company, Ltd. - ANA	140,370	0.3%	147,727	0.3%
American	545	0.0%	1,304	0.0%
Mesa Airlines - AE	-	0.0%	154	0.0%
American Airlines, Inc. Subtotal	**545**	**0.0%**	**1,458**	**0.0%**
Air China	132,565	0.2%	117,743	0.2%
Air France	144,162	0.3%	152,537	0.3%
Air New Zealand	72,132	0.1%	141,272	0.3%
Atlas Air	22,599	0.0%	16,131	0.0%
British Airways	243,464	0.4%	240,874	0.4%
Emirates	253,140	0.5%	202,812	0.4%
EVA Airways Corporation	120,942	0.2%	175,392	0.3%
Interjet	132,349	0.2%	136,881	0.2%
Jazz Air - AC	290,184	0.5%	302,752	0.6%
KLM	156,409	0.3%	165,431	0.3%
Kalitta Charters, LLC	3	0.0%	1	0.0%
Korean Air Lines Co., Ltd.	99,933	0.2%	79,779	0.1%
Lufthansa	278,409	0.5%	291,713	0.5%
Qatar Airways	159,583	0.3%	154,652	0.3%
Scandinavian Airlines	5,090	0.0%	-	0.0%
Singapore Airlines	79,342	0.1%	83,037	0.2%
Spirit Airlines	217,865	0.5%	120,767	0.2%
Southwest Airlines Company	519,473	0.9%	860,206	1.6%
TACA	57,093	0.1%	63,924	0.1%
Turkish Airlines	193,892	0.3%	167,402	0.3%
United Airlines Inc.	6,467,458	11.6%	6,229,253	11.4%
ExpressJet Airlines, Inc.	451,177	0.8%	281,987	0.5%
Mesa Airlines - UA	124,619	0.2%	844,395	1.6%
Republic Airlines Inc. - UA	565	0.0%	1,177	0.0%
Shuttle America Corporation - UA	1,108	0.0%	-	0.0%
SkyWest Airlines - UA	645,101	1.2%	75,915	0.1%
United Airlines Inc. Subtotal	**7,690,028**	**13.8%**	**7,432,727**	**13.6%**
WestJet Airlines	**45,055**	**0.1%**	**61,524**	**0.1%**
Viva Aerobus	63,103	0.1%	40,879	0.1%
Volaris Airline	40,550	0.1%	48,660	0.1%
Charter Airlines	6,634	0.0%	4,599	0.0%
Total International	11,420,129	20.5%	11,466,662	21.0%
Total Airlines	55,587,634	100.0%	54,698,808	100.0%

ORIGINATING PASSENGER ENPLANEMENTS
STATISTICAL SECTION

George Bush Intercontinental Airport

Fiscal Year	Originating Enplanements	Connecting Enplanements	Total Enplaned Passengers	Originating Enplanement Percentage
2008	10,449,631	11,190,625	21,640,256	48.3%
2009	9,190,724	10,680,955	19,871,679	46.3%
2010	9,278,705	10,854,946	20,133,651	46.1%
2011	9,696,972	10,508,661	20,205,633	48.0%
2012	9,926,431	10,249,285	20,175,716	49.2%
2013	9,235,098	10,521,105	19,756,203	46.7%
2014	9,653,120	10,452,170	20,105,290	48.0%
2015	10,453,670	10,504,885	20,958,555	49.9%
2016	11,128,767	10,301,326	21,430,093	51.9%
2017	11,105,026	9,598,774	20,703,800	53.6%

William P. Hobby Airport

Fiscal Year	Originating Enplanements	Connecting Enplanements	Total Enplaned Passengers	Originating Enplanement Percentage
2008	3,605,540	956,631	4,562,171	79.0%
2009	3,322,678	836,245	4,158,923	79.9%
2010	3,343,393	1,054,010	4,397,403	76.0%
2011	3,617,541	1,121,642	4,739,183	76.3%
2012	3,906,900	1,221,209	5,128,109	76.2%
2013	3,959,666	1,416,922	5,376,588	73.6%
2014	4,134,726	1,701,165	5,835,891	70.8%
2015	4,271,166	1,674,247	5,945,413	71.8%
2016	4,695,633	1,687,702	6,383,335	73.6%
2017	4,852,811	1,807,446	6,660,257	72.9%

Houston Airport System

Fiscal Year	Originating Enplanements	Connecting Enplanements	Total Enplaned Passengers	Originating Enplanement Percentage
2008	14,055,171	12,147,256	26,202,427	53.6%
2009	12,513,402	11,517,200	24,030,602	52.1%
2010	12,622,098	11,908,956	24,531,054	51.5%
2011	13,314,513	11,630,303	24,944,816	53.4%
2012	13,833,331	11,470,494	25,303,825	54.7%
2013	13,194,764	11,938,027	25,132,791	52.5%
2014	13,787,846	12,153,335	25,941,181	53.2%
2015	14,724,836	12,179,132	26,903,968	54.7%
2016	15,824,400	11,989,028	27,813,428	56.9%
2017	15,957,837	11,406,220	27,364,057	58.3%

AIRCRAFT OPERATIONS, LANDING WEIGHT AND CARGO ACTIVITY
STATISTICAL SECTION

	Aircraft Operations (in thousands)			Aircraft Landed Weight (in million pounds)		
Fiscal Year	Total	Increase (Decrease)	Percentage Change	Total	Increase (Decrease)	Percentage Change
2008	974	(9)	-0.88%	34,096	166	0.49%
2009	892	(82)	-8.42%	31,907	(2,189)	-6.42%
2010	858	(34)	-3.86%	31,707	(200)	-0.63%
2011	861	3	0.34%	32,564	857	2.70%
2012	838	(23)	-2.65%	32,844	280	0.86%
2013	799	(39)	-4.62%	33,041	197	0.60%
2014	811	12	1.44%	33,878	837	2.53%
2015	816	5	0.64%	31,894	(1,984)	-5.86%
2016	787	(29)	-3.55%	35,517	3,623	11.36%
2017	760	(27)	-3.43%	34,644	(873)	-2.46%

Cargo Activity (in metric tons)					
Fiscal Year	Domestic Freight	International Freight	Mail	Total Cargo	Year-over-Year Change
2008	210,532	181,091	34,957	426,580	1.0%
2009	186,085	164,840	36,082	387,007	-9.3%
2010	195,617	181,453	37,011	414,081	7.0%
2011	205,174	208,748	33,897	447,819	8.1%
2012	200,619	219,318	33,253	453,190	1.2%
2013	201,464	218,311	27,142	446,917	-1.4%
2014	193,054	226,123	27,333	446,510	-0.1%
2015	192,169	253,039	30,026	475,234	6.4%
2016	195,644	205,381	25,693	426,718	-10.2%
2017	210,730	220,172	24,903	455,805	6.8%

PERFORMANCE MEASURES
STATISTICAL SECTION

Performance Measures	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue per Enplaned Passenger	$ 19.57	$ 19.43	$ 21.28	$ 20.05	$ 20.05	$ 20.35	$ 21.05	$ 22.10	$ 22.40	$ 22.61
Maintenance and Operations Expenses per Enplaned Passenger	$ 8.76	$ 10.04	$ 9.99	$ 11.40	$ 10.44	$ 10.83	$ 10.99	$ 10.65	$ 11.34	$ 9.30
Debt Service per Enplaned Passenger	$ 6.41	$ 6.71	$ 6.37	$ 6.81	$ 6.43	$ 6.58	$ 6.47	$ 6.54	$ 6.69	$ 7.04
Outstanding Debt per Enplaned Passenger (1)	$ 90.97	$ 97.56	$ 108.23	$ 104.06	$ 97.25	$ 95.49	$ 90.10	$ 86.31	$ 86.42	$ 84.51
Intercontinental Budgeted Airline Cost per Est. Enplaned Passenger (2)	$ 11.26	$ 11.04	$ 11.06	$ 10.42	$ 10.79	$ 10.72	$ 11.21	$ 11.28	$ 10.94	$ 11.31
Intercontinental Actual Airline Cost per Enplaned Passenger (2)	$ 11.03	$ 11.53	$ 10.52	$ 10.52	$ 10.39	$ 10.52	$ 10.61	$ 10.56	$ 10.62	$ 11.10
Hobby Budgeted Airline Cost per Est. Enplaned Passenger (2)	$ 8.40	$ 8.20	$ 9.44	$ 7.99	$ 7.24	$ 7.34	$ 7.37	$ 6.99	$ 6.76	$ 6.48
Hobby Actual Airline Cost per Enplaned Passenger (2)	$ 7.79	$ 8.64	$ 8.75	$ 7.68	$ 6.63	$ 6.64	$ 6.19	$ 6.43	$ 7.15	$ 6.15

(1) The calculation of outstanding debt per enplaned passenger does not include unamortized discount and premium.

(2) Airline Costs include terminal building charges, aircraft parking apron charges and landing fees only for passenger carriers. The costs are calculated during the rates and charges process based on budget and estimated passengers. They are then recalculated, after the annual audit, during the rates and charges reconciliation process. The estimated costs utilized are based on projected results and are subjected to change.

CASH AVAILABLE BY DAYS FUNDED (in thousands)
STATISTICAL SECTION

	2010	2011	2012	2013	2014	2015	2016	2017
Airport System Revenue Fund (1) (2)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Operating & Maintenance Reserve (3)	41,417	42,643	43,630	46,397	49,633	50,754	51,615	51,807
Renewal & Replacement Fund (4)	19,194	19,777	20,876	11,822	11,822	10,011	10,001	10,514
Airports Improvement Fund (4)	403,564	438,368	455,030	460,634	487,974	396,631	449,768	417,930
Total cash available for operations	$ 464,175	$ 500,788	$ 519,536	$ 518,853	$ 549,429	$ 457,396	$ 511,384	$ 480,251
Maintenance and operating expense (5)(6)	$ 245,147	$ 262,668	$ 255,507	$ 252,745	$ 268,745	$ 283,557	$ 314,715	$ 254,506
Days in fiscal year	365	365	366	365	365	365	366	365
Daily cash requirement	$ 672	$ 720	$ 698	$ 692	$ 736	$ 777	$ 860	$ 697
Days funded	691	696	744	749	746	589	595	689
Total Airport System Cash and Investments	$ 1,045,347	$ 1,057,458	$ 1,034,122	$ 1,087,394	$ 1,139,956	$ 1,222,307	$ 1,248,346	$ 1,259,622

(1) The funds are listed in order of availability; each fund must be fully depleted before the next can be used.

(2) Available funding in the Airport System Revenue Fund on June 30th is transferred to the Airports Improvement Fund to comply with airport bond ordinances.

(3) Excludes operating grant included in amount restricted for maintenance and operations on Statement of Net Position.

(4) Excludes cash required for accrued liabilities and capital appropriations.

(5) Excludes asset impairments and write-offs and expense incurred on cancelled capital projects.Includes interest expense for pension obligation bonds and the note payable to Southwest Airlines.

(6) Maintenance and operating expense funded by cash available for operations decreased by $60.2 million between FY2017 and FY2016, primarily due to a $67.4 million decrease in pension expense associated with pension reform enacted in 2017. Without the reform, it is estimated that days funded at 6/30/2017 would be 557.

All of the necessary appropriation data for years before FY2010 is not readily available; this table will be expanded to cover ten years as soon as data is available.

AIRPORT INFORMATION
STATISTICAL SECTION

	IAH	HOU	EFD (1)
Location	22 miles N of downtown Houston	7 miles SE of downtown Houston	15 miles SE of downtown Houston
Area	10,080.10 acres	1,501.9 acres	1,944.60 acres
Elevation	97 MSL	46 MSL	32 MSL
Airport Code	IAH	HOU	EFD
Runways	8R-26L 9,402x150 ft 9-27 10,000x150 ft 15L-33R 12,001x150 ft 15R-33L 10,000x150 ft 8L-26R 9,000x150 ft	13L-31R 5,148x100 ft 13R-31L 7,602x150 ft 17-35 6,000x150 ft 4-22 7,602x150 ft	17L-35R 4,609x 80 ft 17R-35L 9,001x150 ft 4-22 8,001x150 ft
Terminal Space	Airlines 2,942,710 sf Tenants 188,306 sf Public/Common 769,716 sf Mechanical 278,048 sf Other 198,289 sf Total 4,377,069 sf	Airlines 537,790 sf Tenants 63,672 sf Public/Common 147,287 sf Mechanical 115,815 sf Other 47,615 sf Total 912,179 sf	n/a
Number of Gates/Hardstand Positions	128/7	30/n/a	n/a
Commercial Airlines Apron	4,023,940 sf	681,239 sf	n/a
Rental Car Facility	10 Rental Car Agencies	12 Rental Car Agencies	n/a
Parking Spaces	S-T Hourly 15,320 L-T ECO 8,612 Employee 2,030 Total 25,962	S-T Hourly 5,601 L-T ECO 934 Employee 871 Total 7,406	n/a

Note 1: No scheduled commercial flights.

EMPLOYEE STAFFING BY FUNCTION
STATISTICAL SECTION

Full time Equivalent (FTE)
Number of Employees (1)

Department	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Administration	331.5	343.8	347.8	361.0	329.6	292.3	303.5	314.3	343.0	321.1
George Bush Intercontinental (IAH) Operations (2)	916.9	898.7	851.7	833.9	789.9	755.8	775.6	704.4	630.5	620.4
William P. Hobby (HOU) Operations (2)	309.9	331.6	314.7	300.8	266.6	264.1	260.1	245.6	246.3	244.2
Ellington Airport Operations (2)	28.9	30.7	30.5	30.8	28.9	27.3	29.5	27.7	25.4	25.8
Total FTE Employees	1,587.2	1,604.8	1,544.7	1,526.5	1,415.0	1,339.5	1,368.7	1,292.0	1,245.2	1,211.5

Note 1: A full-time employee is scheduled to work 2,080 hours per year (including vacation and sick leave). Full time equivalent employment is calculated by dividing total labor hours including overtime by 2,080. Human Resources, Police and Fire Operations are not included in employee counts for the Houston Airport System. They are provided by the City of Houston and paid for through interfund service charges. See Note #8 in the Notes to the Financial Statements.

Note 2: Includes Airside, Landside, Communication Center and Ground Transportation.

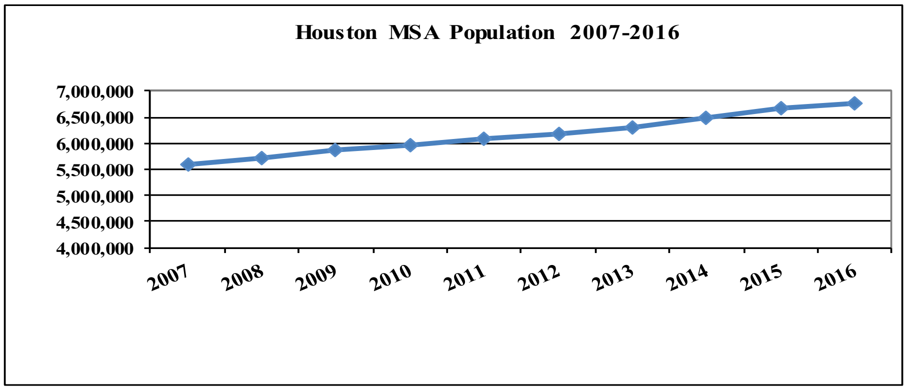
SERVICE AREA/SERVICE AREA POPULATION/PRINCIPAL EMPLOYERS
STATISTICAL SECTION

The primary service region for the Houston Airport System, the 9-county Houston-The Woodlands-Sugar Land Metropolitan Statistical Area ("MSA"), has a diverse economic base and is recognized as a major national and international energy, financial, medical, transportation, retail, and distribution center. The MSA extends out five additional counties of Matagorda, Trinity, Walker, Washington, and Wharton for the broader The Houston-The Woodlands Combined Statistical Area ("CSA"). According to U.S. Bureau of the Census, the population estimate was 6.77 million for the MSA and 6.97 million for the CSA as of July 1, 2016.

Houston, the nation's fourth most populous city, is the largest in the South and Southwest. The Houston MSA ranks fifth in population among the nation's metropolitan areas.

Service Area Population

Year	Houston MSA Population
2007	5,597,674
2008	5,726,705
2009	5,867,489
2010	5,946,800
2011	6,086,538
2012	6,177,035
2013	6,313,158
2014	6,490,180
2015	6,656,947
2016	6,772,470



PRINCIPAL EMPLOYERS
Current Year and Nine Years Ago

Employer	June 30, 2017 Employees	June 30, 2017 Rank	June 30, 2017 Percentage of Total City Employment	June 30, 2008 Employees	June 30, 2008 Rank	June 30, 2008 Percentage of Total City Employment
Walmart	37,000	1	3.18%			
Memorial Hermann Health System	24,108	2	2.07%	19,000	1	1.90%
HEB	23,732	3	2.04%			
University of Texas MD Anderson Cancer Center	21,086	4	1.81%	15,000	3	1.50%
McDonald's Corp	20,918	5	1.80%			
Houston Methodist	20,000	6	1.72%	9,991	7	1.00%
Kroger Company	16,000	7	1.38%	12,000	6	1.20%
United Airlines	14,941	8	1.28%			
Schlumberger Limited	12,069	9	1.04%			
Shell Oil Company	11,507	10	0.99%	13,000	4	1.30%
Continental Airlines, Inc.				16,000	2	1.60%
ARAMARK Corp.				8,500	10	0.85%
Baylor College of Medicine				9,143	8	0.91%
Hewlett-Packard Corporation				9,000	9	0.90%
University of Tx Medical Branch at Galveston				12,318	5	1.23%
Total :	201,361		17.31%	123,952		12.39%

SOURCE: GHP Houston Facts-2017; Here is Houston Facts (9/6/2017)

Employers excludes school districts and city, county, state and federal governments.
Employee numbers are for the ten-county region, not the city only.
Employee may live outside the City.

Total Houston Residents employed regardless of where they work:

June 2017 Local Area Unemployment Statistics, Bureau of Labor Statistics	2017	1,163,299
June 2008 Texas Workplace Commission	2008	999,582

DEMOGRAPHIC AND ECONOMIC STATISTICAL SECTION

Fiscal Year	Population (1)	Personal Income (in thousands) (2)	Per Capital Personal Income (2)	Median Age (2)	Education Level in Years of Formal Schooling (2)	School Enrollment (2)	Average Unemployment Rate (percentage) (3)
2008	2,208,180	$ 54,306,140	$ 26,836	32.8	Not available	811,154 (5)	4.2 (2)
2009	2,244,615	$ 57,795,120	$ 25,563	32.9	13.2	520,118 (6)	5.9 (2)
2010	2,257,926	$ 51,886,111	$ 24,623	32.8	12.4	525,506 (6)	7.0 (2)
2011	2,099,451 (11)	Not available	$ 26,109	32.2	12.7	560,316 (6)	8.2 (7)
2012	2,145,146	Not available	$ 26,179 (8)	33.2 (9)	13.0 (9)	576,020 (8)	7.5 (10)
2013	2,160,821	Not available	$ 26,849 (8)	32.1 (8)	13.0 (6), (8)	548,061 (6)	6.5 (7)
2014	2,195,914	Not available	$ 27,029 (8)	32.3 (8)	13.0 (8)	557,780 (8)	9.0 (8)
2015	2,239,558	Not available	$ 27,305 (11)	32.4 (11)	13.0 (6), (8)	564,871 (8)	4.4 (12)
2016	2,296,224 (8)	Not available	$ 27,938 (8)	32.6 (8)	13.0 (6), (8)	580,250 (8)	5.8 (10)
2017	2,303,482 (8)	Not available	$ 28,503 (8)	32.6 (8)	13.1 (6), (8)	594,377 (8)	5.7 (10)

(1) Source: Population Estimate program, U. S. Census Bureau, as of the beginning of the fiscal year. (Fiscal year 2016 is as of July 1, 2015.)

(2) Source: American Community Survey, U. S. Census Bureau. (Fiscal year 2016 data is for calendar year 2015.)

(4) Source: Texas Workforce Commission

(5) School enrollment for the City of Houston is not available. The number reflects the Houston metropolitan area.

(6) School enrollment includes nursery school through graduate school.

(7) Source: Local Area Unemployment Statistics, Bureau of Labor Statistics Texas Workforce Commission

(8) Source: U. S. Census Bureau FactFinder

(9) This is the average for the MSA (Metropolitan Service Area).

(10) Source: Bureau of Labor Statistics

(11) Source: American FactFinder

(12) Source: Texas Labor Market TRACER

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Take-Off by Carter Ernst & Paul Kittelson

COMPLIANCE SECTION

COMPREHENSIVE ANNUAL FINANCIAL REPORT

CITY OF HOUSTON

TEXAS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE PASSENGER FACILITY CHARGE PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH REQUIREMENTS ISSUED BY THE FEDERAL AVIATION ADMINISTRATION

To the Honorable Mayor, Members of City Council
and City Controller of the City of Houston, Texas

Report on Compliance

We have audited the City of Houston, Texas ("the City") compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies,* issued by the Federal Aviation Administration ("the Guide"), that could have a direct and material effect on its Passenger Facility Charge ("PFC") Program for the year ended June 30, 2017.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its PFC.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the City's PFC program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the PFC program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the PFC program; however, our audit does not provide a legal determination on the City's compliance.

4828 Loop Central Drive • Suite 1000 • Houston, TX • 77081

To the Honorable Mayor, Members of City Council
and City Controller of the City of Houston, Texas
November 20, 2017

Opinion

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the PFC program for the year ended June 30, 2017.

Report on Internal Control over **Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the PFC program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the PFC program and to test and report on internal control over compliance in accordance with the Guide, but not for the purpose of expressing an opinion of the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or to detect and correct, noncompliance with a type of compliance requirement of the Guide on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of the Guide will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a PFC program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weakness or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Guide. Accordingly, this report is not suitable for any other purpose.

4828 Loop Central Drive • Suite 1000 • Houston, TX • 77081

To the Honorable Mayor, Members of City Council
and City Controller of the City of Houston, Texas
November 20, 2017

Report on Passenger Facility Charge Revenues and Disbursements Schedules

We have audited the basic financial statements of the City, as of and for the year ended June 30, 2017, and have issued our report thereon dated November 20, 2017, which contained an unmodified opinion on those financial statements and a reference to other auditors. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying passenger facility charge revenues and disbursements schedules are presented for purposes of additional analysis as required by the Guide and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the passenger facility charge revenues and disbursements schedules are fairly stated in all material respects in relation to the financial statements as a whole.

McConnell & Jones LLP   Banks, Finley, White & Co.

November 20, 2017

CITY OF HOUSTON, TEXAS
PASSENGER FACILITY CHARGE REVENUES AND DISBURSEMENTS SCHEDULE
CITY OF HOUSTON AIRPORT SYSTEM
WILLIAM P. HOBBY AIRPORT (HOU)
For the Year Ended June 30, 2017

	June 30, 2016 Program Total	Quarter 1 Jul-Sept	Quarter 2 Oct-Dec	Quarter 3 Jan-Mar	Quarter 4 Apr-Jun	FY 2017 Total	June 30, 2017 Program Total
REVENUES							
Collections (Note 3)	$ 133,432,136	6,182,224	5,654,398	5,763,785	6,463,188	24,063,595	$ 157,495,731
Interest	2,377,197	119,323	146,352	139,622	93,016	498,313	2,875,510
Total Revenues	135,809,333	6,301,547	5,800,750	5,903,407	6,556,204	24,561,908	160,371,241
DISBURSEMENTS							
1.01 Rehab Runways	2,857,271	-	29,676	-	161,028	190,704	3,047,975
1.02 Rehab & Modification to Taxiways	13,429,853	-	72,462	-	342,696	415,158	13,845,011
1.03 Expand Taxiway Electrical System	3,220,026	-	-	-	-	-	3,220,026
1.04 Arpt Drainage & Stormwater Improvs	3,366,230	-	73,830	-	196,732	270,562	3,636,792
1.05 Acquire Runway 17 Protection Zone	487,746	-	6,047	-	23,968	30,015	517,761
1.06 Airfield Lighting & Control	7,062,960	-	30,010	-	35,020	65,030	7,127,990
1.07 Central Terminal Expansion	25,224,594	-	279,037	-	1,084,292	1,363,329	26,587,923
1.08 Conduct Master Plan	393,948	-	-	-	-	-	393,948
1.09 Central Concourse Equipment	12,541,851	-	106,035	-	200,936	306,971	12,848,822
1.10 Apron Reconstruction	2,505,217	-	129,987	-	221,388	351,375	2,856,592
1.11 Taxiway & Taxilane Reconstruction	5,244,390	-	272,112	-	463,452	735,564	5,979,954
1.12 Overlay Runway 12R/30L	5,047,388	-	33,092	-	52,231	85,323	5,132,711
1.13 Perimeter Fencing & Obstruction	1,509,231	-	1,266	-	1,999	3,265	1,512,496
1.14 Access Controls & Telecom	479,939	-	37,288	-	58,856	96,144	576,083
1.15 Environmental Impact Statement	200,576	-	5,737	-	15,081	20,818	221,394
1.16 Land Acquisition RW4 RPZ	565,283	-	1,877	-	8,878	10,755	576,038
1.17 Drainage/Stormwater Plan	1,375,000	-	-	-	-	-	1,375,000
1.18 PFC Consulting, Admin, Audit	97,621	-	-	-	-	-	97,621
Subtotal HOU 1.00 Projects	85,609,124	-	1,078,456	-	2,866,557	3,945,013	89,554,137
2.03 International Terminal - Roadways	-	-	-	3,295,421	-	3,295,421	3,295,421
2.04 Elevated passenger walkway	-	-	-	449,304	-	449,304	449,304
2.05 Satellite utilities plant - Phase I	-	-	-	1,458,059	-	1,458,059	1,458,059
2.07 Central concourse expansion	-	-	-	25,815,725	9,662,512	35,478,237	35,478,237
2.08 Explosive detection baggage equip.	-	-	-	5,295,282	-	5,295,282	5,295,282
2.09 Partial reconstruction R/W 4-22	-	-	-	-	1,407,091	1,407,091	1,407,091
2.10 Partial reconstruction Taxiway C	-	-	-	-	356,727	356,727	356,727
2.11 Partial reconstruct NE perimeter rd	-	-	-	-	218,000	218,000	218,000
Subtotal HOU 2.00 Projects	-	-	-	36,313,791	11,644,330	47,958,121	47,958,121
Total Disbursements	85,609,124	-	1,078,456	36,313,791	14,510,887	51,903,134	137,512,258
Net PFC Revenues	$ 50,200,209	6,301,547	4,722,294	(30,410,384)	(7,954,683)	(27,341,226)	$ 22,858,983
PFC Account Balance	$ 50,200,209	56,501,756	61,224,050	30,813,666	22,858,983	22,858,983	$ 22,858,983

See Notes to the Passenger Facility Charge Revenues and Disbursements Schedules.

CITY OF HOUSTON, TEXAS
PASSENGER FACILITY CHARGE REVENUES AND DISBURSEMENTS SCHEDULE
CITY OF HOUSTON AIRPORT SYSTEM
GEORGE BUSH INTERCONTINENTAL AIRPORT (IAH)
For the Year Ended June 30, 2017

	June 30, 2016 Program Total	Quarter 1 Jul-Sept	Quarter 2 Oct-Dec	Quarter 3 Jan-Mar	Quarter 4 Apr-Jun	FY 2017 Total	June 30, 2017 Program Total
REVENUES							
Collections (Note 3)	$ 414,050,383	20,243,899	18,318,552	18,337,414	14,746,122	71,645,987	$ 485,696,370
Interest	5,534,572	335,480	414,520	426,512	396,201	1,572,713	7,107,285
Total Revenues	419,584,955	20,579,379	18,733,072	18,763,926	15,142,323	73,218,700	492,803,655
DISBURSEMENTS							
1.01 Automated People Mover System	135,387,173	256,026	4,709,961	171,600	16,092,071	21,229,658	156,616,831
1.02 Terminal B Expansion & Improvements	33,539,948	-	866,512	51,667,000	5,043,499	57,577,011	91,116,959
1.03 Central FIS Facility	66,759,283	-	2,370,715	-	6,612,291	8,983,006	75,742,289
1.04 North Parallel Runway 8L/26R	23,925,688	-	1,008,486	-	2,012,648	3,021,134	26,946,822
1.05 Administrative Costs	112,917	-	-	-	-	-	112,917
1.06 Central Plant HVAC Upgrades	8,261,805	-	377,579	-	4,859,401	5,236,980	13,498,785
1.07 Terminal A/B South Taxiways	10,457,702	-	404,715	-	1,087,999	1,492,714	11,950,416
Total Disbursements	278,444,516	256,026	9,737,968	51,838,600	35,707,909	97,540,503	375,985,019
Net PFC Revenues	$ 141,140,439	20,323,353	8,995,104	(33,074,674)	(20,565,586)	(24,321,803)	$ 116,818,636
PFC Account Balance	$ 141,140,439	161,463,792	170,458,896	137,384,222	116,818,636	116,818,636	$ 116,818,636

See Notes to the Passenger Facility Charge Revenues and Disbursements Schedules.

CITY OF HOUSTON, TEXAS
NOTES TO THE PASSENGER FACILITY CHARGE REVENUES AND DISBURSEMENTS SCHEDULES
For the year ended June 30, 2017

NOTE 1 - PASSENGER FACILITY CHARGE PROGRAM

The Passenger Facility Charge ("PFC") was established by Title 49, United States Code ("U.S.C."), Section 40117, which authorizes the Secretary of Transportation (further delegated to the FAA Administrator) to approve the local imposition of an airport PFC of $1, $2, $3, $4, or $4.50 per enplaned passenger for use on certain airport projects. Under Part 158, public agencies (as defined in the statute and regulation) controlling commercial service airports can apply to the FAA for authority to impose a PFC for use on eligible projects.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The accompanying passenger facility charge revenues and disbursements schedules present revenues received on a cash basis, while expenditures are reported based upon the allocation of costs to approved projects.

NOTE 3 - RECONCILIATION TO STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Passenger facility charges are reported on an accrual basis in the City of Houston Airport System Fund Statement of Revenues, Expenses and changes in Net Position in the Comprehensive Annual Financial Report. Reporting standards adopted by the FAA require for purposes of the PFC Revenues and Disbursements Schedule such charges be reported on a cash basis. A reconciliation between cash collections and revenue reported on the accrual basis is as follows:

Fiscal year 2017	William P. Hobby Airport	George Bush Intercontinental	Airport System Total
Passenger Facility Charges:			
Cash collections per Revenues and Disbursements Schedule	$ 24,063,595	$ 71,645,987	$ 95,709,582
Less prior year accrual	(2,213,634)	(7,330,056)	(9,543,690)
Add current year accrual	2,338,353	13,034,554	15,372,907
Amounts per Statement of Revenues, Expenses and Changes in Net Position	$ 24,188,314	$ 77,350,485	$ 101,538,799

CITY OF HOUSTON, TEXAS
PASSENGER FACILITY CHARGE PROGRAM AUDIT SUMMARY
For the year ended June 30, 2017

1.	Type of report issued on PFC financial statements.	Unmodified
2.	Type of report on PFC compliance.	Unmodified
3.	Quarterly Revenues and Disbursements reconcile with submitted quarterly reports and reported un-liquidated revenue matches actual amounts.	___X___Yes ________No
4.	PFC Revenues and Interest are accurately reported.	___X___Yes ________No
5.	The Public Agency maintains a separate financial accounting record for each application.	___X___Yes ________No
6.	Funds disbursed were for PFC-eligible items as identified in the FAA Decision to pay only for the allowable costs of the projects.	___X___Yes ________No
7.	Monthly carrier receipts were reconciled with quarterly carrier reports.	___X___Yes ________No
8.	PFC revenues were maintained in a separate interest-bearing capital account or commingled only with other interest-bearing airport capital funds.	___X___Yes ________No
9.	Serving carriers were notified of PFC program actions/changes approved by the FAA.	___X___Yes ________No
10.	Quarterly Reports were transmitted (or available via website) to remitting carriers.	___X___Yes ________No
11.	The Public Agency is in compliance with Assurances 5, 6, 7 and 8.	___X___Yes ________No
12.	Project design and implementation are carried out in accordance with Assurance 9.	___X___Yes ________No
13.	Program administration is carried out in accordance with Assurance 10.	___X___Yes ________No
14.	For those public agencies with excess revenue, a plan for the use of this revenue has been submitted to the FAA for review and concurrence.	___X___Yes ________No

CITY OF HOUSTON, TEXAS
PASSENGER FACILITY CHARGE PROGRAM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2017

A. SUMMARY OF AUDITORS' RESULTS

1) There were no material weaknesses identified during the audit of the passenger facility charge program.
2) There were no significant deficiencies identified during the audit of the passenger facility charge program.
3) The auditors' report on compliance for the passenger facility charge program expresses an unmodified opinion.

B. FINDINGS AND QUESTIONED COSTS

None

CITY OF HOUSTON
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APPENDIX B-1

GLOSSARY OF TERMS AND EXCERPTS OF THE MASTER ORDINANCE

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APPENDIX B-1

GLOSSARY OF TERMS AND EXCERPTS OF THE MASTER ORDINANCE

Glossary of Terms

"Act" means, collectively, Chapters 1201-1205, 1207, 1371, and 1503, Texas Government Code, as amended.

"Additional Senior Lien Bonds" means the additional senior lien revenue bonds and obligations permitted to be issued by the City pursuant to Section 5.01 of the Master Ordinance.

"Additional Senior Lien Notes" means the additional senior lien revenue notes permitted to be issued by the City pursuant to Section 5.01 of the Master Ordinance.

"Additional Senior Lien Obligations" means Additional Senior Lien Bonds and/or Additional Senior Lien Notes.

"Additional Subordinate Lien Bonds" means the additional subordinate lien revenue bonds, notes and obligations permitted to be issued by the City pursuant to Section 5.01 of the Master Ordinance.

"Airports Improvement Fund" means the fund described in Section 3.14 of the Master Ordinance.

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

"Airport Obligations" means any or all of the Bonds and Inferior Lien Bonds.

"Airport System" means all airport, heliport and aviation facilities, or any interest therein, now or from time to time hereafter owned, operated or controlled in whole or in part by the City, together with all properties, facilities and services thereof, and all additions, extensions, replacements and improvements thereto, and all services provided or to be provided by the City in connection therewith, but expressly excluding Special Facilities. The Airport System currently includes the present airports of the City, known as "George Bush Intercontinental Airport/Houston," "William P. Hobby Airport," and "Ellington Airport" (formerly known as "Ellington Field").

"Authorized System Purposes" means, collectively, the purposes of establishing, improving, enlarging, extending and repairing the airports of the City or buildings, improvements, landing fields or other facilities or services which are necessary, desirable or convenient for the efficient operation and maintenance of the airports of the City, and acquiring land for the airports of the City, as further described by the Act.

"Aviation Director" means the Director of the Houston Airport System (a department of the City that operates the Airport System), or his successor or person acting in such capacity.

"Bonds" means any or all of the Senior Lien Bonds, Senior Lien Notes, and the Subordinate Lien Bonds, as the context may indicate, including Completion Bonds and Short Term/Demand Obligations.

"Business Day" means any day other than a Saturday, Sunday or other day on which the New York Stock Exchange is closed or on which banks are authorized or required to be closed in any of the City of Houston, Texas, the City of New York, New York, or any other municipality in which the principal office of the applicable Paying Agent/Registrar is located.

"City" means the City of Houston, Texas, and, where appropriate, the City Council thereof, or any successor thereto as the owner and operator of the Airport System.

"Completion Bonds" means each series of Bonds permitted to be issued by the City pursuant to Section 5.03 of the Master Ordinance.

"Credit Agreement" means any agreement between the City and a third party financial institution pursuant to which such third party financial institution issues a letter of credit, municipal bond insurance policy, line of credit, standby bond purchase agreement, surety policy, surety bond or other guarantee for the purpose of enhancing the creditworthiness or liquidity of any of the City's obligations pursuant to any Airport Obligations or Qualified Hedge Agreements and in consideration for which the City may agree to pay, but solely from Net Revenues as provided herein, (i) periodic payments for the availability of such Credit Agreement and/or (ii) reimbursements or repayments of any amounts advanced under such Credit Agreement, together with interest and other stipulated costs and charges related to such amounts advanced. Obligations of the City pursuant to a Credit Agreement shall be deemed to be, and shall be included within, the Debt Service Requirements for the series of Airport Obligations to which the Credit Agreement relates. Further, obligations of the City to make payments under a Credit Agreement as reimbursements or repayments of amounts paid or advanced under such Credit Agreement for interest on or principal of any Airport Obligations (including interest and other stipulated costs and charges related to such amounts advanced) shall be deemed to be payments of interest on or principal of such Airport Obligations. Each Credit Agreement (and related Credit Agreement Obligations) shall be deemed to be a part of the Airport Obligations of the series to which it relates for the purpose of securing its payment or repayment by the pledge of Net Revenues as provided in Articles III, V and VI of the Master Ordinance. However, unless otherwise provided in any Supplemental Ordinance, issuers of Credit Agreements shall not be treated as Owners of Airport Obligations for purposes of any voting rights to approve amendments or to direct the exercise of any remedies under the Master Ordinance.

"Credit Agreement Obligations" means Airport Obligations held by or on behalf of the provider of a credit or liquidity facility in the form of a credit agreement loan, credit agreement note or other obligation of a provider of a Credit Agreement.

"Debt Service Requirements" means, as of any date of calculation, an amount equal to the sum of the following for any period and with respect to all or any portion of the Airport Obligations:

A. Current interest scheduled to accrue during such period on such Airport Obligations, except to the extent that provision for the payment of such interest has been made by (i) appropriating for such purpose amounts sufficient to provide for the full and timely payment of such interest either from proceeds of Airport Obligations, from interest earned or to be earned thereon, from other Airport System funds other than Net Revenues, or from any combination of such sources and (ii) depositing such amounts (except in the case of interest to be earned, which shall be deposited as received) into a fund or account for capitalized interest, the proceeds of which are required to be transferred as needed into the Senior Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Interest and Sinking Fund or the Inferior Lien Bond Interest and Sinking Fund, as the case may be;

Plus

B. That portion of the principal amount of, or compounded interest on, such Airport Obligations scheduled to be payable on or before the next July 1 (either at maturity, by reason of amortization of bank bonds, or by reason of scheduled mandatory redemptions, but after taking into account all prior optional and mandatory bond redemptions) which would accrue if such principal amount were deemed to accrue daily in equal amounts from the next preceding July 1;

Less

C. In addition to (and without duplicating) the amounts credited under paragraph A. above, any portion or all of the interest on or principal of Airport Obligations which has been irrevocably committed by the City to be paid from other Airport System funds other than Net Revenues, including but not limited to PFC Revenues or Excluded Fee and Charge Revenues;

provided, however, that the following rules shall apply to the computation of Debt Service Requirements on certain series of Short Term/Demand Obligations and on any series of Airport Obligations bearing interest at a floating or variable rate:

> For any series of Short Term/Demand Obligations issued pursuant to a commercial paper program or similar program, Debt Service Requirements shall be computed on the assumption that the principal amount shall continuously be refinanced under such program and remain outstanding until the first Fiscal Year for which interest on such Short Term/Demand Obligations has not been capitalized or otherwise funded or provided for, at which time (which shall not be beyond the term of such program) it shall be assumed that the outstanding principal amount thereof shall be refinanced with a series of Airport Obligations which shall be assumed to be amortized over a period not to exceed 25 years and shall be assumed to be amortized in such a manner that the maximum Debt Service Requirements in any twelve (12) month period shall not exceed 110% of the minimum Debt Service Requirements for any other twelve (12) month period, and shall be assumed to bear interest at a fixed interest rate estimated by the City's financial advisor or underwriter to be the interest rate such series of Airport Obligations would bear if issued on such terms on the date of such estimate;
>
> For any series of Airport Obligations bearing interest at a variable or adjustable rate or a rate to be negotiated or revised from time to time such that the actual future rate of interest thereon cannot be ascertained at the time of calculation, it shall be assumed that such Airport Obligations will bear interest at the higher of (1) a long-term interest rate estimated by the City's financial advisor or underwriter to be the average rate of interest such Airport Obligations would bear if issued as long-term bonds bearing interest at fixed interest rates to be amortized over 30 years with level debt service or (2) a short-term interest rate calculated as follows: (a) for any series of Airport Obligations then Outstanding, at the greater of (i) the average interest rate derived from the variable or adjustable interest rate formula or computation applicable to, or average interest rate borne by, such series of Airport Obligations during a twelve (12) month period ending within 30 days prior to the date of computation or (ii) the actual interest rate derived from such variable or adjustable interest rate formula or computation, or the actual interest rate payable on such series of Airport Obligations, on the date of such calculation, and (b) for any series of Airport Obligations then proposed to be issued, at an interest rate estimated by the City's financial advisor or underwriter to be the average rate of interest such series of Airport Obligations will bear during the period or periods for which the Debt Service Requirements are being calculated.

Debt Service Requirements shall be calculated on the assumption that no Airport Obligations Outstanding on the date of calculation will cease to be Outstanding except by reason of the payment of scheduled principal maturities or scheduled mandatory redemptions of such Airport Obligations, except as provided above for Short Term/Demand Obligations.

Credit Agreements shall cause Debt Service Requirements to be increased only to the extent of scheduled payments and charges for the availability of the Credit Agreement without regard to any repayment or reimbursement obligations or interest thereon or other stipulated costs or charges related thereto.

Qualified Hedge Agreements shall cause Debt Service Requirements to be (i) increased by the amount of any scheduled payments and charges for the availability of the Qualified Hedge Agreement, (ii) decreased by the amount of any scheduled interest payments on the related Airport Obligations which the City's financial advisor certifies to be substantially hedged pursuant to the Qualified Hedge Agreement, and (iii) increased by the gross payments of the City under the Qualified Hedge Agreement (without regard to netting); provided, however, that any variable or adjustable payment obligation of the City under the Qualified Hedge Agreement shall be deemed to be a fixed rate obligation based upon the provisions contained in paragraph (ii) of the definition of Debt Service Requirements, as certified by the City's financial advisor.

"Excluded Fee and Charge Revenues" means all income and revenues derived from fees and charges imposed by any City ordinance adopted after July 1, 2007 and declared in such ordinance to constitute fees and charges of the kind that will generate Excluded Fee and Charge Revenues. Such Excluded Fee and Charge Revenues may be authorized pursuant to any federal, state or local authority and may include, but not be limited to, any charge or fee relating to providing, enhancing or maintaining security for the Airport System or any fee or charge imposed on any commercial cargo activity of the Airport System.

"Federal Payments" means those funds received by the Airport System from the federal government or any agency thereof as payments for the use of any facilities or services of the Airport System.

"Fiscal Year" means the City's fiscal year as from time to time designated by the City, which is currently July 1 to June 30.

"Funds" means any fund or account established or maintained under the Master Ordinance, including but not limited to the Revenue Fund, the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund and the accounts created therein, the Subordinate Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Reserve Fund and the accounts created therein, the Inferior Lien Bond Interest and Sinking Fund, the Inferior Lien Bond Reserve Fund and the accounts created therein, the Operation and Maintenance Reserve Fund, the Renewal and Replacement Fund and the Airports Improvement Fund.

"Gross Revenues" means all income and revenues derived directly or indirectly by the City from the operation and use of and otherwise pertaining to the Airport System, or any part thereof, whether resulting from extensions, enlargements, repairs, betterments or other improvements to the Airport System, or otherwise, and includes, except to the extent hereinafter expressly excluded, all revenues received by the City from the Airport System, including, without limitation, all rentals, rates, fees and other charges for the use of the Airport System, or for any service rendered by the City in the operation thereof, interest and other income realized from the investment or deposit of amounts credited to any fund required to be maintained pursuant to the Master Ordinance or any other ordinance authorizing the issuance of Airport Obligations. Gross Revenues expressly exclude:

(i) proceeds of any Airport Obligations;

(ii) interest or other investment income derived from Airport Obligation proceeds deposited to the credit of any construction fund, or applied to fund capitalized interest, or interest or investment income required to be retained in the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Reserve Fund, the Inferior Lien Bond Reserve Fund, the Operation and Maintenance Reserve Fund or any escrow fund in order to accumulate therein any amount or balance required to be accumulated or maintained therein pursuant to any ordinance authorizing any series of Airport Obligations;

(iii) any monies received as grants, appropriations, or gifts, the use of which is limited by the grantor or donor to the construction or acquisition of Airport System facilities, except to the extent any such monies shall be received as payments for the use of the Airport System facilities;

(iv) any revenues derived from any Special Facilities which are pledged to the payment of Special Facilities Bonds;

(v) insurance proceeds other than loss of use or business interruption insurance proceeds;

(vi) the proceeds of any passenger facility charge or other per-passenger charge as may be hereafter authorized under federal law, including, but not limited to, those revenues defined as PFC Revenues;

(vii) sales and other taxes collected by the Airport System on behalf of the State of Texas and any other taxing entities;

(viii) Federal Payments received by the Airport System unless the City first receives an opinion from nationally recognized bond counsel to the effect that such payments, if included in Gross Revenues, would not cause the interest on the Airport Obligations to be includable within the gross income of the Owners thereof for federal income tax purposes;

(ix) the net proceeds received by the City from the disposition of any Airport System property;

(x) any Excluded Fee and Charge Revenues; and

(xi) any Taxable Bond Credit Revenues.

"Inferior Lien Bonds" means each series of inferior lien bonds Outstanding from time to time issued pursuant to the Prior Ordinances or any additional Inferior Lien Bonds issued pursuant to a Supplemental Ordinance payable from and secured in whole or in part by a lien on and pledge of Net Revenues junior and subordinate to the lien on Net Revenues securing payment of the Senior Lien Obligations and Subordinate Lien Bonds.

"Net Revenues" means that portion of the Gross Revenues remaining after the deduction of the Operation and Maintenance Expenses.

"Operation and Maintenance Expenses" means all reasonable and necessary current expenses of the City, paid or accrued, of operating, maintaining and repairing the Airport System, including, without limitation, those reasonably allocated City overhead expenses relating to the administration, operation and maintenance of the Airport System; insurance and fidelity bond premiums; payments to pension and other funds and to any self insurance fund not in excess of premiums which would otherwise be required for such insurance; any general and excise taxes or other governmental charges imposed by entities other than the City; costs of contractual and professional services, labor, materials and supplies for current operations, including the costs of such direct City services rendered to the Airport System as are requested from the City by the Airport System and as are reasonably necessary for the operation of the Airport System; costs of issuance of Airport Obligations for the Airport System (except to the extent paid from the proceeds thereof); fiduciary costs; costs of collecting and refunding Gross Revenues; utility costs; any lawful refunds of any Gross Revenues; and all other administrative, general and commercial expenses, but excluding:

(a) any allowance for depreciation;

(b) costs of capital improvements;

(c) reserves for major capital improvements, Airport System operations, maintenance or repair;

(d) any allowance for redemption of, or payment of interest or premium on, Airport Obligations;

(e) any liabilities incurred in acquiring or improving properties of the Airport System;

(f) expenses of lessees under Special Facilities Leases and operation and maintenance expenses pertaining to Special Facilities to the extent they are required to be paid by such lessees pursuant to the terms of the Special Facilities Leases;

(g) any charges or obligations incurred in connection with any lawful Airport System purpose, including the lease, acquisition, operation or maintenance of any facility or property benefiting the Airport System, provided that the payment of such charges or obligations is expressly agreed by the payee to be payable solely from proceeds of the Airports Improvement Fund;

(h) liabilities based upon the City's negligence or other grounds not based on contract; and

(i) so long as Federal Payments are excluded from Gross Revenues, an amount of expenses that would otherwise constitute Operation and Maintenance Expenses for such period equal to the Federal Payments for such period.

Operation and Maintenance Expenses shall only include those current expenses due or payable within the next 30 days.

"Outstanding" when used with reference to the Senior Lien Bonds, Senior Lien Notes, Subordinate Lien Bonds, or Inferior Lien Bonds, as the case may be, means, as of a particular date, all such bonds or notes theretofore and thereupon delivered except: (a) any such bond or note cancelled by or on behalf of the City at or before said date; (b) any such bond or note defeased pursuant to the defeasance provisions of the ordinance authorizing its issuance, or otherwise defeased as permitted by applicable law; and (c) any such bond or note in lieu of or in substitution for which another bond or note shall have been delivered pursuant to the ordinance authorizing the issuance of such bond or note.

"Owner" or "Registered Owner," when used with respect to any Airport Obligation, means the person or entity in whose name such bond or note is registered in the register maintained by the paying agent for such series of bonds or notes. Any reference to a particular percentage or proportion of the Owners shall mean the Owners at a particular time of the specified percentage or proportion in aggregate principal amount of all Senior Lien Bonds, Senior Lien Notes, Subordinate Lien Bonds or Inferior Lien Bonds then Outstanding under the Master Ordinance and any Supplemental Ordinance authorizing their issuance.

"PFC Revenues" means, during any Fiscal Year, proceeds of any charges and fees collected by the Airport System, including passenger facility charges collected by the City, pursuant to the authority granted by the Aviation Safety and Capacity Expansion Act of 1990 and 14 CFR Part 158, as amended from time to time, in respect to any component of the Airport System, and interest earnings thereon.

"Prior Ordinances" means City Ordinance Nos: 98-904, 2000-878, 2002-656, 2007-287, 2009-600, 2010-893, 2011-484, 2012-100, 2013-1064 and 2015-1004, pursuant to which the City has previously issued certain bonds, notes and obligations secured by and payable from the Net Revenues.

"Qualified Hedge Agreement" means any agreement between the City and a qualifying financial institution (as described in the following sentence) for the purpose of providing an interest rate swap, exchange, cap, collar, floor, forward or other hedging mechanism, arrangement or security, however denominated, expressly identified pursuant to its terms as being entered into in connection with and in order to hedge interest rate fluctuations on any portion of any Airport Obligations and in consideration for which the City may agree to pay, but solely from Net Revenues as herein provided, (i) periodic payments for the availability of such Qualified Hedge Agreement and/or (ii) net amounts as a result of fluctuation in hedged interest rates or in the value of any index of payment and/or (iii) termination charges. A Qualified Hedge Agreement may only be entered into with a financial institution that has long-term credit ratings or the obligations of which are unconditionally guaranteed by a financial institution with long-term credit ratings in one of the two highest generic rating categories by two of the nationally recognized rating services then rating the Airport Obligations. Obligations of the City pursuant to a Qualified Hedge Agreement shall be included within the definition of Debt Service Requirements for the series of Airport Obligations to which the Qualified Hedge Agreement relates. Further, obligations of the City to make payments under a Qualified Hedge Agreement derived from or resulting from a fluctuation in hedged interest rates or in the value of any index of payment shall be deemed to be payments of interest on the Airport Obligations so hedged. Each Qualified Hedge Agreement shall be deemed to be a part of the Airport Obligations of the series to which it relates for the purpose of securing its payment by the pledge of Net Revenues as provided in Articles III, V and VI of the Master Ordinance. However, issuers of and counterparties to Qualified Hedge Agreements shall not be treated as Owners of Airport Obligations for purposes of any voting rights to approve amendments or direct the exercise of any remedies under the Master Ordinance.

"Renewal and Replacement Fund" means the fund described in Section 3.13 of the Master Ordinance.

"Renewal and Replacement Fund Requirement" means Ten Million Dollars ($10,000,000) or any greater amount required by any Supplemental Ordinance.

"Reserve Fund Non-Participants" means, with respect to any Airport Obligations, any series designated as "Reserve Fund Non-Participants" and secured by a lien on an account of the applicable reserve fund that is created and held for the sole benefit of that series of Airport Obligations.

"Reserve Fund Participants" means:

(i) with respect to Senior Lien Bonds, any series of Senior Lien Bonds designated by the City as "Reserve Fund Participants" and secured by a lien on the Senior Lien Bond Reserve Fund Participant Account of the Senior Lien Bond Reserve Fund, and

(ii) with respect to Senior Lien Notes, any series of Senior Lien Notes secured by a lien on the Senior Lien Note Reserve Fund Participant Account of the Senior Lien Bond Reserve Fund, and

(iii) with respect to the Subordinate Lien Bonds, any series of Subordinate Lien Bonds designated by the City as "Reserve Fund Participants" and secured by a lien on the Subordinate Lien Bond Reserve Fund Participant Account of the Subordinate Lien Bond Reserve Fund, and

(iv) with respect to the Inferior Lien Bonds, any series of Inferior Lien Bonds designated by the City as "Reserve Fund Participants" and secured by a lien on the Inferior Lien Bond Reserve Fund Participant Account of the Inferior Lien Bond Reserve Fund.

"Reserve Fund Requirement" means the amount required to be maintained in the Senior Lien Bond Reserve Fund (and the accounts therein), the Subordinate Lien Bond Reserve Fund (and the accounts therein), or the Inferior Lien Bond Reserve Fund (and the accounts therein), as the case may be, as further set forth in the applicable Supplemental Ordinance and/or officers pricing certificate authorizing one or more series of Airport Obligations. Upon the issuance of any series of Airport Obligations, the amount of the Reserve Fund Requirement for such Airport Obligations shall be as set forth in the related Supplemental Ordinance or officers pricing certificate.

A. For Senior Lien Notes, such amount shall be computed and recomputed upon the issuance of each series of Senior Lien Notes to be the arithmetic average of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Senior Lien Notes then Outstanding, including the series of Senior Lien Notes then being issued.

B. For Senior Lien Bonds that are Reserve Fund Participants, such amount shall be computed upon the issuance of each series of Senior Lien Bonds that are Reserve Fund Participants and on each date on which Senior Lien Bonds that are Reserve Fund Participants are paid at maturity or optionally or mandatorily redeemed, to be the greatest amount of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Senior Lien Bonds then Outstanding that are Reserve Fund Participants.

C. For any series of Senior Lien Bonds that are Reserve Fund Non-Participants, such amount shall be computed upon the issuance of such series of Senior Lien Bonds and on each date on which any of such series of Senior Lien Bonds are paid at maturity or optionally or mandatorily redeemed, to be the greatest amount of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for such Senior Lien Bonds then Outstanding.

D. For Subordinate Lien Bonds that are Reserve Fund Participants, such amount shall be computed and recomputed upon the issuance of each series of Subordinate Lien Bonds that are Reserve Fund Participants and on each date on which Subordinate Lien Bonds that are Reserve Fund Participants are paid at maturity or optionally or mandatorily redeemed, to be the greatest amount of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Subordinate Lien Bonds then Outstanding that are Reserve Fund Participants, including any series of Subordinate Lien Bonds then being issued that are Reserve Fund Participants.

E. For any series of Subordinate Lien Bonds that are Reserve Fund Non-Participants, such amount shall be computed upon the issuance of such series of Subordinate Lien Bonds and on each date on which any of such series of Subordinate Lien Bonds are paid at maturity or optionally or mandatorily redeemed, to be the greatest amount of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for such series of Subordinate Lien Bonds then Outstanding.

F. For Inferior Lien Bonds that are Reserve Fund Participants, such amount shall be computed and recomputed upon the issuance of each series of Inferior Lien Bonds that are Reserve Fund Participants and on each date on which Inferior Lien Bonds that are Reserve Fund Participants are paid at maturity or optionally or mandatorily redeemed, to be the greatest amount of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Inferior Lien Bonds then Outstanding that are Reserve Fund Participants, including any series of Inferior Lien Bonds then being issued that are Reserve Fund Participants.

G. For any series of Inferior Lien Bonds that are Reserve Fund Non-Participants, such amount shall be computed upon the issuance of such series of Inferior Lien Bonds and on each date on which any of such series of Inferior Lien Bonds are paid at maturity or optionally or mandatorily redeemed, to be the greatest amount of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for such series of Inferior Lien Bonds then Outstanding.

"Senior Lien Bonds" means each series of senior lien bonds Outstanding from time to time issued pursuant to the Prior Ordinances or any Additional Senior Lien Bonds issued pursuant to a Supplemental Ordinance payable from and secured by a lien on and pledge of Net Revenues.

"Senior Lien Notes" means each series of senior lien notes Outstanding from time to time issued pursuant to the Prior Ordinances or any Additional Senior Lien Notes issued pursuant to a Supplemental Ordinance payable from and secured by a lien on and pledge of Net Revenues.

"Senior Lien Obligations" means either or both of the Senior Lien Bonds and the Senior Lien Notes, as applicable.

"Short Term/Demand Obligations" means each series of bonds, notes and other obligations issued pursuant to Section 5.02 of the Master Ordinance, (a) the payment of principal of which is either (i) payable on demand by or at the option of the holder at a time sooner than a date on which such principal is deemed to be payable for purposes of computing Debt Service Requirements, or (ii) scheduled to be payable within one year from the date of issuance and is contemplated to be refinanced for a specified period or term through the issuance of additional Short Term/Demand Obligations pursuant to a commercial paper or other similar financing program, and (b) the purchase price, payment or refinancing of which is additionally secured by a letter of credit, line of credit, standby bond purchase agreement, bond insurance, surety bond or other credit or liquidity facility which does not impose upon the City a reimbursement obligation payable over a period shorter than three years.

"Special Facilities" means structures, hangars, aircraft overhaul, maintenance or repair shops, heliports, hotels, storage facilities, garages, in-flight kitchens, training facilities, consolidated rental car facilities, terminal facilities, cargo facilities and any and all other facilities and appurtenances being a part of or related to the Airport System, the cost of the construction or other acquisition of which is financed with the proceeds of Special Facilities Bonds.

"Special Facilities Bonds" means any bonds heretofore or from time to time hereafter issued by the City pursuant to Section 5.05 of the Master Ordinance.

"Special Facilities Lease" means any lease or agreement, howsoever denominated, pursuant to which Special Facilities are leased by the City to the lessee in consideration for which the lessee agrees to pay (i) all debt service on the Special Facilities Bonds issued to finance the Special Facilities (which payments are pledged to secure the Special Facilities Bonds) and (ii) the operation and maintenance expenses of the Special Facilities.

"Subordinate Lien Bond Interest and Sinking Fund" means the fund established pursuant to the Prior Ordinances and ratified, confirmed and maintained pursuant to Sections 3.04 and 3.08 of the Master Ordinance.

"Subordinate Lien Bond Reserve Fund" means the fund, including the accounts established therein, established pursuant to the Prior Ordinances and ratified, confirmed and maintained pursuant to Sections 3.04 and 3.09 of the Master Ordinance.

"Subordinate Lien Bond Reserve Fund Participant Account" means the account within the Subordinate Lien Bond Reserve Fund established pursuant to the Prior Ordinances and ratified, confirmed and maintained pursuant to Sections 3.04 and 3.09 of the Master Ordinance.

"Subordinate Lien Bond Reserve Fund Surety Policy" means, whether heretofore or hereafter acquired, for the purpose of satisfying all or any part of the Reserve Fund Requirement for the Subordinate Lien Bonds, any one or more of a surety bond, insurance policy or letter of credit in a principal amount equal to the amount required to be funded, provided that, at the time of deposit, either the rating for the long-term unsecured debt of the issuer of such surety bond, insurance policy or letter of credit or the rating for obligations insured, secured or guaranteed by such issuer are required to be in one of the two highest letter categories by at least one major municipal securities evaluation service (or, if such entities are no longer in existence, by comparable services) and which surety bond, insurance policy or letter of credit shall be payable on demand of the City for the benefit of the Owners of the Subordinate Lien Bonds that are secured thereby.

"Subordinate Lien Bonds" means each series of subordinate lien bonds Outstanding from time to time issued pursuant to the Prior Ordinances or any Additional Subordinate Lien Bonds issued pursuant to a Supplemental Ordinance payable from and secured by a lien on and pledge of Net Revenues junior and subordinate to the lien and pledge securing the Senior Lien Obligations.

"Supplemental Ordinance," as used in the Master Ordinance, means any ordinance supplementing the Master Ordinance to provide for the issuance of Airport Obligations or any other obligations authorized by the Master Ordinance. The term "Supplemental Ordinance" is defined in the forepart of this Official Statement to the mean the particular Supplemental Ordinance authorizing the Series 2018 Bonds.

"Taxable Bond Credit Revenues" means payments made to the City from the federal government or any agency or department thereof with respect to the return to the City of a portion of the interest paid by the City on any taxable Bonds, including but not limited to any such payments received pursuant to the American Recovery and Reinvestment Act of 2009 or any legislation in amendment or succession thereto.

Excerpts of the Master Ordinance

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ARTICLE II

ESTABLISHMENT OF THE FINANCING PROGRAM

SECTION 2.01 MASTER ORDINANCE. This Master Ordinance hereby sets forth the terms, conditions, covenants and provisions for the security of obligations to be issued hereafter by the City for Authorized System Purposes and secured by a senior, subordinate or inferior lien on Net Revenues.

SECTION 2.02 SUPPLEMENTAL ORDINANCES. Each series of Airport Obligations issued hereafter shall be issued pursuant to the terms and conditions of this Master Ordinance and a Supplemental Ordinance that shall provide the specific terms, conditions, covenants and provisions relating to each such series of Airport Obligations, including, without limitation, (i) the authorization, issuance, sale, delivery, form, title, characteristics, interest rate(s) (which may be fixed, variable, adjustable or computed by any other method), (ii) the provisions for payment, redemption, transfer and exchange and any other matters related thereto (including, without limitation, matters related to the delegation of the sale to an authorized representative of the City and the execution and delivery of a Credit Agreement or Qualified Hedge Agreement, if any), (iii) the application of proceeds, (iv) the funding of any Reserve Fund Requirement and the designation of Reserve Fund Participants, if any, and (v) covenants relating to the federal income tax status.

ARTICLE III

SECURITY AND SOURCE OF PAYMENT FOR ALL BONDS

SECTION 3.01 PLEDGE AND SOURCE OF PAYMENT.

(a) The City hereby covenants and agrees that all Gross Revenues shall be deposited and paid into the special funds established under the Prior Ordinances and incorporated and confirmed herein for all purposes, and shall be applied in the manner hereinafter set forth to provide for the payment of all Operation and Maintenance Expenses of the Airport System and all principal, interest and any redemption premiums on the Airport Obligations and all expenses of providing for their full and timely payment in accordance with their terms.

(b) The Senior Lien Obligations shall constitute special obligations of the City that shall be payable from, and shall be equally and ratably secured by a lien on, the Net Revenues. Such Net Revenues, together with certain proceeds of the Senior Lien Obligations or other lawfully available funds of the City, shall, in the manner herein provided, be set aside for and pledged to the payment of the Senior Lien Obligations in the Senior Lien Bond Interest and Sinking Fund and the Senior Lien Bond Reserve Fund as hereinafter provided. For the benefit of the Owners of the Senior Lien Obligations, the City hereby grants a lien on the Net Revenues and further grants a lien on the Senior Lien Bond Interest and Sinking Fund to secure the payment of principal of, redemption premium, if any, and interest on the Senior Lien Obligations and all expenses of providing for their full and timely payment in accordance with their terms. Additionally, to further assure the payment of principal of, redemption premium, if any, and interest on the Senior Lien Obligations:

(i) the City hereby grants a lien on the Senior Lien Note Reserve Fund Participant Account of the Senior Lien Bond Reserve Fund for the additional benefit of Owners of the Senior Lien Notes;

(ii) the City hereby grants a lien on the Senior Lien Bond Reserve Fund Participant Account of the Senior Lien Bond Reserve Fund for the additional benefit of Owners of the Senior Lien Bonds that are Reserve Fund Participants; and

(iii) the City has created a separate account and shall create one or more additional separate accounts within the Senior Lien Bond Reserve Fund and has granted and shall grant a lien on such account(s) for the additional benefit of the Owners of any one or more series of Senior Lien Bonds that are Reserve Fund Non-Participants.

Except with respect to the separate accounts of the Senior Lien Bond Reserve Fund described in this Section 3.01(b), all Senior Lien Obligations shall be in all respects on a parity with and of equal dignity with one another. The Owners of the Senior Lien Obligations shall never have the right to demand payment of either the principal of, interest on or any redemption premium on the Senior Lien Obligations out of any funds raised or to be raised by taxation.

(c) The Subordinate Lien Bonds shall constitute special obligations of the City that shall be payable from, and, subject to the prior and superior lien of the Senior Lien Obligations, shall be equally and ratably secured by a lien on, the Net Revenues. Such Net Revenues, together with certain proceeds of the Subordinate Lien Bonds or other lawfully available funds of the City, shall, in the manner herein provided, be set aside for and pledged to the payment of the Subordinate Lien Bonds in the Subordinate Lien Bond Interest and Sinking Fund and the Subordinate Lien Bond Reserve Fund as hereinafter provided. For the benefit of the Owners of the Subordinate Lien Bonds, the City hereby grants a lien on the Net Revenues (subject to the prior and superior lien of the Senior Lien Obligations) and further grants a lien on the Subordinate Lien Bond Interest and Sinking Fund to secure the payment of principal of, redemption premium, if any, and interest on the Subordinate Lien Bonds and all expenses of providing for their full and timely payment in accordance with their terms. Additionally, to further assure the payment of principal of, redemption premium, if any, and interest on the Subordinate Lien Bonds:

(i) the City hereby grants a lien on the Subordinate Lien Bond Reserve Fund Participant Account of the Subordinate Lien Bond Reserve Fund for the additional benefit of Owners of the Subordinate Lien Bonds that are Reserve Fund Participants; and

(ii) the City shall create one or more separate accounts within the Subordinate Lien Bond Reserve Fund and grant a lien on such account(s) for the additional benefit of the Owners of any one or more series of Subordinate Lien Bonds that are Reserve Fund Non-Participants.

Except with respect to the separate accounts of the Subordinate Lien Bond Reserve Fund described in this Section 3.01(c), all Subordinate Lien Bonds shall be in all respects on a parity with and of equal dignity with one another. The Owners of the Subordinate Lien Bonds shall never have the right to demand payment of either the principal of, interest on or any redemption premium on the Subordinate Lien Bonds out of any funds raised or to be raised by taxation.

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SECTION 3.02 ANNUAL BUDGET. So long as any Airport Obligations remain Outstanding, the Aviation Director shall, prior to the commencement of each Fiscal Year, prepare and deliver to the Mayor, for submission to the City Council, a recommended annual budget for the Airport System for such Fiscal Year which contains detailed estimates of Gross Revenues, Operation and Maintenance Expenses, Net Revenues and Debt Service Requirements for such Fiscal Year, classified in a manner consistent with the definitional and accounting requirements contained herein, and which contains a computation demonstrating that the estimate of Net Revenues set forth therein is in compliance with the rate covenant contained in Section 3.03 below. The City shall adopt annual budgets for the Airport System for each Fiscal Year, each of which shall contain an estimate of revenues and only such budgeted expenditures as will produce Net Revenues in an amount not less than the Net Revenues necessary to comply with the rate covenant in Section 3.03 below. After the adoption of the annual Airport System budget by the City, the total expenditures for Operation and Maintenance Expenses will not exceed the total expenditures authorized for such purposes by such budget, as it may from time to time be amended.

SECTION 3.03 RATE COVENANT.

(a) The City covenants that it will at all times fix, charge, impose and collect rentals, rates, fees and other charges for the use of the Airport System, and, to the extent it legally may do so, revise the same as may be necessary or appropriate, in order that in each Fiscal Year the Net Revenues will at all times be at least sufficient to equal the larger of either:

(i) all amounts required to be deposited in such Fiscal Year to the credit of the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Reserve Fund, the Inferior Lien Bond Interest and Sinking Fund and the Inferior Lien Bond Reserve Fund; or

(ii) an amount not less than (1) 125% of the Debt Service Requirements for the Outstanding Senior Lien Obligations for such Fiscal Year, plus (2) 110% of the Debt Service Requirements for the Outstanding Subordinate Lien Bonds for such Fiscal Year, plus (3) 100% of the Debt Service Requirements for the Outstanding Inferior Lien Bonds for such Fiscal Year.

(b) If the Net Revenues in any Fiscal Year are less than the amounts specified above, the City, promptly upon receipt of the annual audit for such Fiscal Year, must request an Airport Management Consultant to make its recommendations, if any, as to a revision of the City's rentals, rates, fees and other charges, its Operation and Maintenance Expenses or the method of operation of the Airport System in order to satisfy as quickly as practicable the foregoing requirements. Copies of such request and the recommendations of the Airport Management Consultant, if any, shall be filed with the City Secretary. So long as the City substantially complies in a timely fashion with the recommendations of the Airport Management Consultant, the City will not be deemed to have defaulted in the performance of its duties under this Master Ordinance even if the resulting Net Revenues are not sufficient to be in compliance with the covenant set forth above, so long as there is no other default hereunder.

SECTION 3.04 SPECIAL FUNDS.

(a) The following special funds have been established pursuant to the Prior Ordinances and are hereby ratified and confirmed, and shall be maintained and accounted for as hereinafter provided so long as any of the Airport Obligations remain Outstanding:

(i) Revenue Fund;

(ii) Senior Lien Bond Interest and Sinking Fund;

(iii) Senior Lien Bond Reserve Fund;

(iv) Subordinate Lien Bond Interest and Sinking Fund;

(v) Subordinate Lien Bond Reserve Fund;

(vi) Inferior Lien Bond Interest and Sinking Fund;

(vii) Inferior Lien Bond Reserve Fund;

(viii) Operation and Maintenance Reserve Fund;

(ix) Renewal and Replacement Fund; and

(x) Airports Improvement Fund.

(b) The Revenue Fund, the Operation and Maintenance Reserve Fund, the Renewal and Replacement Fund and the Airports Improvement Fund shall be maintained as separate funds or accounts on the books of the City, and all amounts credited to such Funds shall be maintained in an official depository bank of the City or in a trustee bank designated by the City. The Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Reserve Fund, the Inferior Lien Bond Interest and Sinking Fund and the Inferior Lien Bond Reserve Fund shall be maintained at an official depository bank of the City or in a trustee bank designated by the City separate and apart from all other funds and accounts of the City.

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(e) Subordinate Lien Bond Interest and Sinking Fund. The Subordinate Lien Bond Interest and Sinking Fund shall constitute a trust fund which shall be held in trust for the Owners of the Subordinate Lien Bonds to which they are pledged and the proceeds of which (other than the interest income thereon, which may be transferred to the Revenue Fund or, if such interest income is earned on amounts that are capitalized interest financed with proceeds of Subordinate Lien Bonds, to such other Fund as permitted under federal tax law) shall be pledged to the payment of such Subordinate Lien Bonds.

(f) Subordinate Lien Bond Reserve Fund. The Subordinate Lien Bond Reserve Fund and any accounts created therein shall constitute trust funds which shall be held in trust for the Owners of the particular Subordinate Lien Bonds to which they are pledged and the proceeds of which (other than the interest income thereon, which shall be transferred to the extent provided in Section 3.09(c)) shall be pledged to the payment of the Subordinate Lien Bonds. Within the Subordinate Lien Bond Reserve Fund, there has been established and there is hereby ratified and confirmed a Subordinate Lien Bond Reserve Fund Participant Account, and there may be created other designated accounts therein.

(i) Subordinate Lien Bond Reserve Fund Participant Account. The Subordinate Lien Bond Reserve Fund Participant Account shall constitute a trust fund and shall be held in trust for Owners of the Subordinate Lien Bonds that are Reserve Fund Participants. The proceeds of the Subordinate Lien Bond

Reserve Fund Participant Account (other than the interest income thereon, which shall be transferred to the extent provided in Section 3.09(c)) shall be pledged to the payment of the Subordinate Lien Bonds that are Reserve Fund Participants.

(ii) Additional Subordinate Lien Bonds May Be Participants or Non-Participants. The City may issue Additional Subordinate Lien Bonds which may be designated as Reserve Fund Participants. The City also reserves the right to issue Additional Subordinate Lien Bonds which may be designated as Reserve Fund Non-Participants and are not secured by the Subordinate Lien Bond Reserve Fund Participant Account; provided that the City shall create a separate account(s) within the Subordinate Lien Bond Reserve Fund for the benefit of any such series that is a Reserve Fund Non-Participant, the proceeds of which account (other than the interest income thereon, which shall be transferred to the extent provided in Section 3.09(c)) shall be pledged to the payment of such Reserve Fund Non-Participant.

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(j) The City reserves the right to create additional funds and additional accounts within any Fund as necessary or desirable in furtherance of the intent and purpose of this Master Ordinance, including the purpose of causing the supplemental funding of any reserve fund.

SECTION 3.05 REVENUE FUND; FLOW OF FUNDS. All Gross Revenues shall be deposited as received into the Revenue Fund. In addition, the City may deposit into the Revenue Fund any Federal Payments, provided that, so long as such Federal Payments are excluded from the definition of Gross Revenues, such Federal Payments shall be applied solely to the payment of Operation and Maintenance Expenses. Moneys from time to time credited to the Revenue Fund shall be applied in the following order of priority:

(a) First, to pay and to provide by encumbrance for the payment of all current Operation and Maintenance Expenses;

(b) Second, to transfer all amounts to the Senior Lien Bond Interest and Sinking Fund required by this Master Ordinance and any Supplemental Ordinance;

(c) Third, to transfer all amounts to the Senior Lien Bond Reserve Fund required by this Master Ordinance and any Supplemental Ordinance;

(d) Fourth, to transfer all amounts to the Subordinate Lien Bond Interest and Sinking Fund required by this Master Ordinance and any Supplemental Ordinance;

(e) Fifth, to transfer all amounts to the Subordinate Lien Bond Reserve Fund required by this Master Ordinance and any Supplemental Ordinance;

(f) Sixth, to transfer all amounts to the Inferior Lien Bond Interest and Sinking Fund required by this Master Ordinance and any Supplemental Ordinance;

(g) Seventh, to transfer all amounts to the Inferior Lien Bond Reserve Fund required by this Master Ordinance and any Supplemental Ordinance;

(h) Eighth, to transfer all amounts to the Operation and Maintenance Reserve Fund required by this Master Ordinance and any Supplemental Ordinance;

(i) Ninth, to transfer all amounts to the Renewal and Replacement Fund required by this Master Ordinance and any Supplemental Ordinance; and

(j) Tenth, the balance shall be transferred to the Airports Improvement Fund.

SECTION 3.06 SENIOR LIEN BOND INTEREST AND SINKING FUND.

(a) On or before the last Business Day of each month so long as any Senior Lien Obligations remain Outstanding, after making all required payments and provision for payment of Operation and Maintenance Expenses, there shall be transferred to the Senior Lien Bond Interest and Sinking Fund from the Revenue Fund the following amounts:

(i) Such amounts as shall be necessary so that the balance in the Senior Lien Bond Interest and Sinking Fund equals the Debt Service Requirements on all Senior Lien Obligations accrued to the end of the current month; plus

(ii) Such amounts as shall be necessary to enable the City to pay when due all expenses of providing for the full and timely payment of the principal of, premium, if any, and interest on the Senior Lien Obligations in accordance with their terms, including without limitation, all fees charged or obligations incurred in connection with any Credit Agreements, Qualified Hedge Agreements and other related agreements in connection with the Senior Lien Obligations.

(b) Whenever the total amounts on deposit to the credit of the Senior Lien Bond Interest and Sinking Fund and the Senior Lien Bond Reserve Fund shall be equivalent to the sum of the aggregate principal amount of all Outstanding Senior Lien Obligations plus the aggregate amount of all interest accrued and to accrue thereon, no further transfers need be made into the Senior Lien Bond Interest and Sinking Fund or the Senior Lien Bond Reserve Fund, and such Senior Lien Obligations shall not be regarded as being Outstanding except for the purpose of being paid with the moneys credited to such Funds. Moneys credited to the Senior Lien Bond Interest and Sinking Fund shall be used solely for the purpose of paying principal (at maturity or prior redemption or to purchase Senior Lien Obligations issued as term bonds in the open market to be credited against mandatory redemption requirements), interest and redemption premiums on the Senior Lien Obligations, plus all bank charges and other costs and expenses relating to such payment, including those described in clause (a)(ii) above. On or before each principal and/or interest payment date on the Senior Lien Obligations, the City shall transfer from the Senior Lien Bond Interest and Sinking Fund to the Paying Agent/Registrar(s) for the Senior Lien Obligations an amount equal to the principal, interest and redemption premiums payable on the Senior Lien Obligations on such date, including all amounts due and payable on Credit Agreements, Qualified Hedge Agreements and other related agreements in connection with such Senior Lien Obligations.

SECTION 3.07 SENIOR LIEN BOND RESERVE FUND.

(a) Maintenance of Reserve Fund Requirement for Participants and Non-Participants. The City shall establish and maintain as hereinafter provided a balance in the Senior Lien Bond Reserve Fund Participant Account and a balance in the Senior Lien Note Reserve Fund Participant Account equal to the Reserve Fund Requirement for the Senior Lien Bonds and the Senior Lien Notes, respectively, that are secured thereby. Each Supplemental Ordinance authorizing Senior Lien Obligations shall designate such series of Senior Lien Obligations authorized thereby as "Reserve Fund Participants" or "Reserve Fund Non-Participants." With respect to any series of Senior Lien Bonds that are Reserve Fund Non-Participants, pursuant to the Supplemental Ordinance authorizing such Senior Lien Bonds, the City shall establish an account within the Senior Lien Bond Reserve Fund for the benefit of such Senior Lien Bonds and shall maintain an amount in such account equal to the Reserve Fund Requirement for each such series of Senior Lien Bonds secured thereby.

(b) Reserve Fund Requirement at Issuance. Each increase in the Reserve Fund Requirement resulting from the issuance of any Additional Senior Lien Obligations shall be satisfied at the time of issuance and delivery of such series of Additional Senior Lien Obligations. The Reserve Fund Requirement shall be satisfied by depositing to the credit of the Senior Lien Bond Reserve Fund Participant Account (in the case of Additional Senior Lien Bonds that are Reserve Fund Participants) or the Senior Lien Note Reserve Fund Participant Account (in the case of Additional Senior Lien Notes) or such other designated accounts (in the case of Additional Senior Lien Bonds that are Reserve Fund Non-Participants) of the Senior Lien Bond Reserve Fund either:

(i) proceeds of such Additional Senior Lien Obligations or other lawfully appropriated funds in not less than the amount which, together with investment earnings thereon as estimated by the City, will be sufficient to fund fully the Reserve Fund Requirement by no later than the end of the period of time for which the payment of interest on such Additional Senior Lien Obligations has been provided out of proceeds of such Additional Senior Lien Obligations or investment earnings thereon as estimated by the City or from other lawfully available funds other than Net Revenues; or

(ii) a Senior Lien Bond Reserve Fund Surety Policy.

(c) Deficiencies and Excess in the Senior Lien Bond Reserve Fund. In any month in which any account of the Senior Lien Bond Reserve Fund contains less than the applicable Reserve Fund Requirement (or so much thereof as shall then be required to be therein if the City has elected to accumulate the Reserve Fund Requirement for any series of Additional Senior Lien Obligations as above provided), then on or before the last Business Day of such month, after making all required payments and provision for payment of Operation and Maintenance Expenses, and after making all required transfers to the Senior Lien Bond Interest and Sinking Fund, there shall be transferred on a pro rata basis into the Senior Lien Bond Reserve Fund Participant Account (in the case of Senior Lien Bonds that are Reserve Fund Participants) and the Senior Lien Note Reserve Fund Participant Account (in the case of Senior Lien Notes) and such other designated accounts (in the case of Senior Lien Bonds that are Reserve Fund Non-Participants) of the Senior Lien Bond Reserve Fund from the Revenue Fund, such amounts as shall be required to permit the City to pay all reimbursement obligations under the Senior Lien Bond Reserve Fund Surety Policies allocable to the Senior Lien Bond Reserve Fund Participant Account or Senior Lien Note Reserve Fund Participant Account or such other designated accounts, as applicable, within a twelve (12) month period and such additional amounts as shall be sufficient to enable the City within a twelve (12) month period to reestablish in the Senior Lien Bond Reserve Fund Participant Account or Senior Lien Note Reserve Fund Participant Account or such other designated accounts, as applicable, the Reserve Fund Requirement for the Senior Lien Bonds or Senior Lien Notes secured thereby; provided, however, that in the event that such monthly transfer requirements ever exceed one-twelfth (1/12th) of the maximum Debt Service Requirements scheduled to occur in any future Fiscal Year on all Senior Lien Obligations then Outstanding, any remaining required transfers shall be accomplished pursuant to Section 3.15 below. After such amounts have been accumulated in the Senior Lien Bond Reserve Fund Participant Account and Senior Lien Note Reserve Fund Participant Account and such other designated accounts (as described above), and so long thereafter as such accounts contain such amounts, no further transfers shall be required to be made into the Senior Lien Bond Reserve Fund Participant Account or Senior Lien Note Reserve Fund Participant Account or such other designated accounts, and, to the extent any excess is attributable to the portion of the Senior Lien Bond Reserve Fund allocable to any tax-exempt Senior Lien Obligations, any excess amounts in such accounts shall be transferred to the Senior Lien Bond Interest and Sinking Fund or such other Fund as may be permitted by federal tax law, and otherwise shall be transferred to the Revenue Fund. But, if and whenever the balance in the Senior Lien Bond Reserve Fund Participant Account or Senior Lien Note Reserve Fund Participant Account or such other designated accounts is reduced below such amount, monthly transfers to such accounts shall be resumed and continued in such amounts as shall be required to restore the Senior Lien Bond Reserve Fund Participant Account and the Senior Lien Note Reserve Fund Participant Account or such other designated accounts, as applicable, to the applicable Reserve Fund Requirement within a twelve (12) month period.

(d) Account for Senior Lien Bond Reserve Fund Participants. The Senior Lien Bond Reserve Fund Participant Account shall be used to pay the principal of and interest on the Senior Lien Bonds that are Reserve Fund Participants at any time when there is not sufficient money available in the Senior Lien Bond Interest and Sinking Fund for such purpose (with the requirement that all cash and investments on deposit in such account be depleted before drawing upon any Senior Lien Bond Reserve Fund Surety Policy, unless provided otherwise in each of the Senior Lien Bond Reserve Fund Surety Policies allocable to the Senior Lien Bond Reserve Fund Participant Account) and to repay amounts drawn under any Senior Lien Bond Reserve Fund Surety Policy allocable to the Senior Lien Bond Reserve Fund Participant Account for such purpose, together with interest thereon, in accordance with the terms of the City's reimbursement obligations incurred in connection with such Senior Lien Bond Reserve Fund Surety Policy. The Senior Lien Bond Reserve Fund Participant Account may also be used to make the final payments for the retirement or defeasance of all Senior Lien Bonds then Outstanding that are secured thereby.

(e) Account for Senior Lien Note Reserve Fund Participants. The Senior Lien Note Reserve Fund Participant Account shall be used to pay the principal of and interest on the Senior Lien Notes at any time when there is not sufficient money available in the Senior Lien Bond Interest and Sinking Fund for such purpose (with the requirement that all cash and investments on deposit in such account be depleted before drawing upon any Senior Lien

Bond Reserve Fund Surety Policy, unless provided otherwise in each of the Senior Lien Bond Reserve Fund Surety Policies allocable to the Senior Lien Note Reserve Fund Participant Account) and to repay amounts drawn under any Senior Lien Bond Reserve Fund Surety Policy allocable to the Senior Lien Note Reserve Fund Participant Account for such purpose, together with interest thereon, in accordance with the terms of the City's reimbursement obligations incurred in connection with such Senior Lien Bond Reserve Fund Surety Policy. The Senior Lien Note Reserve Fund Participant Account may also be used to make the final payments for the retirement or defeasance of all Senior Lien Notes then Outstanding that are secured thereby.

(f) Accounts for Senior Lien Bond Reserve Fund Non-Participants. With respect to any series of Senior Lien Bonds that are Reserve Fund Non-Participants, any account created within the Senior Lien Bond Reserve Fund for the benefit of such series of Senior Lien Bonds shall be used to pay the principal of and interest on such series of Senior Lien Bonds at any time when there is not sufficient money available if the Senior Lien Bond Interest and Sinking Fund for such purpose (with the requirement that all cash and investments on deposit in such account be depleted before drawing upon any Senior Lien Bond Reserve Fund Surety Policy, unless provided otherwise in each of the Senior Lien Bond Reserve Fund Surety Policies allocable to such account) and to repay amounts drawn under any Senior Lien Bond Reserve Fund Surety Policy allocable to such account for such purpose, together with interest thereon, in accordance with the terms of the City's reimbursement obligations incurred in connection with such Senior Lien Bond Reserve Fund Surety Policy. Any such account may also be used to make the final payments for the retirement and defeasance of the series of Senior Lien Bonds then Outstanding that are secured thereby.

(g) Draws on Senior Lien Bond Reserve Fund Surety Policies. The City directs and requires the Paying Agent/Registrar for any series of Senior Lien Obligations to ascertain the necessity for a claim or draw upon the applicable Senior Lien Bond Reserve Fund Surety Policy, and to provide notice to the issuer thereof in accordance with its terms, and to make such claims or draws thereon as may be necessary to provide for the timely payment of principal of and interest on the Senior Lien Obligations to which it pertains.

SECTION 3.08 SUBORDINATE LIEN BOND INTEREST AND SINKING FUND.

(a) On or before the last Business Day of each month so long as any Subordinate Lien Bonds remain Outstanding, after making all required payments and provision for payment of Operation and Maintenance Expenses and making all required transfers to the Senior Lien Bond Interest and Sinking Fund and the Senior Lien Bond Reserve Fund, there shall be transferred into the Subordinate Lien Bond Interest and Sinking Fund from the Revenue Fund the following amounts:

(i) Such amounts as shall be necessary so that the balance in the Subordinate Lien Bond Interest and Sinking Fund equals the Debt Service Requirements on all Subordinate Lien Bonds accrued to the end of the current month; plus

(ii) Such amounts as shall be necessary to enable the City to pay when due all expenses of providing for the full and timely payment of the principal of, premium, if any, and interest on the Subordinate Lien Bonds in accordance with their terms, including without limitation, all fees charged or obligations incurred in connection with any Credit Agreements, Qualified Hedge Agreements and other related agreements in connection with the Subordinate Lien Bonds.

(b) Whenever the total amounts on deposit to the credit of the Subordinate Lien Bond Interest and Sinking Fund and the Subordinate Lien Bond Reserve Fund shall be equivalent to the sum of the aggregate principal amount of all Outstanding Subordinate Lien Bonds plus the aggregate amount of all interest accrued and to accrue thereon, no further transfers need be made into the Subordinate Lien Bond Interest and Sinking Fund or the Subordinate Lien Bond Reserve Fund, and such Subordinate Lien Bonds shall not be regarded as being Outstanding except for the purpose of being paid with the moneys credited to such Funds. Moneys credited to the Subordinate Lien Bond Interest and Sinking Fund shall be used solely for the purpose of paying principal (at maturity or prior redemption or to purchase Subordinate Lien Bonds issued as term bonds in the open market to be credited against mandatory redemption requirements), interest and redemption premiums on the Subordinate Lien Bonds, plus all bank charges and other costs and expenses relating to such payment, including those described in clause (a)(ii) above. On or before each principal and/or interest payment date on the Subordinate Lien Bonds, the City shall transfer from the Subordinate Lien Bond Interest and Sinking Fund to the Paying Agent/Registrar(s) for the Subordinate Lien Bonds an amount equal to the principal, interest and redemption premiums payable on the Subordinate Lien Bonds on such date, including all amounts due and payable on Credit Agreements, Qualified Hedge Agreements and other related agreements in connection with such Subordinate Lien Bonds.

SECTION 3.09 SUBORDINATE LIEN BOND RESERVE FUND.

(a) Maintenance of Reserve Fund Requirement for Participants and Non-Participants. The City shall establish and maintain as hereinafter provided a balance in the Subordinate Lien Bond Reserve Fund Participant Account equal to the Reserve Fund Requirement for the Subordinate Lien Bonds that are secured thereby. Each Supplemental Ordinance authorizing Subordinate Lien Bonds shall designate such series of Subordinate Lien Bonds authorized thereby as "Reserve Fund Participants" or "Reserve Fund Non-Participants." With respect to any series of Subordinate Lien Bonds that are Reserve Fund Non-Participants, pursuant to the Supplemental Ordinance authorizing such Subordinate Lien Bonds, the City shall establish an account within the Subordinate Lien Bond Reserve Fund for the benefit of such Subordinate Lien Bonds and shall maintain an amount in such account equal to the Reserve Fund Requirement for each such series of Subordinate Lien Bonds secured thereby.

(b) Reserve Fund Requirement at Issuance. Each increase in the Reserve Fund Requirement resulting from the issuance of any Additional Subordinate Lien Bonds shall be satisfied at the time of issuance and delivery of such series of Additional Subordinate Lien Bonds. The Reserve Fund Requirement shall be satisfied by depositing to the credit of the Subordinate Lien Bond Reserve Fund Participant Account (in the case of Additional Subordinate Lien Bonds that are Reserve Fund Participants) or such other designated accounts (in the case of Additional Subordinate Lien Bonds that are Reserve Fund Non-Participants) of the Subordinate Lien Bond Reserve Fund either:

(i) proceeds of such Additional Subordinate Lien Bonds or other lawfully appropriated funds in not less than the amount which, together with investment earnings thereon as estimated by the City, will be sufficient to fund fully the Reserve Fund Requirement by no later than the end of the period of time for which the payment of interest on such Additional Subordinate Lien Bonds has been provided out of proceeds of such Additional Subordinate Lien Bonds or investment earnings thereon as estimated by the City or from other lawfully available funds other than Net Revenues; or

(ii) a Subordinate Lien Bond Reserve Fund Surety Policy.

(c) Deficiencies and Excess in the Subordinate Lien Bond Reserve Fund. In any month in which any account of the Subordinate Lien Bond Reserve Fund contains less than the applicable Reserve Fund Requirement (or so much thereof as shall then be required to be therein if the City has elected to accumulate the Reserve Fund Requirement for any series of Additional Subordinate Lien Bonds as above provided), then on or before the last Business Day of such month, after making all required payments and provision for payment of Operation and Maintenance Expenses, and after making all required transfers to the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund and the Subordinate Lien Bond Interest and Sinking Fund, there shall be transferred on a pro rata basis into the Subordinate Lien Bond Reserve Fund Participant Account (in the case of Subordinate Lien Bonds that are Reserve Fund Participants) and such other designated accounts (in the case of Subordinate Lien Bonds that are Reserve Fund Non-Participants) of the Subordinate Lien Bond Reserve Fund from the Revenue Fund, such amounts as shall be required to permit the City to pay all reimbursement obligations under the Subordinate Lien Bond Reserve Fund Surety Policies allocable to the Subordinate Lien Bond Reserve Fund Participant Account or such other designated accounts, as applicable, within a twelve (12) month period and such additional amounts as shall be sufficient to enable the City within a twelve (12) month period to reestablish in the Subordinate Lien Bond Reserve Fund Participant Account or such other designated accounts, as applicable, the Reserve Fund Requirement for the Subordinate Lien Bonds secured thereby; provided, however, that in the event that such monthly transfer requirements ever exceed one-twelfth (1/12th) of the maximum Debt Service Requirements scheduled to occur in any future Fiscal Year on all Subordinate Lien Bonds then Outstanding, any remaining required transfers shall be accomplished pursuant to Section 3.15 below. After such amounts have been accumulated in the Subordinate Lien Bond Reserve Fund Participant Account and such other designated accounts (as described above), and so long thereafter as such accounts contain such amounts, no further transfers shall be required to be made into the Subordinate Lien Bond Reserve Fund Participant Account or such other designated accounts, and, to the extent any excess is attributable to the portion of the Subordinate Lien Bond Reserve Fund allocable to any tax-exempt Subordinate Lien Bonds, any excess amounts in such accounts shall be transferred to the Subordinate Lien Bond Interest and Sinking Fund or such other Fund as may be permitted by federal tax law, and otherwise shall be transferred to the Revenue Fund. But, if and whenever the balance in the Subordinate Lien Bond Reserve Fund Participant Account or such other designated accounts is reduced below such amount, monthly transfers to such accounts shall be resumed and continued in such amounts as shall be required to restore the Subordinate Lien Bond Reserve Fund Participant Account or such other designated accounts, as applicable, to such amount within a twelve (12) month period.

(d) Account for Subordinate Lien Bond Reserve Fund Participants. The Subordinate Lien Bond Reserve Fund Participant Account shall be used to pay the principal of and interest on the Subordinate Lien Bonds that are Reserve Fund Participants at any time when there is not sufficient money available in the Subordinate Lien Bond Interest and Sinking Fund for such purpose (with the requirement that all cash and investments on deposit in such account be depleted before drawing upon any Subordinate Lien Bond Reserve Fund Surety Policy, unless provided otherwise in each of the Subordinate Lien Bond Reserve Fund Surety Policies allocable to the Subordinate Lien Bond Reserve Fund Participant Account) and to repay amounts drawn under any Subordinate Lien Bond Reserve Fund Surety Policy allocable to such Subordinate Lien Bond Reserve Fund Participant Account for such purpose, together with interest thereon, in accordance with the terms of the City's reimbursement obligations incurred in connection with such Subordinate Lien Bond Reserve Fund Surety Policy. The Subordinate Lien Bond Reserve Fund Participant Account may also be used to make the final payments for the retirement or defeasance of all Subordinate Lien Bonds then Outstanding that are secured thereby.

(e) Accounts for Subordinate Lien Bond Reserve Fund Non-Participants. With respect to any series of Subordinate Lien Bonds that are Reserve Fund Non-Participants, any account created within the Subordinate Lien Bond Reserve Fund for the benefit of such series of Subordinate Lien Bonds shall be used to pay the principal of and interest on such series of Subordinate Lien Bonds at any time when there is not sufficient money available if the Subordinate Lien Bond Interest and Sinking Fund for such purpose (with the requirement that all cash and investments on deposit in such account be depleted before drawing upon any Subordinate Lien Bond Reserve Fund Surety Policy, unless provided otherwise in each of the Subordinate Lien Bond Reserve Fund Surety Policies allocable to such account) and to repay amounts drawn under any Subordinate Lien Bond Reserve Fund Surety Policy allocable to such account for such purpose, together with interest thereon, in accordance with the terms of the City's reimbursement obligations incurred in connection with such Subordinate Lien Bond Reserve Fund Surety Policy. Any such account may also be used to make the final payments for the retirement and defeasance of the series of Subordinate Lien Bonds then Outstanding that are secured thereby.

(f) Draws on Subordinate Lien Bond Reserve Fund Surety Policies. The City directs and requires the Paying Agent/Registrar for any series of Subordinate Lien Bonds to ascertain the necessity for a claim or draw upon the applicable Subordinate Lien Bond Reserve Fund Surety Policy, and to provide notice to the issuer thereof in accordance with its terms, and to make such claims or draws thereon as may be necessary to provide for the timely payment of principal of and interest on the Subordinate Lien Bonds to which it pertains.

SECTION 3.10 INFERIOR LIEN BOND INTEREST AND SINKING FUND.

(a) On or before the last Business Day of each month so long as any Inferior Lien Bonds remain Outstanding, after making all required payments and provision for payment of Operation and Maintenance Expenses and making all required transfers to the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund and the Subordinate Lien Bond Reserve Fund, there shall be transferred into the Inferior Lien Bond Interest and Sinking Fund from the Revenue Fund the following amounts:

(i) Such amounts as shall be necessary so that the balance in the Inferior Lien Bond Interest and Sinking Fund equals the Debt Service Requirements on all Inferior Lien Bonds accrued to the end of the current month; plus

(ii) Such amounts as shall be necessary to enable the City to pay when due all expenses of providing for the full and timely payment of the principal of, premium, if any, and interest on the Inferior Lien Bonds in accordance with their terms, including without limitation, all fees charged or obligations incurred in connection with any Credit Agreements, Qualified Hedge Agreements and other related agreements in connection with the Inferior Lien Bonds.

(b) Whenever the total amounts on deposit to the credit of the Inferior Lien Bond Interest and Sinking Fund and the Inferior Lien Bond Reserve Fund shall be equivalent to the sum of the aggregate principal amount of all Outstanding Inferior Lien Bonds plus the aggregate amount of all interest accrued and to accrue thereon, no further transfers need be made into the Inferior Lien Bond Interest and Sinking Fund or the Inferior Lien Bond Reserve Fund, and such Inferior Lien Bonds shall not be regarded as being Outstanding except for the purpose of being paid with the moneys credited to such Funds. Moneys credited to the Inferior Lien Bond Interest and Sinking Fund shall be used solely for the purpose of paying principal (at maturity or prior redemption or to purchase Inferior Lien Bonds issued as term bonds in the open market to be credited against mandatory redemption requirements), interest and redemption premiums on the Inferior Lien Bonds, plus all bank charges and other costs and expenses relating to such payment, including those described in clause (a)(ii) above. On or before each principal and/or interest payment date on the Inferior Lien Bonds, the City shall transfer from the Inferior Lien Bond Interest and Sinking Fund to the Paying Agent/Registrar(s) for the Inferior Lien Bonds an amount equal to the principal, interest and redemption premiums payable on the Inferior Lien Bonds on such date including all amounts due and payable on Credit Agreements, Qualified Hedge Agreements and other related agreements in connection with such Inferior Lien Bonds.

SECTION 3.11 INFERIOR LIEN BOND RESERVE FUND.

(a) Maintenance of Reserve Fund Requirement for Participants and Non-Participants. The City shall establish and maintain as hereinafter provided a balance in the Inferior Lien Bond Reserve Fund Participant Account equal to the Reserve Fund Requirement for the Inferior Lien Bonds that are secured thereby. Each Supplemental Ordinance authorizing Inferior Lien Bonds shall designate such series of Inferior Lien Bonds authorized thereby as "Reserve Fund Participants" or "Reserve Fund Non-Participants." With respect to any series of Inferior Lien Bonds that are Reserve Fund Non-Participants, pursuant to the Supplemental Ordinance authorizing such Inferior Lien Bonds, the City shall establish an account within the Inferior Lien Bond Reserve Fund for the benefit of such Inferior Lien Bonds and shall maintain an amount in such account equal to the Reserve Fund Requirement for each such series of Inferior Lien Bonds secured thereby.

(b) Reserve Fund Requirement at Issuance. Each increase in the Reserve Fund Requirement resulting from the issuance of any additional Inferior Lien Bonds shall be satisfied at the time of issuance and delivery of such series of additional Inferior Lien Bonds. The Reserve Fund Requirement shall be satisfied by depositing to the credit of the Inferior Lien Bond Reserve Fund Participant Account (in the case of additional Inferior Lien Bonds that are Reserve Fund Participants) or such other designated accounts (in the case of additional Inferior Lien Bonds that are Reserve Fund Non-Participants) of the Inferior Lien Bond Reserve Fund either:

(i) proceeds of such additional Inferior Lien Bonds or other lawfully appropriated funds in not less than the amount which, together with investment earnings thereon as estimated by the City, will be sufficient to fund fully the Reserve Fund Requirement by no later than the end of the period of time for which the payment of interest on such additional Inferior Lien Bonds has been provided out of proceeds of such additional Inferior Lien Bonds or investment earnings thereon as estimated by the City or from other lawfully available funds other than Net Revenues; or

(ii) an Inferior Lien Bond Reserve Fund Surety Policy.

(c) Deficiencies and Excess in the Inferior Lien Bond Reserve Fund. In any month in which any account of the Inferior Lien Bond Reserve Fund contains less than the applicable Reserve Fund Requirement (or so much thereof as shall then be required to be therein if the City has elected to accumulate the Reserve Fund Requirement for any series of additional Inferior Lien Bonds as above provided), then on or before the last Business Day of such month, after making all required payments and provision for payment of Operation and Maintenance Expenses, and after making all required transfers to the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Reserve Fund and the Inferior Lien Bond Interest and Sinking Fund, there shall be transferred on a pro rata basis into the Inferior Lien Bond Reserve Fund Participant Account (in the case of Inferior Lien Bonds that are Reserve Fund Participants) and such other designated accounts (in the case of Inferior Lien Bonds that are Reserve Fund Non-Participants) of the Inferior Lien Bond Reserve Fund from the Revenue Fund, such amounts as shall be required to permit the City to pay all reimbursement obligations under the Inferior Lien Bond Reserve Fund Surety Policies allocable to the Inferior Lien Bond Reserve Fund Participant Account or such other designated accounts, as applicable, within a twelve (12) month period and such additional amounts as shall be sufficient to enable the City within a twelve (12) month period to reestablish in the Inferior Lien Bond Reserve Fund Participant Account or such other designated accounts, as applicable, the Reserve Fund Requirement for the Inferior Lien Bonds secured thereby. After such amounts have been accumulated in the Inferior Lien Bond Reserve Fund Participant Account and such other designated accounts (as described above), and so long thereafter as such accounts contain such amounts, no further transfers shall be required to be made into the Inferior Lien Bond Reserve Fund Participant Account or such other designated accounts, and, to the extent any excess is attributable to the portion of the Inferior Lien Bond Reserve Fund allocable to any tax-exempt Inferior Lien Bonds, any excess amounts in such accounts shall be transferred to the Inferior Lien Bond Interest and Sinking Fund or such other Funds as may be permitted by federal tax law, and otherwise shall be transferred to the Revenue Fund. But, if and whenever the balance in the Inferior Lien Bond Reserve Fund Participant Account or such other designated accounts is reduced below such amount, monthly transfers to such accounts shall be resumed and continued in such amounts as shall be required to restore the Inferior Lien Bond Reserve Fund Participant Account or such other designated accounts, as applicable, to such amount within a twelve (12) month period.

(d) Account for Inferior Lien Bond Reserve Fund Participants. The Inferior Lien Bond Reserve Fund Participant Account shall be used to pay the principal of and interest on the Inferior Lien Bonds that are Reserve Fund Participants at any time when there is not sufficient money available in the Inferior Lien Bond Interest and Sinking Fund for such purpose (with the requirement that all cash and investments on deposit in such account be depleted before drawing upon any Inferior Lien Bond Reserve Fund Surety Policies, unless provided otherwise in each of the Inferior Lien Bond Reserve Fund Surety Policies allocable to the Inferior Lien Bond Reserve Fund Participant Account) and to repay amounts drawn under any Inferior Lien Bond Reserve Fund Surety Policy allocable to such Inferior Lien Bond Reserve Fund Participant Account for such purpose, together with interest thereon, in accordance with the terms of the City's reimbursement obligations incurred in connection with such Inferior Lien Bond Reserve Fund Surety Policy. The Inferior Lien Bond Reserve Fund Participant Account may also be used to make the final payments for the retirement or defeasance of all Inferior Lien Bonds then Outstanding that are secured thereby.

(e) Accounts for Inferior Lien Bond Reserve Fund Non-Participants. With respect to any series of Inferior Lien Bonds that are Reserve Fund Non-Participants, any account created within the Inferior Lien Bond Reserve Fund for the benefit of such series of Inferior Lien Bonds shall be used to pay the principal of and interest on such series of Inferior Lien Bonds at any time when there is not sufficient money available if the Inferior Lien Bond Interest and Sinking Fund for such purpose (with the requirement that all cash and investments on deposit in such account be depleted before drawing upon any Inferior Lien Bond Reserve Fund Surety Policy, unless provided otherwise in each of the Inferior Lien Bond Reserve Fund Surety Policies allocable to such account) and to repay amounts drawn under any Inferior Lien Bond Reserve Fund Surety Policy allocable to such account for such purpose, together with interest thereon, in accordance with the terms of the City's reimbursement obligations incurred in connection with such Inferior Lien Bond Reserve Fund Surety Policy. Any such account may also be used to make the final payments for the retirement and defeasance of the series of Inferior Lien Bonds then Outstanding that are secured thereby.

(f) Draws on Inferior Lien Bond Reserve Fund Surety Policies. The City directs and requires the Paying Agent/Registrar for any series of Inferior Lien Bonds to ascertain the necessity for a claim or draw upon the applicable Inferior Lien Bond Reserve Fund Surety Policy, and to provide notice to the issuer thereof in accordance with its terms, and to make such claims or draws thereon as may be necessary to provide for the timely payment of principal of and interest on the Inferior Lien Bonds to which it pertains.

SECTION 3.12 OPERATION AND MAINTENANCE RESERVE FUND. The City shall fund and maintain as hereinafter provided a balance of money and investments in the Operation and Maintenance Reserve Fund at least equal to two (2) months' current Operation and Maintenance Expenses, which amount shall annually be redetermined by the Aviation Director at the time the department submits its recommended budget for the Airport System pursuant to Section 3.02 based upon either such official's recommended budget for Operation and Maintenance Expenses or such official's estimate of actual Operation and Maintenance Expenses for the then current Fiscal Year.

On or before the last Business Day of each month, after making all required payments and provision for payment of Operation and Maintenance Expenses and all required transfers to the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund, the

Subordinate Lien Bond Reserve Fund, the Inferior Lien Bond Interest and Sinking Fund, and the Inferior Lien Bond Reserve Fund, there shall be transferred from the Revenue Fund, to the extent amounts are available therein, to the Operation and Maintenance Reserve Fund the amount required to reestablish the required balance in the Operation and Maintenance Reserve Fund. Amounts from time to time credited to the Operation and Maintenance Reserve Fund may be used at any time first, to pay for any Operation and Maintenance Expenses for which amounts are not otherwise available in the Revenue Fund; second, to pay any costs or expenses payable from the Renewal and Replacement Fund for which there are insufficient amounts in the Renewal and Replacement Fund; and third, to the extent any amounts are remaining, to be transferred to the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Reserve Fund, the Inferior Lien Bond Interest and Sinking Fund or the Inferior Lien Bond Reserve Fund, to the extent of any deficiency therein.

SECTION 3.13 RENEWAL AND REPLACEMENT FUND. The City shall fund and maintain as hereinafter provided a balance of money and investments in the Renewal and Replacement Fund at least equal to the Renewal and Replacement Fund Requirement. On or before the last Business Day of each month, if the Renewal and Replacement Fund contains less than the Renewal and Replacement Fund Requirement, then after making all required payments and provision for payment of Operation and Maintenance Expenses and all required transfers to the Senior Lien Bond Interest and Sinking Fund, to the Senior Lien Bond Reserve Fund, to the Subordinate Lien Bond Interest and Sinking Fund, to the Subordinate Lien Bond Reserve Fund, to the Inferior Lien Bond Interest and Sinking Fund, to the Inferior Lien Bond Reserve Fund, and to the Operation and Maintenance Reserve Fund, there shall be transferred from the Revenue Fund, to the extent funds are available therein, an amount equal to one-twelfth (1/12th) of the deficiency (being the amount by which the Renewal and Replacement Fund Requirement exceeded the unappropriated balance therein) as of the last day of the previous Fiscal Year, to the Renewal and Replacement Fund and, at the discretion of the City, to pay directly from the Revenue Fund any other costs that could be paid from amounts on deposit in the Renewal and Replacement Fund. Such transfers shall be required to be made into the Renewal and Replacement Fund until such time as the Renewal and Replacement Fund Requirement has again been accumulated in the Renewal and Replacement Fund.

Amounts from time to time credited to the Renewal and Replacement Fund may be used at any time:

(a) First, to pay for any costs of replacing depreciable property and equipment of the Airport System and making repairs, replacements or renovations of the Airport System;

(b) Second, to pay any Operation and Maintenance Expenses for which insufficient amounts are available in the Revenue Fund and the Operation and Maintenance Reserve Fund; and

(c) Third, to the extent any amounts are remaining, to be transferred to the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Reserve Fund, the Inferior Lien Bond Interest and Sinking Fund, or the Inferior Lien Bond Reserve Fund, to the extent of any deficiency therein.

SECTION 3.14 AIRPORTS IMPROVEMENT FUND.

(a) After making all payments and transfers hereinabove required, all amounts remaining in the Revenue Fund shall be transferred to the Airports Improvement Fund. Amounts credited to the Airports Improvement Fund may be used only for lawful Airport System purposes, including without limitation, to pay for any capital expenditures, to pay costs of replacing any depreciable property or equipment of the Airport System, to make any major or extraordinary repairs, replacements or renewals of the Airport System, to acquire land or any interest therein, to pay any lease or contractual obligations not paid as Operation and Maintenance Expenses, and to make any transfers required to cure any deficiencies in the Renewal and Replacement Fund; provided, however, that any unappropriated, unbudgeted, unreserved or otherwise unencumbered amounts in the Airports Improvement Fund in excess of (i) the unfunded portion of the Airport System's capital improvement program for the next 24 months as approved by the City Council or as proposed by the Aviation Director or (ii) $50,000,000, whichever is greater, may be used by the City for any lawful purpose permitted by the laws of the United States of America and the State of Texas and not inconsistent with the terms and provisions of any federal grants or aid or any contracts to which the City is a party.

(b) The Airport System may create, within the Airports Improvement Fund, additional sub-accounts and funds, including a Capital Outlay Fund. All such sub-accounts and funds may be established and used for the purposes of the Airports Improvement Fund as above provided in subsection (a).

SECTION 3.15 DEFICIENCIES IN FUNDS. If in any month there shall not be transferred into any Fund maintained pursuant to this Article the full amounts required herein, amounts equivalent to such deficiency shall be set apart and transferred to such Fund or Funds from the first available and unallocated moneys in the Revenue Fund, and such transfer shall be in addition to the amounts otherwise required to be transferred to such Funds during any succeeding month or months.

SECTION 3.16 INVESTMENT OF FUNDS; TRANSFER OF INVESTMENT INCOME.

(a) Money in the Revenue Fund, the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Reserve Fund, the Inferior Lien Bond Interest and Sinking Fund, the Inferior Lien Bond Reserve Fund, the Operation and Maintenance Reserve Fund, the Renewal and Replacement Fund and the Airports Improvement Fund shall, at the option of the City, be invested in time deposits or certificates of deposit secured in the manner required by law for public funds, or be invested in direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, in obligations of any agencies or instrumentalities of the United States of America or in any other investments authorized by Texas law; provided that all such deposits and investments shall be made in such manner that the money required to be expended from any Fund will be available at the proper time or times. All such investments shall be valued no less frequently than the last Business Day of the City's Fiscal Year at their market value, except that any direct obligations of the United States of America - State and Local Government Series shall be continuously valued at their par value or principal face amount. For purposes of maximizing investment returns, money in such Funds may be invested, together with money in other Funds or with other money of the City, in common investments of the kind described above, or in a common pool of such investments maintained by the City which shall be kept and held at an official depository of the City, which shall not be deemed to be a loss of the segregation of such money or Funds provided that safekeeping receipts, certificates of participation or other documents clearly evidencing the investment or investment pool in which such money is invested and the share thereof purchased with such money or owned by such Fund are held by or on behalf of each such Fund. If and to the extent necessary, such investments or participations therein shall be promptly sold to prevent any default.

(b) All interest and income derived from deposits and investments credited to the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Reserve Fund, the Inferior Lien Bond Reserve Fund and the Operation and Maintenance Reserve Fund shall remain in such funds to the extent necessary to accumulate the Reserve Fund Requirements or other required balance therein.

(c) All interest and income derived from deposits and investments of any amounts held in any construction fund, including amounts held therein as capitalized interest, created by any Supplemental Ordinance authorizing the issuance of Airport Obligations, shall remain in such construction fund for application in the manner provided in such Supplemental Ordinance.

(d) To the extent not otherwise provided for above in this Article III (including Section 3.04) or specifically excluded from the definition of Gross Revenues, all interest and income derived from deposits and investments credited to the Revenue Fund, the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Reserve Fund, the Inferior Lien Bond Interest and Sinking Fund, the Inferior Lien Bond Reserve Fund, the Operation and Maintenance Reserve Fund, the Renewal and Replacement Fund and the Airports Improvement Fund, shall be transferred or credited monthly to the Revenue Fund or to such other Funds as may be required under federal tax law.

(e) Notwithstanding anything to the contrary contained herein, any interest and income derived from deposits and investments of any amounts credited to any fund or account may be paid to the federal government if, in the opinion of nationally recognized bond counsel, such payment is required in order to prevent interest on any Airport Obligations from being includable within the gross income of the owners thereof for federal income tax purposes, if such Airport Obligations were issued on a tax-exempt basis.

SECTION 3.17 SECURITY FOR UNINVESTED FUNDS. So long as any Airport Obligations remain Outstanding, all uninvested moneys on deposit in, or credited to, the Revenue Fund, the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Reserve Fund, the Inferior Lien Bond Interest and Sinking Fund and the Inferior Lien Bond Reserve Fund shall be secured by the pledge of security, as provided by law for cities in the State of Texas.

SECTION 3.18 DETERMINATION OF RESERVE FUND PARTICIPANTS. The determination of whether any series of Airport Obligations issued pursuant to the terms of this Master Ordinance shall be Reserve Fund Participants shall be made in the related Supplemental Ordinance or, as the case may be, the applicable officers pricing certificate.

ARTICLE IV

PFC REVENUES

SECTION 4.01 PURPOSE. The City hereby reserves the right to commit, pledge, encumber or otherwise use all or any portion of PFC Revenues solely for the purposes of the Airport System, including, but not limited to: (a) committing all or any portion of PFC Revenues to the payment of debt service for any Airport Obligations; (b) pledging all or any portion of PFC Revenues to the payment of certain obligations secured by a pledge of all or a designated portion of PFC Revenues; or (c) using all or any portion of PFC Revenues for payment of certain projects of the Airport System or other purposes that benefit the Airport System.

SECTION 4.02 PFC ORDINANCE; COMMITTING OR PLEDGING PFC REVENUES. Prior to committing or pledging PFC Revenues under subparagraphs 4.01(a) and (b) above, the City shall adopt one or more ordinances (which may be in the form of a Supplemental Ordinance to the Master Ordinance, a separate ordinance or a combination of both) to determine, as appropriate, (i) the eligible PFC Revenues available for such purpose and the manner by which such available PFC Revenues may be committed or pledged for the purposes described in such subparagraphs; (ii) the disposition of available PFC Revenues during a given Fiscal Year(s); (iii) the flow of funds of such PFC Revenues for the purposes described such subparagraphs; and (iv) any determinations, findings, appropriations, reservations, and covenants that are appropriate and necessary to give effect to such ordinance. Any such ordinances shall be accompanied by an opinion of bond counsel to the Airport System to the effect that the ordinance is not in conflict with any provisions or covenants of this Master Ordinance or any other ordinance authorizing the issuance of Airport Obligations.

ARTICLE V

ADDITIONAL BONDS

SECTION 5.01 SENIOR LIEN OBLIGATIONS AND SUBORDINATE LIEN BONDS.

(a) The City reserves the right to issue, for any lawful Airport System purpose, one or more installments of Additional Senior Lien Obligations and Additional Subordinate Lien Bonds; provided, however, that no such Additional Senior Lien Obligations or Additional Subordinate Lien Bonds shall be issued unless:

(i) No Default. The Mayor and the Aviation Director certify that, upon the issuance of such series of Bonds, the City will not be in default under any term or provision of any Bonds then Outstanding or any ordinance pursuant to which any of such Bonds were issued;

(ii) Proper Fund Balances. The City Controller shall certify that, upon the issuance of such series of Bonds, the Senior Lien Bond Interest and Sinking Fund and the Subordinate Lien Bond Interest and Sinking Fund will have the required amounts on deposit therein and that the Senior Lien Bond Reserve Fund and the Subordinate Lien Bond Reserve Fund will contain the applicable Reserve Fund Requirement or so much thereof as is required to be funded at such time;

(iii) Historical Coverage on Outstanding Bonds. The City Controller shall certify that, for either the City's most recent complete Fiscal Year or for any consecutive 12 out of the most recent 18 months, the Net Revenues were equal to at least:

(A) 125% of the Debt Service Requirements on all Senior Lien Obligations for such period, plus

(B) 110% of the Debt Service Requirements on all Subordinate Lien Bonds for such period;

(iv) Projected Coverage for Additional Bonds. An Airport Management Consultant provides a written report setting forth projections which indicate that the estimated Net Revenues for each of the three consecutive Fiscal Years beginning in the earlier of:

(A) the first Fiscal Year following the estimated date of completion and initial use of all revenue-producing facilities to be financed with such series of Bonds, based upon a certified written estimated completion date by the consulting engineer for such facility or facilities, or

(B) the first Fiscal Year in which the City will have scheduled payments of interest on or principal of the series of Bonds to be issued for the payment of which provision has not been made as indicated in the report of such Airport Management Consultant from proceeds of such series of Bonds, investment income thereon or from other appropriated sources (other than Net Revenues),

are equal to at least:

(1) 125% of the Debt Service Requirements on all Senior Lien Obligations, plus

(2) 110% of the Debt Service Requirements on all Subordinate Lien Bonds,

scheduled to occur during each such respective Fiscal Year after taking into consideration the additional Debt Service Requirements for the additional series of Bonds to be issued;

(v) Alternate Coverage for Additional Bonds. In lieu of the certification described in (iv) above, the City Controller may provide a certificate showing that, for either the City's most recent complete Fiscal Year or for any consecutive 12 out of the most recent 18 months, the Net Revenues were equal to at least:

(A) 125% of the maximum Debt Service Requirements on all Senior Lien Obligations, plus

(B) 110% of the maximum Debt Service Requirements on all Subordinate Lien Bonds

scheduled to occur in the then current or any future Fiscal Year after taking into consideration the issuance of the series of Bonds proposed to be issued;

(vi) Refunding Bonds. If Bonds are being issued for the purpose of refunding less than all previously issued Bonds which are then Outstanding, none of the certifications described in (iii), (iv) or (v) above are required (except in the event Senior Lien Obligations are issued to refund Subordinate Lien Bonds) so long as the Debt Service Requirements in any Fiscal Year after the issuance of such Bonds will not exceed the scheduled Debt Service Requirements in the same Fiscal Year prior to the issuance of such Bonds; and

(vii) Supplemental Ordinance Requirements. Provision is made in the Supplemental Ordinance authorizing the series of Bonds proposed to be issued for:

(A) additional payments into the Senior Lien Bond Interest and Sinking Fund or the Subordinate Lien Bond Interest and Sinking Fund (as the case may be) sufficient to provide for any principal and interest requirements resulting from the issuance of the Bonds including, in the event that interest on the additional series of Bonds is capitalized and/or to be paid from investment earnings, a requirement for the transfer from the capitalized interest fund or account and/or from the construction fund to the Senior Lien Bond Interest and Sinking Fund or the Subordinate Lien Bond Interest and Sinking Fund (as the case may be) of amounts fully sufficient to pay interest on such series of Bonds during the period specified in the ordinance; and

(B) satisfaction of the Reserve Fund Requirement by not later than the date required by this Master Ordinance or any Supplemental Ordinance authorizing any Additional Senior Lien Obligations or Additional Subordinate Lien Bonds, as applicable.

(b) Special Provisions for Refunding Short Term/Demand Obligations. The provisions of paragraphs (iv), (v) and (vi) above shall not apply to the issuance of Additional Senior Lien Obligations or Additional Subordinate Lien Bonds for the purpose of refunding Short Term/Demand Obligations.

(c) Special Provisions for Completion Bonds. The provisions of paragraphs (iii), (iv) and (v) above shall not apply to the issuance of Completion Bonds in accordance with Section 5.03 hereof.

(d) Special Provisions for Credit Agreements. The City may enter into Credit Agreements with respect to any Bonds or Qualified Hedge Agreements if:

(i) prior to entering into such Credit Agreement, the City, to the extent required by law, shall cause the proceedings authorizing the Credit Agreement and any contracts or reimbursement agreements relating thereto to be submitted to and approved by the Attorney General of Texas;

(ii) for any Credit Agreement that obligates the City to make any future payments for the availability of such Credit Agreement, the City's financial advisor must certify that the inclusion of such payments within the Debt Service Requirements on the Bonds or Qualified Hedge Agreement to which the Credit Agreement relates will not cause such Bonds or Qualified Hedge Agreement to fail to comply with the applicable coverage requirements for their issuance or incurrence; and

(iii) to the extent that Bonds are issued with a credit facility or a liquidity facility, the City authorizes the inclusion of additional provisions in a Supplemental Ordinance, as needed, to provide security for the payment of the principal and interest when due on Credit Agreement Obligations.

The issuer of any Credit Agreement shall be entitled to be subrogated to the rights of the Owners of the Bonds or the counterparty to the Qualified Hedge Agreement secured by such Credit Agreement, and the City's reimbursement and repayment obligations to the issuer of the Credit Agreement shall be secured by Net Revenues as herein provided.

(e) Special Provisions for Qualified Hedge Agreements. The City may enter into Qualified Hedge Agreements contemporaneously with or following the issuance of any Bonds or in conjunction with the payment, sale, resale or exchange of any Bonds for any purpose authorized by law if the following requirements are satisfied:

(i) the proceedings authorizing the Qualified Hedge Agreement and any contracts or reimbursement agreements relating thereto shall, to the extent required by law, be submitted to and approved by the Attorney General of Texas;

(ii) the City shall have received written confirmations from each rating agency then rating the Bonds that entering into such Qualified Hedge Agreement will not, in and of itself, result in a withdrawal or reduction of any rating assigned to the Bonds; and

(iii) the City's financial advisor shall certify that the Bonds to which the Qualified Hedge Agreement relates could have been issued in satisfaction of all of the coverage requirements of this Article

V if the Debt Service Requirements with respect to such Bonds are recalculated (as provided in the definition of Debt Service Requirements) to take into account payments due under the Qualified Hedge Agreement.

SECTION 5.02 SHORT TERM/DEMAND OBLIGATIONS. The City reserves the right to issue, from time to time, one or more series of Additional Senior Lien Obligations and/or Additional Subordinate Lien Bonds as "Short Term/Demand Obligations" provided that the aggregate principal amount of Short Term/Demand Obligations Outstanding at any time may not exceed the greater of $150,000,000 or 30% of the aggregate principal amount of Bonds Outstanding at the time of issuance of the last series of Short Term/Demand Obligations; provided, however, that no such Short Term/Demand Obligations may be issued without satisfying the applicable provisions of Section 5.01 above; provided further, however, that no Short Term/Demand Obligation shall be subject to the limitations as to maximum principal amount as set forth above during any period of time that the City's financial advisor certifies that the City's variable or adjustable interest rate exposure under such Short Term/Demand Obligation is substantially hedged pursuant to an interest rate swap, interest rate cap or other interest rate hedging mechanism with a counterparty having a rating in one of the two highest credit rating categories by at least two major rating agencies (or with a counterparty whose payment obligations under such interest rate swap, interest rate cap or other interest rate hedging mechanism are insured or guaranteed by an entity having such rating) pursuant to which the maximum net rate of interest that the City is obligated to pay (after taking into account all payments to be made by such counterparty) does not exceed the interest rate certified with respect to such Short Term/Demand Obligation by such financial advisor pursuant to paragraph (ii) clause (2) of the definition of Debt Service Requirements.

SECTION 5.03 COMPLETION BONDS.

(a) The City reserves the right to issue one or more series of either: (i) Additional Senior Lien Obligations to pay the cost of completing any Airport Project (as defined in this Section below) for which Senior Lien Obligations have previously been issued or (ii) Additional Subordinate Lien Bonds to pay the cost of completing any Airport Project for which Subordinate Lien Bonds have previously been issued.

(b) Prior to the issuance of any series of Completion Bonds the City must provide, in addition to all of the applicable certificates required by Section 5.01, the following documents:

(i) a certificate of the consulting engineer engaged by the City to design the Airport Project for which the Completion Bonds are to be issued stating that such Airport Project has not materially changed in scope since the issuance of the most recent series of Bonds for such purpose (except as permitted in the applicable ordinance authorizing such Bonds) and setting forth the aggregate cost of the Airport Project which, in the opinion of such consulting engineer, has been or will be incurred; and

(ii) a certificate of the Aviation Director (i) stating that all amounts allocated to pay costs of the Airport Project from the proceeds of the most recent series of Bonds issued in connection with the Airport Project for which the Completion Bonds are being issued were used or are still available to be used to pay costs of such Airport Project; (ii) containing a calculation of the amount by which the aggregate cost of that Airport Project (furnished in the consulting engineer's certificate described above) exceeds the sum of the costs of the Airport Project paid to such date plus the moneys available at such date within any construction fund established therefor or other like account applicable to the Airport Project plus any other moneys which the Aviation Director, in his discretion, has determined are available to pay such costs in any other fund; and

(iii) certifying that, in the opinion of the Aviation Director, the issuance of the Completion Bonds is necessary to provide funds for the completion of the Airport Project.

(c) For purposes of this Section, the term "Airport Project" shall mean any Airport System facility or project which shall be defined as an Airport Project in any Supplemental Ordinance authorizing the issuance of Additional Senior Lien Obligations or Additional Subordinate Lien Bonds for the purpose of financing such Airport Project. Any such Supplemental Ordinance may contain such further provisions as the City shall deem appropriate with regard to the use, completion, modification or abandonment of such Airport Project.

SECTION 5.04 INFERIOR LIEN OBLIGATIONS. The City reserves the right to issue or incur, for any lawful Airport System purpose, bonds, notes or other obligations secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the lien on Net Revenues securing payment of the Senior Lien Obligations and Subordinate Lien Bonds. Such Inferior Lien Bonds may be further secured by any other source of payment lawfully available for such purposes.

SECTION 5.05 SPECIAL FACILITIES BONDS. The City reserves the right to issue, from time to time, in one or more series, Special Facilities Bonds as herein provided to finance and refinance the cost of any Special Facilities, including all reserves required therefor, all related costs of issuance and other amounts reasonably relating thereto, provided that such Special Facilities Bonds shall be payable solely from payments by Special Facilities lessees and/or other security not provided by the City. In no event shall any Gross Revenues or any other amounts held in any other fund or account maintained by the City as security for the Bonds or for the construction, operation, maintenance or repair of the Airport System be pledged to the payment of Special Facilities Bonds or to the payment of any expenses of maintenance and operation of Special Facilities.

SECTION 5.06 PFC OBLIGATIONS. The City reserves the right to issue or incur, for any lawful Airport System purpose, bonds, notes or other obligations secured in whole or in part by a lien on all or any designated portion of the PFC Revenues. Such PFC obligations may be further secured by any other source of payment lawfully available for such purposes.

SECTION 5.07 EXCLUDED FEE AND CHARGE REVENUES OBLIGATIONS. The City reserves the right to issue or incur, for any lawful Airport System purpose, bonds, notes or other obligations secured in whole or in part by a lien on all or any designated portion of Excluded Fee and Charge Revenues. Such obligations may be further secured by any other source of payment lawfully available for such purposes.

ARTICLE VI

COVENANTS AND PROVISIONS RELATING TO ALL BONDS

SECTION 6.01 PUNCTUAL PAYMENT OF OBLIGATIONS. The City will punctually pay or cause to be paid the interest on and principal of all Airport Obligations according to the terms thereof and will faithfully do and perform, and at all times fully observe, any and all covenants, undertakings, stipulations and provisions contained in this Master Ordinance and in any Supplemental Ordinance.

SECTION 6.02 MAINTENANCE OF AIRPORT SYSTEM. The City covenants that it will at all times maintain and operate the Airport System, or, within the limits of its authority, cause the same to be maintained and operated, in good and serviceable condition.

SECTION 6.03 LIMITATION ON CITY CHARGES FOR OPERATION AND MAINTENANCE EXPENSES. The City covenants that it will not charge the Airport System any amounts for overhead expenses relating to the administration, operation and maintenance of the Airport System except to the extent that such amounts are reasonably allocable to the Airport System based upon a stated policy of allocation, reasonably applied to the Airport System and all other departments of the City and further covenants that the City will not charge the Airport System for any property provided or services rendered by the City unless such services are reasonably necessary and required for the Airport System and are not otherwise provided to the Airport System. All such charges imposed by the City upon the Airport System shall be reasonable, fair and consistent with similar charges imposed upon other departments of the City and shall be consistent with all applicable federal laws, regulations and other requirements applicable to the Airport System or imposed upon the Airport System in connection with the acceptance by the Airport System of any federal grants or aid.

SECTION 6.04 SALE OR ENCUMBRANCE OF AIRPORT SYSTEM.

(a) Except for the use of the Airport System or services pertaining thereto in the normal course of business, neither all nor a substantial part of the Airport System shall be sold, leased, mortgaged, pledged, encumbered, alienated, or otherwise disposed of until all Airport Obligations have been paid in full, or unless provision has been made therefor, and the City shall not dispose of its title to the Airport System or to any useful part thereof, including, without limitation, any property necessary to the operation and use of the Airport System, (i) except for the execution of leases, licenses, easements, or other agreements in connection with the operation of the Airport System by the City, or in connection with any Special Facilities, (ii) except for any pledges of and liens on revenues derived from the operation and use of the Airport System, or any part thereof, or any Special Facilities pertaining thereto, for the payment of Airport Obligations, Special Facilities Bonds and any other obligations pertaining to the Airport System, and (iii) except as otherwise provided in the next two paragraphs.

(b) The City may sell, exchange, lease, or otherwise dispose of, or exclude from the Airport System, any property constituting a part of the Airport System which the Aviation Director certifies (i) to be no longer useful in the construction or operation of the Airport System, or (ii) to be no longer necessary for the efficient operation of the Airport System, or (iii) to have been replaced by other property of at least equal value. The net proceeds of the sale or disposition of any Airport System property (or the fair market value of any property so excluded) pursuant to this paragraph shall be used for the purpose of replacing properties at the Airport System, or shall be paid into the Airports Improvement Fund for the purposes thereof.

(c) Nothing herein shall prevent any transfer of all or a substantial part of the Airport System to another body corporate or politic (including, but not necessarily limited to a joint action agency or an airport authority) which assumes the City's obligations under this Master Ordinance and any Supplemental Ordinance, wholly or in part, if, in the written opinion of the Airport Management Consultant, the ability to meet the rate covenant and other covenants under this Master Ordinance and any Supplemental Ordinance are not materially and adversely affected. In the event of any such transfer and assumption, nothing herein shall prevent the retention by the City of any facility of the Airport System if, in the written opinion of the Airport Management Consultant, such retention will not materially and adversely affect nor unreasonably restrict such other body's ability to comply with the requirements of the rate covenant and the other covenants of this Master Ordinance and any Supplemental Ordinance.

SECTION 6.05 INSURANCE. The City further covenants and agrees that it will keep the Airport System insured with insurers of good standing against risks, accidents or casualties against which and to the extent customarily insured against by political subdivisions of the State of Texas operating similar properties, to the extent that such insurance is available. All net proceeds of such insurance shall be applied to repair or replace the insured property that is damaged or destroyed or to make other capital improvements to the Airport System or to redeem Airport Obligations except for proceeds of business interruption insurance, which shall be credited to the Revenue Fund.

SECTION 6.06 ACCOUNTS, RECORDS, AND AUDITS. The City covenants and agrees that it will maintain a proper and complete system of records and accounts pertaining to the Gross Revenues and the operation of the Airport System in which full, true and proper entries will be made of all dealings, transactions, business and affairs that in any way affect or pertain to the Gross Revenues and the Airport System. The City shall, within 120 days after the close of each of its Fiscal Years or as soon thereafter as practicable, cause an audit report of such records and accounts to be prepared by an independent certified public accountant or independent firm of certified public accountants, which shall calculate the Gross Revenues, Net Revenues and Debt Service Requirements for such Fiscal Year and shall set forth a calculation to demonstrate whether the City has satisfied the rate covenant contained in Section 3.03 hereof. In addition, the City shall each year, as a part of its annual audit, cause an independent certified public accountant or independent firm of certified public accountants to prepare a report containing an analysis of any overhead and direct charges imposed on the Airport System by the City to determine whether such charges were imposed in conformity with the covenant contained in Section 6.03 hereof. Each year promptly after such reports are prepared, the City shall furnish copies thereof to any Owners of Airport Obligations who shall request the same. All expenses of obtaining such reports shall constitute Operation and Maintenance Expenses of the Airport System.

SECTION 6.07 PLEDGE AND ENCUMBRANCE OF REVENUES. The City covenants and represents that it has the lawful power to create a lien on and to pledge the Net Revenues to secure the payment of the Airport Obligations and has lawfully exercised such power under the Constitution and laws of the State of Texas. The City further covenants and represents that, other than to the payment of Operation and Maintenance Expenses and the Airport Obligations, the Gross Revenues are not and will not be made subject to any other lien, pledge or encumbrance to secure the payment of any debt or obligation of the City, unless such lien, pledge or encumbrance is junior and subordinate to the lien and pledge securing payment of the Airport Obligations.

SECTION 6.08 BONDHOLDERS REMEDIES. This Master Ordinance and all Supplemental Ordinances shall constitute a contract between the City and the Owners of the Airport Obligations from time to time Outstanding and this Master Ordinance and all Supplemental Ordinances shall be and remain irrepealable until the Airport Obligations authorized thereby and the interest thereon shall be fully paid or discharged or provision therefor shall have been made as provided herein. In the event of a default in the payment of the principal of or interest on any of the Airport Obligations or a default in the performance of any duty or covenant provided by law or in this Master Ordinance or any Supplemental Ordinance, the Owner or Owners of any of the Airport Obligations authorized thereby may pursue all legal remedies afforded by the Constitution and laws of the State of Texas to compel the City to remedy such default and to prevent further default or defaults. Without in any way limiting the generality of the foregoing, it is expressly provided that any Owner of any of the Airport Obligations may at law or in equity, by suit, action, mandamus, or other proceedings, enforce and compel performance of all duties required to be performed by the City under this Master Ordinance and any Supplemental Ordinance, including the making and setting of reasonably required rates and charges for the use and services of the Airport System, the deposit of the Gross Revenues thereof into the special Funds herein provided, and the application of such Gross Revenues in the manner required in this Master Ordinance and any Supplemental Ordinance.

SECTION 6.09 LEGAL HOLIDAYS. In any case where the date of maturity of interest on or principal of any series of Airport Obligations or the date fixed for redemption of any series of Airport Obligations shall be in the City a legal holiday or a day on which a Paying Agent/Registrar for such Airport Obligations is authorized by law to close, then payment of interest or principal need not be made on such date but may be made on the next succeeding day not in the City a legal holiday or a day on which such Paying Agent/Registrar is authorized by law to close with the same force and effect as if made on the date of maturity or the date fixed for redemption and no interest shall accrue for the period from the date of maturity or redemption to the date of actual payment.

ARTICLE VII

ALTERATION OF RIGHTS AND DUTIES; AMENDMENT OF ORDINANCE

SECTION 7.01 ALTERATION OF RIGHTS AND DUTIES. The rights, duties, and obligations of the City and the Owners of the Airport Obligations are subject in all respects to all applicable federal and state laws including, without limitation, the provisions of federal law regarding the composition of indebtedness of political subdivisions, as the same now exist or may hereafter be amended. Inconsistencies among the provisions of the ordinances authorizing the issuance of Airport Obligations shall be resolved by the City in any manner or by any action to conform such provisions as it deems necessary or advisable in accordance with applicable law. The City may consult with and rely on the opinion of nationally recognized bond counsel with regard to any or all matters in this Article VII.

SECTION 7.02 AMENDMENT WITHOUT CONSENT. The City may, without the consent of or notice to any of the Owners of the Airport Obligations, amend this Master Ordinance or any Supplemental Ordinance for any one or more of the following purposes:

(a) To cure any ambiguity, defect, omission or inconsistent provision in this Master Ordinance, any Supplemental Ordinance, or in the Airport Obligations; or to comply with any applicable provision of state or federal law or regulation of federal agencies; provided, however, that such action shall not adversely affect the interests of the Owners of the Airport Obligations;

(b) To change the terms or provisions of this Master Ordinance or any Supplemental Ordinance to the extent necessary to prevent the interest on the Airport Obligations from being includable within the gross income of the Owners thereof for federal income tax purposes;

(c) To grant to or confer upon the Owners of the Airport Obligations any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Owners of the Airport Obligations;

(d) To add to the covenants and agreements of the City contained in this Master Ordinance or any Supplemental Ordinance other covenants and agreements of, or conditions or restrictions upon, the City, or to surrender or eliminate any right or power reserved to or conferred upon the City in this Master Ordinance or any Supplemental Ordinance;

(e) To subject to the lien and pledge of this Master Ordinance or any Supplemental Ordinance additional Net Revenues which may include revenues, properties or other collateral;

(f) To add requirements or incorporate modifications the compliance with which is required by a rating agency in connection with issuing or confirming a rating with respect to any series of Airport Obligations;

(g) To authorize any series of Additional Senior Lien Bonds, Additional Senior Lien Notes, Additional Subordinate Lien Bonds or additional Inferior Lien Bonds, and, in connection therewith: (i) to specify and determine the terms, forms and details thereof and (ii) to create such additional funds and accounts and to effect such amendments of this Master Ordinance which may be necessary for such issuance, provided in each case that no such amendment or supplement shall be contrary to or inconsistent with the limitations set forth in this Master Ordinance;

(h) To evidence any sale, transfer or encumbrance of the Airport System in accordance with the provisions of Section 6.04;

(i) To make any other modification, amendment or supplement that shall not materially adversely affect the interests of the Owners of the Airport Obligations;

(j) To cure or correct any technical defect in connection with the terms, conditions or procedures relating to the variable rate provisions contained in any Supplemental Ordinance; provided, however, that such action shall not adversely affect the interests of the owners of the Airport Obligations; and

(k) Prior to the conversion of any variable rate Airport Obligations to a different interest rate mode, to change the terms, conditions or procedures relating to the new interest rate mode.

SECTION 7.03 AMENDMENTS REQUIRING CONSENT. The City may at any time adopt one or more ordinances (which may be in the form of a Supplemental Ordinance) amending, modifying, adding to or eliminating any of the provisions of this Master Ordinance or any Supplemental Ordinance, but, if such amendment is not of the character described in Section 7.02 hereof, only with the consent given in accordance with Section 7.04 hereof of the Owner or Owners of not less than a majority in aggregate unpaid principal amount of the Airport Obligations then Outstanding and affected by such amendment, modification, addition, or elimination; provided, however, that nothing in this Section 7.03 shall permit (a) an extension of the maturity of the principal of or interest on any Airport Obligation issued hereunder, or (b) a reduction in the principal amount of any Airport Obligation or the rate of interest on any Airport Obligation, or (c) a privilege or priority of (i) any Senior Lien Obligation(s) over any other Senior Lien Obligation(s), (ii) any Subordinate Lien Bond(s) over any other Subordinate Lien Bond(s), or (iii) any Inferior Lien Bond(s) over any other Inferior Lien Bond(s), or (d) a reduction in the aggregate principal amount of the Airport Obligations required for consent to such amendment, unless the Owner or Owners of 100% in aggregate principal amount of the Airport Obligations shall consent to any of said changes. Before the City shall adopt one or more of such ordinances pursuant to this Section 7.03, the City must receive an opinion from nationally recognized bond counsel to the effect that such ordinance or ordinances does not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Airport Obligations.

SECTION 7.04 CONSENT OF OWNERS.

(a) Any consent required by Section 7.03 hereof by any Owner of Airport Obligations shall be in writing, may be in any number of concurrent writings of similar tenor, and may be signed by such Owner or his duly authorized attorney. Proof of the execution of any such consent or of the writing appointing any such attorney and of the ownership Airport Obligations, if made in the following manner, shall be sufficient for any of the purposes of this Master Ordinance, and shall be conclusive in favor of the City with regard to any action taken, suffered or omitted to be taken by the City under such instrument, namely:

(i) The fact and date of the execution by any person of any such writing may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments within such jurisdiction that the person signing such writing acknowledged before him the execution thereof, or by affidavit of any witness to such execution; and

(ii) The fact of the ownership by any person of any Airport Obligations and the date of the ownership of same may be proved by a certificate executed by an appropriate officer of the Paying Agent/Registrar for such Airport Obligations, stating that at the date thereof such Airport Obligations were registered in the name of such party in the register for such Airport Obligations.

In lieu of the foregoing the City may accept such other proofs of the foregoing as it shall deem appropriate.

(b) Consents required pursuant to Section 7.03 shall be valid only if given following the giving of notice by or on behalf of the City requesting such consent and setting forth the substance of the proposed amendment of this Master Ordinance or any Supplemental Ordinance in respect of which such consent is sought and stating that copies thereof are available at the office of the City Secretary for inspection. Such notice shall be given by certified mail, postage prepaid, to each Registered Owner of the Airport Obligations affected at the address shown on the register for such Airport Obligations.

SECTION 7.05 REVOCATION OF CONSENT. Any consent by any Owner of an Airport Obligation pursuant to the provisions of this Article shall be irrevocable for a period of six months from the date of mailing of the notice provided for in this Article, and shall be conclusive and binding upon all future Owners of the same Airport Obligation and any Airport Obligation delivered in transfer thereof or in exchange for or replacement thereof during such period. Such consent may be revoked at any time after six months from the date of the first mailing of such notice by the Owner who gave such consent or by a successor in title, by filing notice thereof with the Paying Agent/Registrar for such Airport Obligation, but such revocation shall not be effective if the Owners of a majority in aggregate principal amount of the Airport Obligations then Outstanding and affected thereby have, prior to the attempted revocation, consented to and approved the amendment.

SECTION 7.06 BOND INSURER MAY BE DEEMED OWNER. For purposes of giving any consent under this Article VII, the bond insurer of any series of Airport Obligations may be deemed by the City to be the Owner of such series of Airport Obligations, as provided in the related Supplemental Ordinance or officers pricing certificate.

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APPENDIX B-2

PROPOSED AMENDMENTS TO THE MASTER ORDINANCE

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APPENDIX B-2

PROPOSED AMENDMENTS TO THE MASTER ORDINANCE

Proposed 2016 Amendments

The following amendments to the Master Ordinance have been incorporated into the Series 2018 Bonds, but will not become effective until the Proposed 2016 Amendments (or portions thereof) have become incorporated or deemed incorporated into every ordinance pursuant to which Airport Obligations are then Outstanding (the "Amendment Effective Date"). The City may not exercise its rights under any portion of the Proposed 2016 Amendments until the Amendment Effective Date. As of the date of this Official Statement, the Proposed 2016 Amendments have been incorporated into (1) the Series 2018 Bonds, (2) the Houston Airport System's Senior Lien Commercial Paper Notes, Series A and Series B, and (3) the Houston Airport System's Subordinate Lien Revenue and Refunding Bonds, Series 2018A and Series 2018B.

1. Section 5.02 of the Master Ordinance shall read:

> SECTION 5.02 SHORT TERM/DEMAND OBLIGATIONS. The City reserves the right to issue, from time to time, one or more series of Additional Senior Lien Obligations and/or Additional Subordinate Lien Bonds as "Short Term/Demand Obligations"; provided, however, that no such Short Term/Demand Obligations may be issued without satisfying the applicable provisions of Section 5.01 above.

2. The definition of "Gross Revenues" shall read as follows, and the definition of "Released Revenues" shall be added.

> "**Gross Revenues**" means all income and revenues derived directly or indirectly by the City from the operation and use of and otherwise pertaining to the Airport System, or any part thereof, whether resulting from extensions, enlargements, repairs, betterments or other improvements to the Airport System, or otherwise, and includes, except to the extent hereinafter expressly excluded, all revenues received by the City from the Airport System, including, without limitation, all rentals, rates, fees and other charges for the use of the Airport System, or for any service rendered by the City in the operation thereof, interest and other income realized from the investment or deposit of amounts credited to any fund required to be maintained pursuant to this Master Ordinance or any other ordinance authorizing the issuance of Airport Obligations. Gross Revenues expressly exclude:
>
> (i) proceeds of any Airport Obligations;
>
> (ii) interest or other investment income derived from Airport Obligation proceeds deposited to the credit of any construction fund, or applied to fund capitalized interest, or interest or investment income required to be retained in the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Reserve Fund, the Inferior Lien Bond Reserve Fund, the Operation and Maintenance Reserve Fund or any escrow fund in order to accumulate therein any amount or balance required to be accumulated or maintained therein pursuant to any ordinance authorizing any series of Airport Obligations;
>
> (iii) any monies received as grants, appropriations, or gifts, the use of which is limited by the grantor or donor to the construction or acquisition of Airport System facilities, except to the extent any such monies shall be received as payments for the use of the Airport System facilities;
>
> (iv) any revenues derived from any Special Facilities which are pledged to the payment of Special Facilities Bonds;

(v) insurance proceeds other than loss of use or business interruption insurance proceeds;

(vi) the proceeds of any passenger facility charge or other per-passenger charge as may be hereafter authorized under federal law, including, but not limited to, those revenues defined as PFC Revenues;

(vii) sales and other taxes collected by the Airport System on behalf of the State of Texas and any other taxing entities;

(viii) Federal Payments received by the Airport System unless the City first receives an opinion from nationally recognized bond counsel to the effect that such payments, if included in Gross Revenues, would not cause the interest on the Airport Obligations to be includable within the gross income of the Owners thereof for federal income tax purposes;

(ix) the net proceeds received by the City from the disposition of any Airport System property;

(x) any Excluded Fee and Charge Revenues;

(xi) any Taxable Bond Credit Revenues; and

(xii) any Released Revenues

"**Released Revenues**" means a specific, identifiable portion of the income and revenues otherwise constituting Gross Revenues (the "Identified Revenues") with respect to which the City has adopted a Supplemental Ordinance authorizing the Identified Revenues to be excluded from the definition of Gross Revenues and finding and determining that the following conditions have been met:

(i) either (x) the City Controller of the City has certified that, after the Identified Revenues were excluded from Gross Revenues, Net Revenues for each of the two most recent completed Fiscal Years were sufficient to satisfy the rate covenant set forth in Section 3.03(a) of this Master Ordinance in each of those Fiscal Years or (y) an Airport Management Consultant has certified, based upon reasonable assumptions, that after the Identified Revenues are excluded from Gross Revenues, Net Revenues for each of the following three (3) full Fiscal Years will be sufficient to enable the City to satisfy the rate covenant set forth in Section 3.03(a) of this Master Ordinance in each of those five Fiscal Years;

(ii) the City has received an opinion of nationally recognized bond counsel to the effect that the exclusion of the Identified Revenues from the definition of Gross Revenues and from the pledge and lien of this Master Ordinance will not, in and of itself, cause the interest on any Outstanding Airport Obligations to be included in gross income for purposes of federal income tax; and

(iii) the City has received written confirmation from each rating agency then rating the Outstanding Airport Obligations to the effect that the exclusion of the Identified Revenues from the definition of Gross Revenues and from the pledge and lien of this Master Ordinance will not cause a withdrawal or reduction in any unenhanced rating then assigned to any Outstanding Airport Obligation.

Beginning the first fully Fiscal Year following the adoption of the Supplemental Ordinance that meets the requirements set forth above, the Identified Revenues shall become "Released Revenues" and shall be excluded from the pledge and lien of this Master Ordinance. The City shall file a notice with the MSRB describing the Released Revenues and the effective date of the exclusion of the Released Revenues from the pledge and lien of this Master Ordinance.

3. Definition of "Qualified Hedge Agreement" shall read:

"**Qualified Hedge Agreement**" means any agreement between the City and a qualifying financial institution (as described in the following sentence) for the purpose of providing an interest rate swap, exchange, cap, collar, floor, forward or other hedging mechanism, arrangement or security, however denominated, expressly identified pursuant to its terms as being entered into in connection with and in order to hedge interest rate fluctuations on any portion of any Airport Obligations and in consideration for which the City may agree to pay, but solely from Net Revenues as herein provided, (i) periodic payments for the availability of such Qualified Hedge Agreement and/or (ii) net amounts as a result of fluctuation in hedged interest rates or in the value of any index of payment and/or (iii) termination charges. A Qualified Hedge Agreement may only be entered into with a financial institution that has long-term credit ratings or the obligations of which are unconditionally guaranteed by a financial institution with long-term credit ratings in one of the two highest generic rating categories by one nationally recognized rating service. Obligations of the City pursuant to a Qualified Hedge Agreement shall be included within the definition of Debt Service Requirements for the series of Airport Obligations to which the Qualified Hedge Agreement relates. Further, obligations of the City to make payments under a Qualified Hedge Agreement derived from or resulting from a fluctuation in hedged interest rates or in the value of any index of payment shall be deemed to be payments of interest on the Airport Obligations so hedged. Each Qualified Hedge Agreement shall be deemed to be a part of the Airport Obligations of the series to which it relates for the purpose of securing its payment by the pledge of Net Revenues as provided in Articles III, V and VI of this Master Ordinance. However, issuers of and counterparties to Qualified Hedge Agreements shall not be treated as Owners of Airport Obligations for purposes of any voting rights to approve amendments or direct the exercise of any remedies under this Master Ordinance.

4. Definition of "Reserve Fund Requirement" shall read:

"**Reserve Fund Requirement**" means the amount required to be maintained in the Senior Lien Bond Reserve Fund (and the accounts therein), the Subordinate Lien Bond Reserve Fund (and the accounts therein), or the Inferior Lien Bond Reserve Fund (and the accounts therein), as the case may be, as further set forth in the applicable Supplemental Ordinance and/or officers pricing certificate authorizing one or more series of Airport Obligations. Upon the issuance of any series of Airport Obligations, the amount of the Reserve Fund Requirement for such Airport Obligations shall be as set forth in the related Supplemental Ordinance or officers pricing certificate.

A. For Senior Lien Notes, such amount shall be computed and recomputed upon the issuance of each series of Senior Lien Notes to be the arithmetic average of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Senior Lien Notes then Outstanding, including the series of Senior Lien Notes then being issued.

B. For Senior Lien Bonds that are Reserve Fund Participants, such amount shall be computed upon the issuance of each series of Senior Lien Bonds that are Reserve Fund Participants and on each date on which Senior Lien Bonds that are Reserve Fund Participants are paid at maturity or optionally or mandatorily redeemed, to be the greatest amount of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Senior Lien Bonds then Outstanding that are Reserve Fund Participants.

C. For any series of Senior Lien Bonds that are Reserve Fund Non-Participants, such amount shall be computed upon the issuance of such series of Senior Lien Bonds and on each date on which any of such series of Senior Lien Bonds are paid at maturity or optionally or mandatorily redeemed, to be an amount, if any, as set forth and determined in the related Supplemental Ordinance.

D. For Subordinate Lien Bonds that are Reserve Fund Participants, such amount shall be computed and recomputed upon the issuance of each series of Subordinate Lien Bonds that are Reserve Fund Participants and on each date on which Subordinate Lien Bonds that are Reserve Fund Participants are paid at maturity or optionally or mandatorily redeemed, to be the greatest amount of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Subordinate Lien Bonds then Outstanding that are Reserve Fund Participants, including any series of Subordinate Lien Bonds then being issued that are Reserve Fund Participants.

E. For any series of Subordinate Lien Bonds that are Reserve Fund Non-Participants, such amount shall be computed upon the issuance of such series of Subordinate Lien Bonds and on each date on which any of such series of Subordinate Lien Bonds are paid at maturity or optionally or mandatorily redeemed, to be an amount, if any, as set forth and determined in the related Supplemental Ordinance.

F. For Inferior Lien Bonds that are Reserve Fund Participants, such amount shall be computed and recomputed upon the issuance of each series of Inferior Lien Bonds that are Reserve Fund Participants and on each date on which Inferior Lien Bonds that are Reserve Fund Participants are paid at maturity or optionally or mandatorily redeemed, to be the greatest amount of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Inferior Lien Bonds then Outstanding that are Reserve Fund Participants, including any series of Inferior Lien Bonds then being issued that are Reserve Fund Participants.

G. For any series of Inferior Lien Bonds that are Reserve Fund Non-Participants, such amount shall be computed upon the issuance of such series of Inferior Lien Bonds and on each date on which any of such series of Inferior Lien Bonds are paid at maturity or optionally or mandatorily redeemed, to be an amount, if any, as set forth and determined in the related Supplemental Ordinance.

5. Definition of "Short Term/Demand Obligations" shall read:

"**Short Term/Demand Obligations**" means each series of bonds, notes and other obligations, the payment of principal of which is either (i) payable on demand by or at the option of the holder at a time sooner than a date on which such principal is deemed to be payable for purposes of computing Debt Service Requirements, or (ii) scheduled to be payable within one year from the date of issuance and is contemplated to be refinanced for a specified period or term through the issuance of additional Short Term/Demand Obligations pursuant to a commercial paper or other similar financing program. The purchase price, payment or refinancing of such principal may be additionally secured by a letter of credit, line of credit, standby bond purchase agreement, bond insurance, surety bond or other credit or liquidity facility.

APPENDIX C

FORM OF OPINION OF CO-BOND COUNSEL

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BRACEWELL LLP
711 LOUISIANA STREET, SUITE 2300
HOUSTON, TEXAS 77002

WEST & ASSOCIATES, LLP
440 LOUISIANA STREET, SUITE 1880
HOUSTON, TEXAS 77002

_______________________, 2018

WE HAVE ACTED as co-bond counsel for the CITY OF HOUSTON, TEXAS (the "City") in connection with the issuance of the CITY OF HOUSTON, TEXAS AIRPORT SYSTEM SUBORDINATE LIEN REVENUE REFUNDING BONDS, SERIES 2018C (AMT) in the original aggregate principal amount of $212,820,000 (the "Series 2018C Bonds") and the CITY OF HOUSTON, TEXAS AIRPORT SYSTEM SUBORDINATE LIEN REVENUE REFUNDING BONDS, SERIES 2018D (NON-AMT) in the original aggregate principal amount of $356,290,000 (the "Series 2018D Bonds" and together with the Series 2018C Bonds, the "Series 2018 Bonds").

The Series 2018 Bonds mature, bear interest and may be transferred and exchanged as set forth in the Series 2018 Bonds, City of Houston Ordinance No. 2018-493 (the "Supplemental Ordinance") and the officers pricing certificate executed pursuant thereto (the "Officers Pricing Certificate"). The Series 2018 Bonds are also authorized pursuant to City of Houston Ordinance No. 2016-0846 (the "Master Ordinance"). The Master Ordinance, the Supplemental Ordinance and the Officers Pricing Certificate are referred to collectively herein as the "Ordinance." Capitalized terms used herein but not otherwise defined have the meaning assigned to them in the Ordinance.

WE HAVE ACTED as co-bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Series 2018 Bonds under the Constitution and laws of the State of Texas and with respect to the excludability of interest on the Series 2018 Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of certified proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the City, including the Airport System, or the disclosure thereof in connection with the offer and sale of the Series 2018 Bonds. Our role in connection with the City's Official Statement, dated July 17, 2018, prepared for use in connection with the offer and sale of the Series 2018 Bonds has been limited as described therein.

IN OUR CAPACITY as co-bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the authorization and issuance of the Series 2018 Bonds and the bonds being refunded with a portion of the proceeds of the Series 2018 Bonds (the "Refunded Bonds"), which we have relied on in giving our opinion. The transcript contains certified copies of certain proceedings of the City Council of the City; the report of Grant Thornton LLP, certified public accountants, (the "Report") verifying (i) the sufficiency of the deposits made with the Escrow Agent for the defeasance and redemption of the Refunded Bonds, and (ii) the mathematical accuracy of the computation of the yield of the Series

2018 Bonds; customary certificates of officials, agents and representatives of the City, the Escrow Agent, the paying agents for the Refunded Bonds, and certain other persons; and other certified showings relating to the authorization and issuance of the Series 2018 Bonds and firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds. We have further examined such applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), court decisions, regulations and published rulings of the Internal Revenue Service (the "Service") as we have deemed relevant. We have also examined a specimen of the form of registered bond of each series of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

1. The transcript of certified proceedings referenced above evidences complete legal authority for the issuance of the Series 2018 Bonds in full compliance with the Constitution and the laws of the State of Texas presently effective and that therefore the Series 2018 Bonds constitute legal, valid and binding special obligations of the City;

2. The Series 2018 Bonds, together with all 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 Airport System (subject to the prior and superior lien on Net Revenues securing the outstanding Senior Lien Obligations and any additional Senior Lien Obligations hereafter issued) and the Subordinate Lien Bond Interest and Sinking Fund, as provided in the Ordinance. The Series 2018 Bonds are also secured by a lien on the Subordinate Lien Bond Reserve Fund Participant Account, as provided in the Ordinance; and

3. Under the terms of the Ordinance and certain certificates and letters of instruction delivered thereunder, firm banking and financial arrangements have been made for the discharge and final payment of the Refunded Bonds pursuant to the Escrow Agreement entered into between the City and the Escrow Agent effective as of the date of delivery of the Series 2018 Bonds, and therefore the Refunded Bonds are deemed to be fully paid and no longer outstanding except for the purpose of being paid from funds provided for such purpose pursuant to the Escrow Agreement.

THE RIGHTS OF THE OWNERS of the Series 2018 Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions, and may be limited by general principles of equity that permit the exercise of judicial discretion. The Series 2018 Bonds are secured solely by a lien on and pledge of Net Revenues of the Airport System as described above and certain funds as provided in the Ordinance and do not constitute an indebtedness or general obligation of the City. Owners of the Series 2018 Bonds shall never have the right to demand payment of principal or interest out of any funds raised or to be raised by taxation.

THE CITY HAS RESERVED THE RIGHT TO ISSUE ADDITIONAL SENIOR LIEN OBLIGATIONS, SUBORDINATE LIEN BONDS AND INFERIOR LIEN BONDS, subject to the restrictions contained in the Ordinance, secured by liens on the Net Revenues that are prior and superior to, on a parity with, or junior and inferior to, respectively, the lien on Net Revenues securing the Series 2018 Bonds.

IT IS OUR FURTHER OPINION THAT, under existing law:

5. Interest on the Series 2018 Bonds is excludable from gross income for federal income tax purposes, except with respect to interest on any Series 2018 Bond for any period during which such Series 2018 Bond is held by a person who is a "substantial user" of the facilities refinanced with the proceeds of the Series 2018 Bonds or a "related person" to such a "substantial user," each within the meaning of section 147(a) of the Code; and

6. The Series 2018C Bonds are "private activity bonds" within the meaning of the Code, and, as such, interest on the Series 2018C Bonds is an item of tax preference that is includable in alternative minimum taxable income for purposes of determining a taxpayer's alternative minimum tax liability; and

7. The Series 2018D Bonds are "private activity bonds" within the meaning of the Code, and pursuant to the American Recovery and Reinvestment Act of 2009, interest on the Series 2018D Bonds is not an item of tax preference that is includable in alternative minimum taxable income for purposes of determining a taxpayer's alternative minimum tax liability.

In providing such opinions, we have relied on representations of the City, the City's co-financial advisors and the Underwriters with respect to matters solely within the knowledge of the City, the City's co-financial advisors and the Underwriters, respectively, which we have not independently verified. We will further rely on the Report regarding the mathematical accuracy of certain computations. In addition, we have assumed for purposes of this opinion continuing compliance with the covenants in the Ordinance pertaining to those sections of the Code that affect the excludability of interest on the Series 2018 Bonds from gross income for federal income tax purposes. In the event that such representations or the Report are determined to be inaccurate or incomplete, or if the City fails to comply with the foregoing covenants in the Ordinance, interest on the Series 2018 Bonds could become includable from the date of their original delivery, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt or accrual of interest on or disposition of the Series 2018 Bonds.

Owners of the Series 2018 Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the “branch profits tax” on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Series 2018 Bonds).

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given regarding whether or not the Service will commence an audit of the Series 2018 Bonds. If an audit is commenced, in accordance with its current published procedures, the Service is likely to treat the City as the taxpayer. We observe that the City has covenanted in the Ordinance not to take any action, or knowingly omit to take any action within its control, that if taken or omitted, respectively, would cause the interest on the Series 2018 Bonds to be includable in gross income, as defined in Section 61 of the Code, of the holders thereof for federal income tax purposes.

APPENDIX D

SUMMARY OF SCHEDULES RELATED TO CONTINUING DISCLOSURE OF INFORMATION

Schedule A	PFC Collections
Schedule 1	Passenger Statistics (including Schedule 1-A – Total Enplaned Passengers for the Houston Airport System)
Schedule 2	Airline Market Shares
Schedule 3	Total Aircraft Operations and Aircraft Landed Weight
Schedule 4	Total System Cargo Activity
Schedule 5	Selected Financial Information
Schedule 6	Summary of Certain Fees and Charges
Schedule 7	Houston Airport System Debt Service Requirements Schedule
Schedule 8	Houston Airport System Outstanding Debt
Schedule 8A	Cash and Liquidity
Schedule 9*	Actuarially Determined Contribution Amounts and Changes in Pension Plan Assets
Schedule 9A:*	Municipal System Pension Plan Assets, Liabilities and Unfunded Actuarial Accrued Liability
Schedule 9B:*	Police System Pension Plan Assets, Liabilities and Unfunded Actuarial Accrued Liability
Schedule 9C:*	Firefighter Fund Pension Plan Assets, Liabilities and Unfunded Actuarial Accrued Liability

* The City agrees to update Schedules 9, 9A, 9B, and 9C only to the extent that the City receives updated actuarial reports from the boards of the pension systems. While required by State law, the City is not empowered to require the boards of the pension systems to obtain updated actuarial reports. The pension systems will periodically receive additional actuarial reports with regard to the City's pension plans, to the extent required under State law or requested by the boards of the pension systems. Accordingly, updated Schedules 9, 9A, 9B, and 9C may not be available in every annual continuing disclosure filing.

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APPENDIX E

DEPOSITORY TRUST COMPANY

The information in this APPENDIX E describes the securities clearance procedures of The Depository Trust Company ("DTC") in the United States. The information in this APPENDIX concerning DTC has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy of such information.

The Depository Trust Company

Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2018 Bonds. The Series 2018 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Series 2018 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2018 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2018 Bonds on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2018 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2018 Bonds, except in the event that use of the book-entry system for the Series 2018 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2018 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2018 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2018 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2018 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2018 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2018 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the financing documents. For example, Beneficial Owners of the Series 2018 Bonds may wish to ascertain that the nominee holding the Series 2018 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2018 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such a maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2018 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2018 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2018 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from Issuer or Bond Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Trustee, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest on the Series 2018 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Bond Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2018 Bonds at any time by giving reasonable notice to the Issuer or the Bond Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2018 Bond certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2018 Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

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CITY OF HOUSTON, TEXAS • AIRPORT SYSTEM SUBORDINATE LIEN REVENUE REFUNDING BONDS, SERIES 2018C (AMT) AND SERIES 2018D (NON-AMT)

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