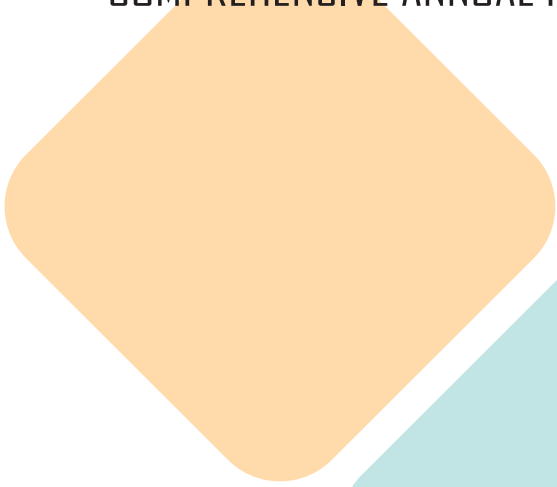


CAFR

COMPREHENSIVE ANNUAL FINANCIAL REPORT



THE AIRPORT SYSTEM FUND
AN ENTERPRISE FUND OF THE CITY OF HOUSTON, TX
PREPARED BY OFFICE OF THE CITY CONTROLLER, CHRIS BROWN

FISCAL YEARS ENDED
JUNE 30, 2020
JUNE 30, 2019



AIRPORT SYSTEM FUND

An Enterprise Fund of the

City of Houston, Texas

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Years Ended June 30, 2020 and June 30, 2019

Prepared by:
Office of City Controller

Chris Brown
City Controller

Beverly Riggans
Deputy City Controller

C O N T E N T S

INTRODUCTORY SECTION (UNAUDITED)

| | |
|------|------------------------------------|
| i | Airport Locations and Service Area |
| ii | Certificate of Achievement |
| iii | Transmittal Letter |
| viii | List of Principal Officials |
| x | Awards, Accolades and Recognitions |
| xii | Snapshot of the Houston Airports |
| xiv | Organizational Chart |

FINANCIAL SECTION

| | |
|----|---|
| 1 | Independent Auditors' Report |
| 4 | Management's Discussion and Analysis (Unaudited) |
| | Financial Statements: |
| 14 | Statements of Net Position |
| 16 | Statements of Revenues, Expenses and Changes in Net Position |
| 17 | Statements of Cash Flows |
| 21 | Notes to the Financial Statements |
| 56 | Required Pension System and Other Post-Employment (OPEB) cost and Net OPEB Obligation Supplementary Information (Unaudited) |

STATISTICAL SECTION (UNAUDITED)

| | |
|----|---|
| 60 | Total Annual Revenues and Total Annual Expenses Charts |
| 61 | Total Annual Revenues and Expenses |
| 62 | Changes in Net Position and Passenger Facility Charge Collections |
| 63 | Pledged Revenues |
| 65 | Reconciliation of Historical Financial Results |
| 66 | Pledged Revenues for Consolidated Rental Car Facility |
| 67 | Outstanding Debt |
| 68 | Summary of Certain Fees and Charges |
| 69 | Passenger Statistics |
| 70 | Passenger Statistics by Carrier |
| 72 | Originating Passenger Enplanements |
| 73 | Aircraft Operations, Landing Weight and Cargo Activity |
| 74 | Performance Measures |
| 75 | Cash Available by Days Funded |
| 76 | Airport Information |
| 77 | Employee Staffing by Function |
| 78 | Service Area/Service Area Population/Principal Employers |
| 79 | Demographic and Economic Statistics |

COMPLIANCE SECTION

| | |
|----|---|
| 80 | Independent Auditors' Report on Compliance with Requirements Applicable to the Passenger Facility Charge Program and Internal Control over Compliance in Accordance with Requirements Issued by the Federal Aviation Administration |
|----|---|

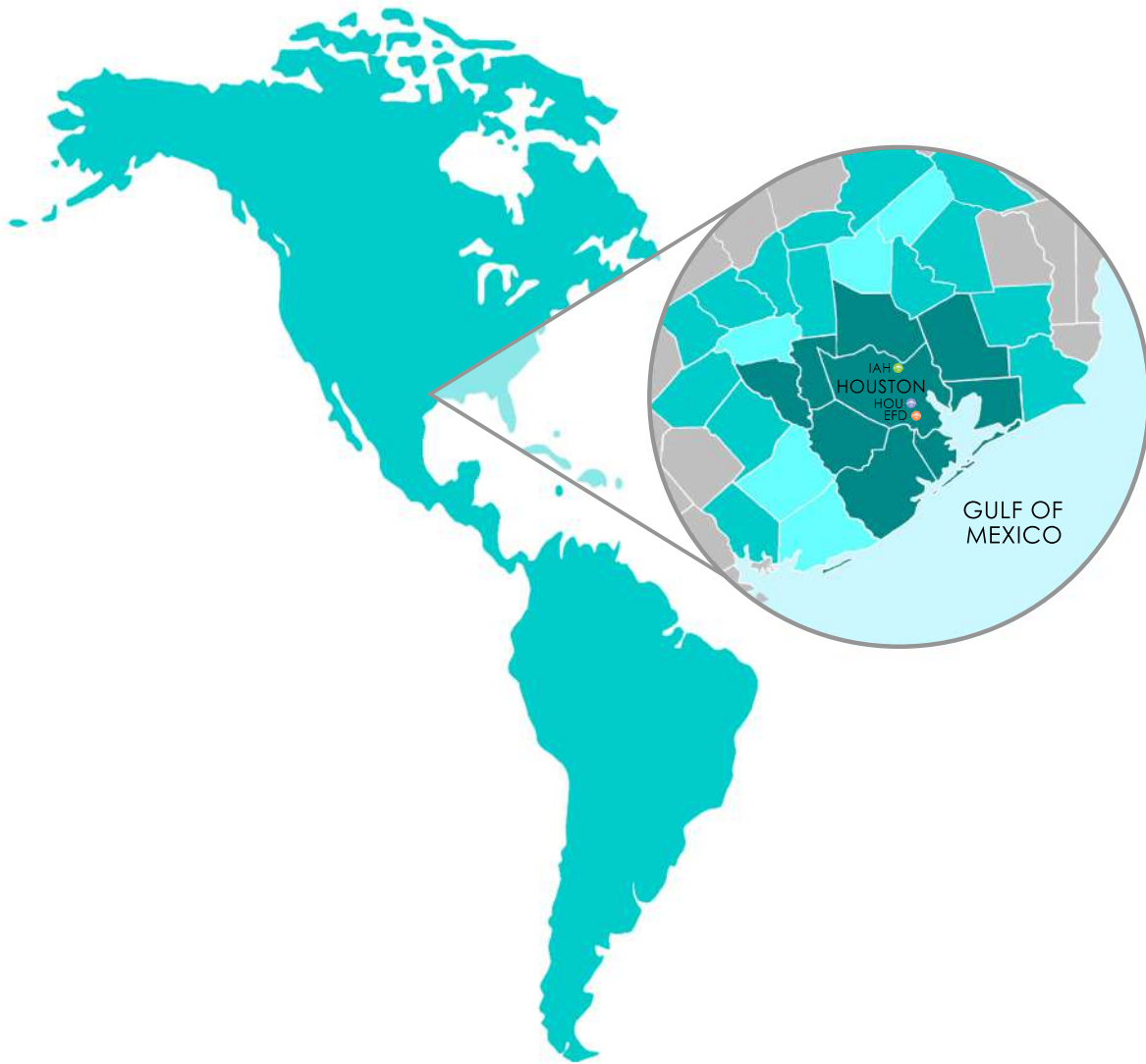
INTRODUCTORY SECTION (UNAUDITED)


COMPREHENSIVE ANNUAL FINANCIAL REPORT

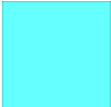




HOUSTON AIRPORT SYSTEM



 Metropolitan Statistical Area (MSA) of Houston-The Woodlands-Sugar Land, TX includes 9 counties.

 Consolidated Statistical Area (CSA) of Houston-The Woodlands, TX adds Matagorda, Trinity, Walker, Washington, and Wharton counties.



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, 2019

Christopher P. Morill

Executive Director/CEO

OFFICE OF THE CITY CONTROLLER CITY OF HOUSTON, TEXAS



Chris B. Brown

December 11, 2020

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, 2020 and June 30, 2019, including the independent auditor's reports. 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 auditor's 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 auditor's report on HAS' compliance with the requirements of the Federal Aviation Administration's (FAA) 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 the financial statements.

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 (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

Houston is the nation's fourth most populous city and lies within the fifth largest metropolitan statistical area in the United States. The primary service region for the Houston Airport System, the nine county Houston-The Woodlands-Sugar Land Metropolitan Statistical Area, has a diverse economic base. Leading industries include energy, petrochemical, engineering and construction, real estate, aerospace, commerce, medicine and health care, transportation, biotechnology, and computer technology.

Widely recognized as the "Energy Capital of the World," Houston is a global center for virtually every segment of the oil-and-gas industry. Houston is home to the Texas Medical Center, the world's largest concentration of biomedical research and healthcare institutions, and to the Lyndon B. Johnson Space Center, NASA's center for human spaceflight training, research, and flight control, and to 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 the second-busiest port as ranked by total tonnage.

The Houston Airport System is comprised of three airports: George Bush Intercontinental (IAH), William P. Hobby (HOU) and Ellington (EFD). IAH is the nation's 14th busiest airport (as measured by enplaned passengers in calendar year 2019) and is classified as a "large hub airport" by the FAA. IAH 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 Airlines in calendar year 2019. Additionally, IAH is the primary air cargo airport for the region. HOU is the nation's 36th busiest airport (as measured by enplaned passengers in calendar year 2019) and is classified as a "medium hub airport" by the FAA. HOU is a primary station for Southwest, which offers domestic service and international service to destinations in Mexico, Central America, and the Caribbean. EFD is currently used for general aviation, military, and NASA operations, but has no commercial passenger service. HAS obtained a spaceport license for EFD in June 2015 from the FAA, allowing EFD to accommodate horizontal-launch commercial spaceflight operations.

Key factors that will affect future airline traffic at the Houston Airport System include (1) the ability of the US and other nations to recover from the COVID-19 pandemic; (2) growth in the population and economy of the service region; (3) national and international economic and political conditions; (4) airline economics and airfares; (5) the price of aviation fuel; (6) airline service decisions; (7) the capacity of the air traffic control system; and (8) the capacity of our airports. During Fiscal Year 2020, HAS systemwide passengers decreased 27% from Fiscal Year 2019, driven by the impact of the COVID-19 pandemic which began materially affecting passenger traffic in mid-March 2020. International passenger traffic for Fiscal Year 2020 was down 28% from Fiscal Year 2019, again, attributed to the COVID-19 pandemic. IAH saw a 26% decrease in domestic passengers and a 27% decrease in international passengers. International passenger traffic at HOU decreased by 39% from Fiscal Year 2019 and domestic passenger traffic decreased 27%.

Capital Improvement Program

The Houston Airport System's (HAS) five-year Capital Improvement Plan (CIP) for Fiscal Years 2021-2025 contains appropriation requirements of approximately \$2.5 billion, with 22% of the appropriations planned for Fiscal Year 2021. This CIP was developed in connection with master planning studies for all three system airports. Future improvements will be funded with airport earnings, proceeds from new bond issues, proceeds from the FAA and other grantors, and with passenger facility charges. The CIP excludes projects funded by airline tenants under the terms of special facilities leases but does include a Consolidated Rental Car Facility at HOU that will be special facility funded. HAS continually reviews and updates its CIP to address changing economic conditions and air traffic demand levels, changing operating conditions, and facility conditions.

At IAH, HAS is proceeding with the planning and procurement of design and construction support for the IAH Terminal Redevelopment Program (ITRP). This program includes a new 11-gate concourse ("New Terminal C North") that was completed in March 2017, just west of the original Terminal C North location, and the demolition of the original Terminal C North to make way for a new six-widebody gate concourse that will become the West Concourse of the Mickey Leland International Terminal (MLIT). The program will also see the demolition of the D/E parking garage to make way for a new centralized ticketing hall. 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 and ticketing hall will be used by United Airlines and all foreign-flag airlines serving IAH.

The City awarded contracts for executive program manager and program management support services in Fiscal Year 2015 and architectural/engineering and construction management contracts for the MLIT in Fiscal Year 2017. In Fiscal Year 2019, the City awarded the initial architectural/engineering and construction management contracts for the FIS. Additionally, the design/build contract for the associated Landside Utility Enabling project was also awarded in Fiscal Year 2019.

The modernization and expansion of Terminal A is also being considered in this CIP along with significant work on the Skyway and Subway train systems and several taxiways at IAH.

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 7-12 gate expansion of the existing West Concourse (opened in 2015) and a consolidated rental car facility are being considered. Also, certain drainage and roadway improvement projects are included.

At EFD, construction of a new state-of-the-art air traffic control tower was completed in Fiscal Year 2019. A design/build contract was awarded in Fiscal Year 2019 for Phase I of Spaceport development that will construct the necessary roadways and utilities for future tenants. Ground-breaking of Phase I was held on June 26, 2019.

As Houston Airport System continues to review its CIP for changes necessary to “right-size” its facilities and to accommodate the growth in passenger volume at its airports, management has committed to financial targets intended to optimize use of resources and to expand facilities in a financially responsible manner. More specifically, financial targets set for Fiscal Years 2020-2024 include the following:

| FINANCIAL METRIC | TARGET | FY20 ACTUAL |
|---|----------------|-------------|
| Total Debt per Enplaned Passenger* | \$120 or Less | \$91.20 |
| Debt Service Coverage Ratio (Net of PFC Offset) | 1.5 or Greater | 1.59 times |
| Days of Cash On-Hand | 450 or Greater | 495 days |

*Note – Total Debt excludes special facility debt.

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 Houston Airport System controls current expenses at all division levels. The Fund'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, e.g., 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 the vendors. This is accomplished primarily through an automated encumbrance and accounts payable system.

The Fund as a whole is not budgeted. The City Council approves the Fund's annual budget for operational expenses. City Council authorizes capital project expenditures through individual appropriation ordinances based on a five-year CIP 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 to be available for appropriation.

Other Information

Independent Audit

An independent certified public accounting firm audits the financial statements of the Fund each year. McConnell & Jones, LLP and Banks, Finley, White & Co. formed a joint venture to perform the Fiscal Year 2020 and 2019 audits. The financial section of this report includes the independent auditor's report on the basic financial statements. The compliance section of this report includes the independent auditor's report on HAS' compliance, and internal control over compliance, with the Passenger Facility Charge Program instituted by the Federal Aviation Administration.

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.

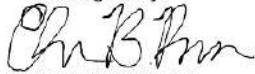
Awards/Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Houston, Texas, Airport System Fund for its comprehensive annual financial report submitted for the fiscal year that ended June 30, 2019. This was the 26th consecutive year that the Airport System Fund has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a governmental 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. 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,

DocuSigned by:

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Chris B. Brown
City Controller

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AS OF JUNE 30, 2020:

| | |
|-------------------------------------|-----------------------|
| 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 Kubash |
| Councilmember, At-Large, Position 4 | Letitia Plummer |
| Councilmember, At-Large, Position 5 | Sallie Alcorn |
| Councilmember, District A | Amy Peck |
| Councilmember, District B | Jerry Davis |
| Councilmember, District C | Abbie Kamin |
| Councilmember, District D | Carolyn Evans-Shabazz |
| Councilmember, District E | Dave Martin |
| Councilmember, District F | Tiffany Thomas |
| Councilmember, District G | Greg Travis |
| Councilmember, District H | Karla Cisneros |
| Councilmember, District I | Robert Gallegos |
| Councilmember, District J | Edward Pollard |
| Councilmember, District K | Martha Castex-Tatum |

AS OF JUNE 30, 2020:

Mario C. Diaz
Director of Aviation



In alphabetical order:

Saba Abashawl
Chief External Affairs Officer

Tanya Acevedo
Chief Technology Officer

Robert "Bob" Barker
Chief Development Officer

Yvette Brown
Chief Marketing Officer

J'Maine Chubb
Chief Financial Officer

Steve Hennigan
Chief of Operations

Harleen Hines Smith
Chief Human Resources Officer

Jocelyn Labove
Chief Aviation Risk and Regulatory
Compliance Officer

Arturo Machuca
General Manager
▫ Ellington Airport
▫ Houston Spaceport

Liliana Rambo
Chief Terminal Management Officer
▫ George Bush Intercontinental Airport
▫ William P. Hobby Airport

Ian Wadsworth
Chief Commercial Officer

2020 SKYTRAX WORLD AIRPORT AWARDS

HOUSTON REMAINS THE ONLY CITY IN THE WESTERN HEMISPHERE TO HAVE TWO FOUR-STAR SKYTRAX RATED AIRPORTS



IAH



HOU



George Bush Intercontinental Airport (IAH), received the highest ranking among U.S. airports in the *Top 100 Airports* category and placed second best airport in North America.

IAH also ranked fourth in the *World's Best Airport Dining Experience* and ranked sixth in *Best Airport Staff in North America*.

This is the third consecutive year that IAH received a four-star rating.

Globally, IAH finished at rank 31, up from rank 38 in 2019.

William P. Hobby Airport (HOU), ranked third among *Best Regional Airports in North America*.

HOU ranked sixth for *Best Airports with Ten to Twenty Million Passengers*.

This is the fifth consecutive year that HOU received a four-star rating.

Globally, HOU finished at rank 67, up from rank 85 in 2019.



THE HOUSTON AIRPORTS' WEBSITE, FLY2HOUSTON.COM, AND DIGITAL SERVICES WERE NAMED WORLD'S BEST FOR THE SECOND YEAR IN A ROW



GOVERNMENT FINANCE OFFICERS ASSOCIATION



The City of Houston Airport System Fund was awarded the Certificate of Achievement for Excellence in Financial Reporting for the 26th consecutive year for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2019.



2020 AIR CARGO EXCELLENCE AWARDS



IAH cargo operations are considered among the best in the world, according to an air cargo excellence survey released April 2020 by Air Cargo World. IAH was named the Gold Winner in the 2020 Air Cargo Excellence Awards competition in the *Airports with Cargo Handling Capacity Up to 999,999 Tons* category.

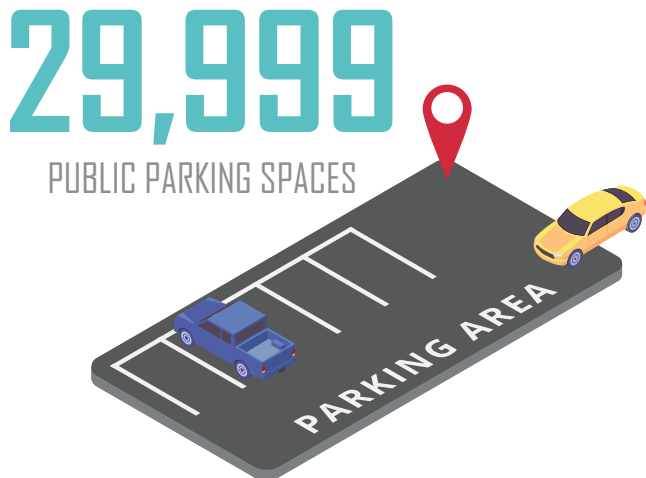
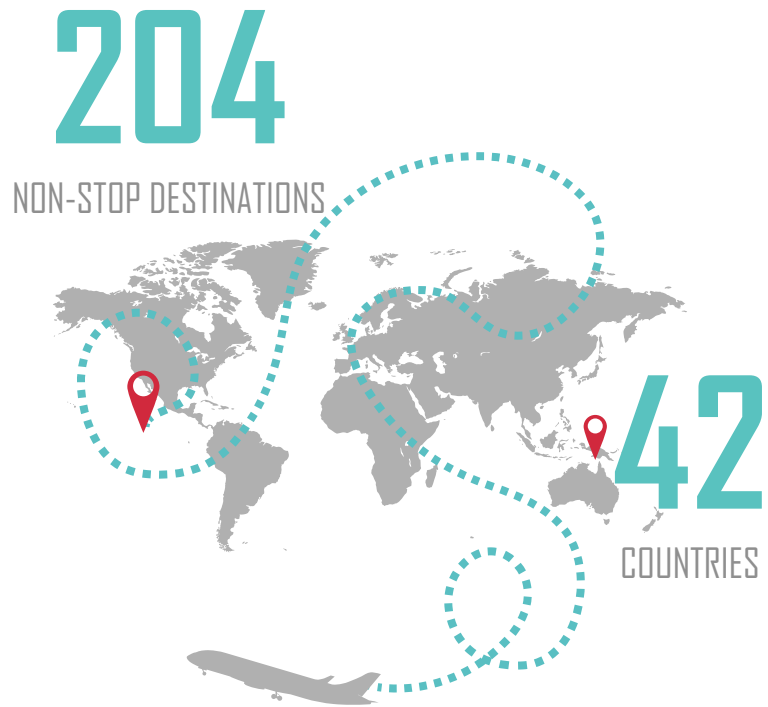


ENGINEERING NEWS RECORD REGIONAL AWARDS



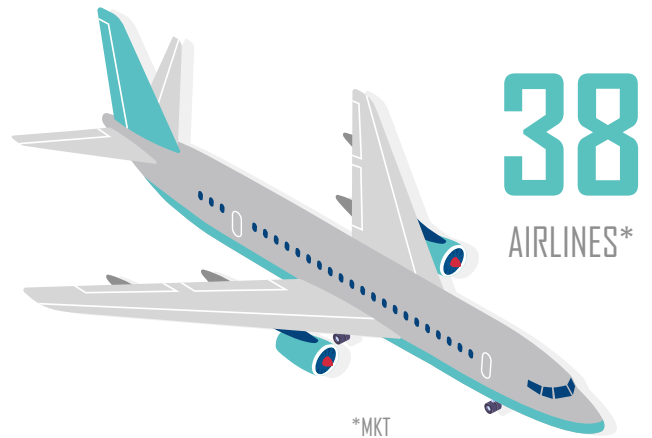
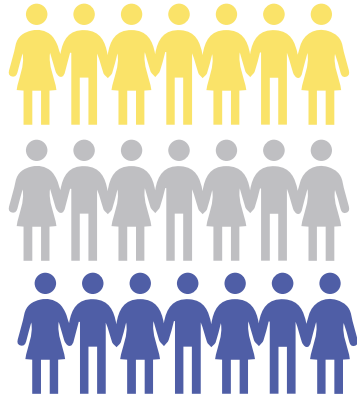
The Ellington Airport Air Traffic Control Tower (ATCT) and Utility Building won double honors in the recent Engineering News-Record (ENR) regional awards competitions. The ATCT won a Best Project award in the category of Airport/Transit. The state-of-the-art tower also won an Excellence in Safety Award of Merit.





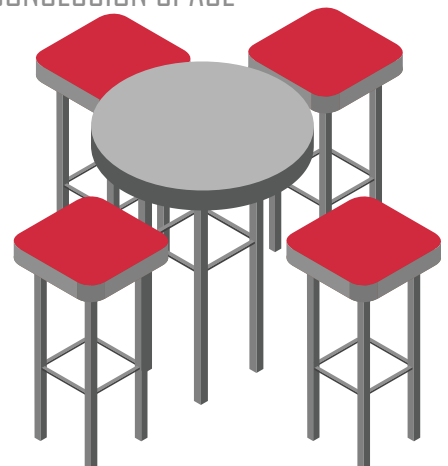
7.3 MILLION

POPULATION SERVICE AREA

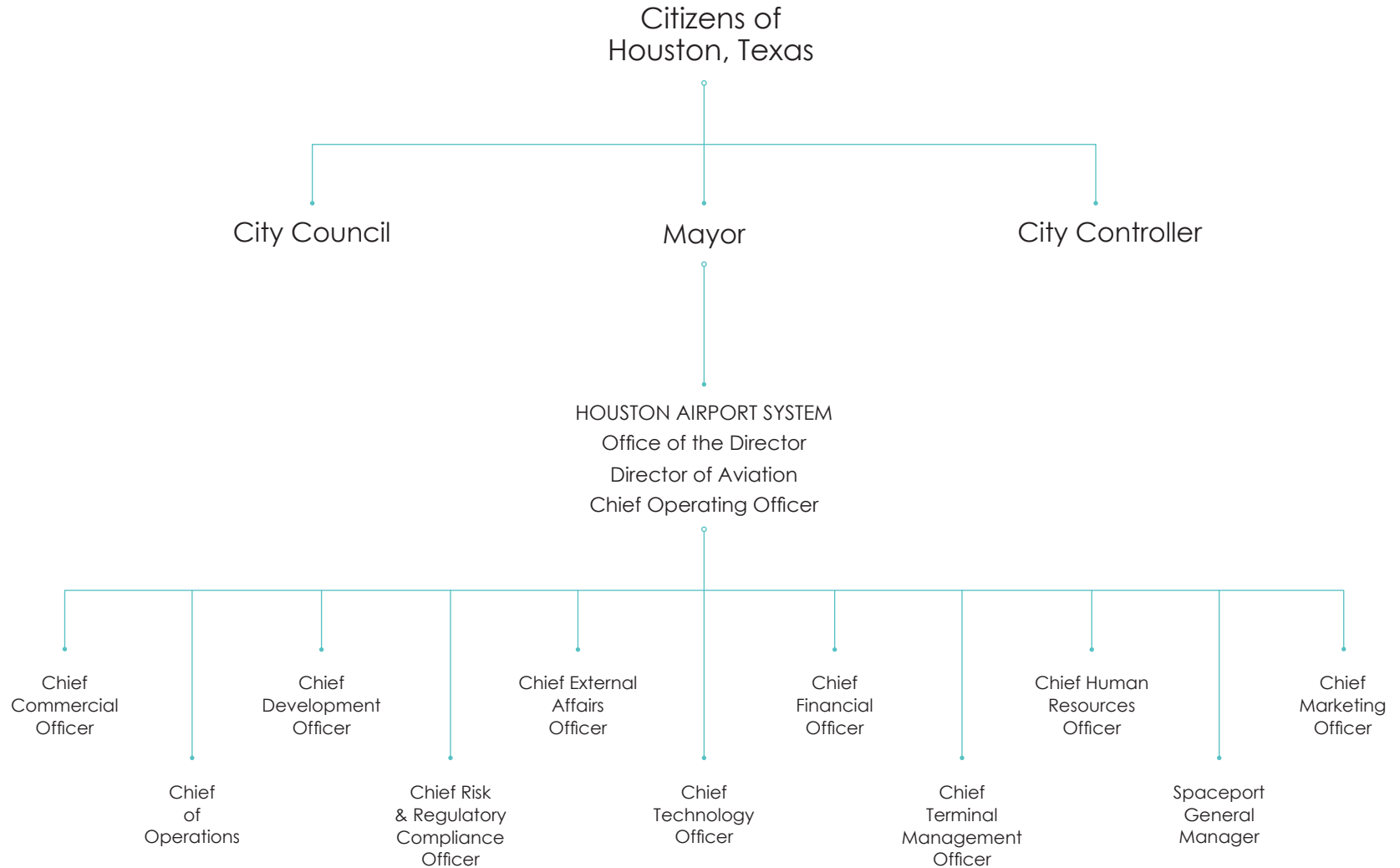


171,653^{sq.}_{ft.}

CONCESSION SPACE



CITY OF HOUSTON, TEXAS
 ORGANIZATIONAL CHART AS OF JUNE 30, 2020



FINANCIAL SECTION

COMPREHENSIVE ANNUAL FINANCIAL REPORT





INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, 2020 and 2019 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.

We conducted our audit 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.

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, 2020 and 2019 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, 2020 and 2019, 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.

Our opinion is not modified with respect to this matter.

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 12) and the Pension System Supplementary Information and Other Post- Employment Benefits Supplementary Information (page 56 through 58) be presented to supplement the basic financial 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.

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 83 to 85 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 December 11, 2020, 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.

December 11, 2020

Management of the Airport System Fund (Fund) offers readers of the Fund's financial statements this overview and analysis of the financial activities for the fiscal years ended June 30, 2020 and June 30, 2019. Please read the Management's Discussion and Analysis (unaudited) in conjunction with the financial statements and the notes to the financial statements, which follow this section. All amounts, unless otherwise indicated, are in thousands of dollars.

Financial Highlights

The Fund's net position increased \$5.7 million or 0.4% during Fiscal Year 2020 and increased \$92.7 million or 6.2% during Fiscal Year 2019.

In Fiscal Year 2020, operating income decreased \$60.8 million or 458.0%. In Fiscal Year 2019, operating income decreased \$13.0 million or 4,432.1%. In Fiscal Year 2020 operating revenues declined \$26.6 million while operating expenses climbed \$34.3 million. Landing fees and ground rentals were up \$20.1 million, partially due to airline rates and charges credit adjustments of \$11.5 million in FY19 and higher costs in FY20 to be recouped from the airlines (\$9.0 million), while parking, concession and other fees decreased \$46.6 million for the year, mainly due to COVID-19. In Fiscal Year 2019, operating revenues decreased \$12.4 million while operating expenses increased \$0.6 million.

Maintenance and operating expenses increased \$33.0 million or 9.8% in Fiscal Year 2020 and increased \$2.4 million or 0.7% in Fiscal Year 2019. Depreciation expense increased \$1.3 million or 0.8% in Fiscal Year 2020 and decreased \$1.8 million or 1.0% in Fiscal Year 2019.

Investment income decreased \$1.4 million or 3.0% in fiscal 2020 and increased \$36.5 million or 424.6% in Fiscal Year 2019.

In Fiscal Year 2018, the Fund implemented GASB No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." The cumulative effect of the implementation added a deficit of \$(21.3) million to the unrestricted net position as of July 1, 2017. Beginning in Fiscal Year 2018, the Airport System set its rates and charges to recover this deficit over thirty years. See Notes 1 and 7 for more information.

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 fiduciary net position of the Houston Municipal Employee Pension System (HMEPS). This resulted in unrestricted net position deficits of \$(178.0) million as of June 30, 2015 and 2016. The unrestricted net position as of June 30, 2017 was improved to \$(126.9) million due to cost savings included in pension reforms implemented by the City. Beginning in Fiscal Year 2018, the Airport System set its rates and charges to recover this deficit over thirty years. See Notes 1 and 6 for more information.

Overview of the Financial Statements

This discussion and analysis is an introduction to the Fund's financial statements. The Airport System Fund's CAFR consists of the following components: 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 the financial statements. A statistical section is included for further analysis.

A fund is a group of related accounts 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, thus included in the City of Houston's Comprehensive Annual Financial Report (CAFR). The Houston Airport System (HAS) consists of George Bush Intercontinental Airport (IAH), William P. Hobby Airport (HOU), and Ellington Airport (EFD), and is managed and operated as a department of the City.

The Statement of Net Position presents information on the Fund's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between these sections reported as net position. Changes in net position from year to year may serve as useful indicators 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 two most recent fiscal years. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

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

The financial statements include note disclosures that explain some of the information in the financial statements and provide more details. 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 obligations to provide pension and other post-employment benefits.

Net Position

Total net position at June 30, 2020 was \$1,604.0 million, a 0.4% increase from June 30, 2019.

Total net position at June 30, 2019 was \$1,598.3 million, a 6.2% increase from June 30, 2018.

| | NET POSITION | | |
|----------------------------------|--|----------------------|----------------------|
| | JUNE 30, 2020, JUNE 30, 2019, and JUNE 30, 2018 | | |
| | (in thousands) | | |
| | <u>June 30, 2020</u> | <u>June 30, 2019</u> | <u>June 30, 2018</u> |
| Assets | | | |
| Current assets | \$ 499,119 | \$ 498,385 | \$ 480,903 |
| Noncurrent assets | 1,047,876 | 1,016,240 | 963,092 |
| Net capital assets | <u>2,731,583</u> | <u>2,765,308</u> | <u>2,816,044</u> |
| Total assets | <u>4,278,578</u> | <u>4,279,933</u> | <u>4,260,039</u> |
| Deferred outflows of resources | <u>44,870</u> | <u>37,388</u> | <u>51,334</u> |
| Liabilities | | | |
| Current liabilities | 218,481 | 216,428 | 243,095 |
| Long term liabilities | <u>2,470,138</u> | <u>2,470,516</u> | <u>2,551,512</u> |
| Total liabilities | <u>2,688,619</u> | <u>2,686,944</u> | <u>2,794,607</u> |
| Deferred inflows of resources | <u>30,847</u> | <u>32,121</u> | <u>11,253</u> |
| Net Position | | | |
| Net investment in capital assets | 522,492 | 542,125 | 531,232 |
| Restricted net position | 1,214,904 | 1,194,487 | 1,117,578 |
| Unrestricted (deficit) | <u>(133,414)</u> | <u>(138,356)</u> | <u>(143,297)</u> |
| Total net position | <u>\$ 1,603,982</u> | <u>\$ 1,598,256</u> | <u>\$ 1,505,513</u> |

More than a third of the Fund's total net position (32.6% in Fiscal Year 2020; 33.9% in Fiscal Year 2019) 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 any related debt, it should be noted that the resources needed to repay this debt must be provided by airport revenue or other sources procured by the Fund, since the capital assets 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 (75.7% in Fiscal Year 2020; 74.7% in Fiscal Year 2019) 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 \$(133.4 million) as of June 30, 2020 and was \$(138.4 million) as of June 30, 2019.

Changes in Net Position

From July 1, 2019 to June 30, 2020, net position of the Airport System Fund increased \$5.7 million or 0.4%. From July 1, 2018 to June 30, 2019, net position of the Airport System Fund increased \$92.7 million or 6.2%.

CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2020, JUNE 30, 2019, and JUNE 30, 2018
(in thousands)

| | June 30, 2020 | June 30, 2019 | June 30, 2018 |
|---|---------------|---------------|---------------|
| Operating revenues | \$ 471,912 | \$ 498,464 | \$ 510,864 |
| Operating expenses | 546,003 | 511,743 | 511,157 |
| Operating income (loss) | (74,091) | (13,279) | (293) |
| Nonoperating revenues | 146,259 | 174,001 | 133,566 |
| Nonoperating expenses | 85,426 | 84,578 | 94,061 |
| Nonoperating income (loss) | 60,833 | 89,423 | 39,505 |
| Revenues over expenses | (13,258) | 76,144 | 39,212 |
| Capital contributions | 18,984 | 16,599 | 13,784 |
| Change in net position | 5,726 | 92,743 | 52,996 |
| Beginning net position as previously reported | 1,598,256 | 1,505,513 | 1,473,817 |
| Cumulative effect of implementation of new accounting principle | - | - | (21,300) |
| Total net position, July 1 | 1,598,256 | 1,505,513 | 1,452,517 |
| Total net position, June 30 | \$ 1,603,982 | \$ 1,598,256 | \$ 1,505,513 |

Operating revenues decreased \$26.6 million or 5.3% for Fiscal Year 2020 and decreased \$12.4 million or 2.4% for Fiscal Year 2019. In Fiscal Year 2020, the total enplaned and deplaned (IAH and HOU) passenger volume decreased 26.8% due to the COVID-19 pandemic whereas in 2019 the total enplaned and deplaned (IAH and HOU) passenger volume increased 5.0%. In 2020 at IAH, there was a 6.3% rate decrease in landing fees from \$2.704 to \$2.533 per 1,000 pounds, compared to the year 2019 1.9% rate decrease in landing fees from \$2.757 to \$2.704. In 2019 at HOU, there was a 8.4% rate increase in landing fees from \$1.857 to \$2.049 per 1,000 pounds, compared to the year 2019 7.7% rate decrease in landing fees from \$2.013 to \$1.857.

In addition, the Fiscal Year 2020 parking rates remained at \$24 per day in the garages until April when it was decreased to \$5 per day and increased to \$10 per day in May, following Fiscal Year 2019's 9% increase from \$22 to \$24. Rental revenues increased 5.7% in 2020 while concessions decreased 20.9% due to the pandemic. In Fiscal Year 2019, rentals decreased 4.0%, while concessions increased 2.5%. (Detailed passenger statistics and comparative rates and charges can be found in the statistical section of this CAFR.)

Capital contributions are grant awards that are 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 2020, capital contributions increased \$2.4 million or 14.4% and in Fiscal Year 2019, capital contributions increased \$2.8 million or 20.4%.

In Fiscal Year 2020, nonoperating revenues decreased \$27.7 million or 15.9% due to a \$32.7 million decrease in Passenger Facility Charge (PFC) revenue, a \$4.1 million decrease in Customer Facility Charge (CFC) revenue, and a \$1.4 million decrease in investment income, partially offset by a \$10.6 million increase in other revenue. In Fiscal Year 2019, nonoperating revenues increased \$40.3 million or 30.2% due to a \$36.5 million increase in investment income, a \$2.1 million increase in Passenger Facility Charge (PFC) revenue, and a \$65 thousand increase in Customer Facility Charge (CFC) revenue.

Investment income decreased \$1.4 million or 3.0% in Fiscal Year 2020 due to lower fair market value, and in Fiscal Year 2019 increased \$36.5 million or 424.6% due to higher interest earnings on treasury investments.

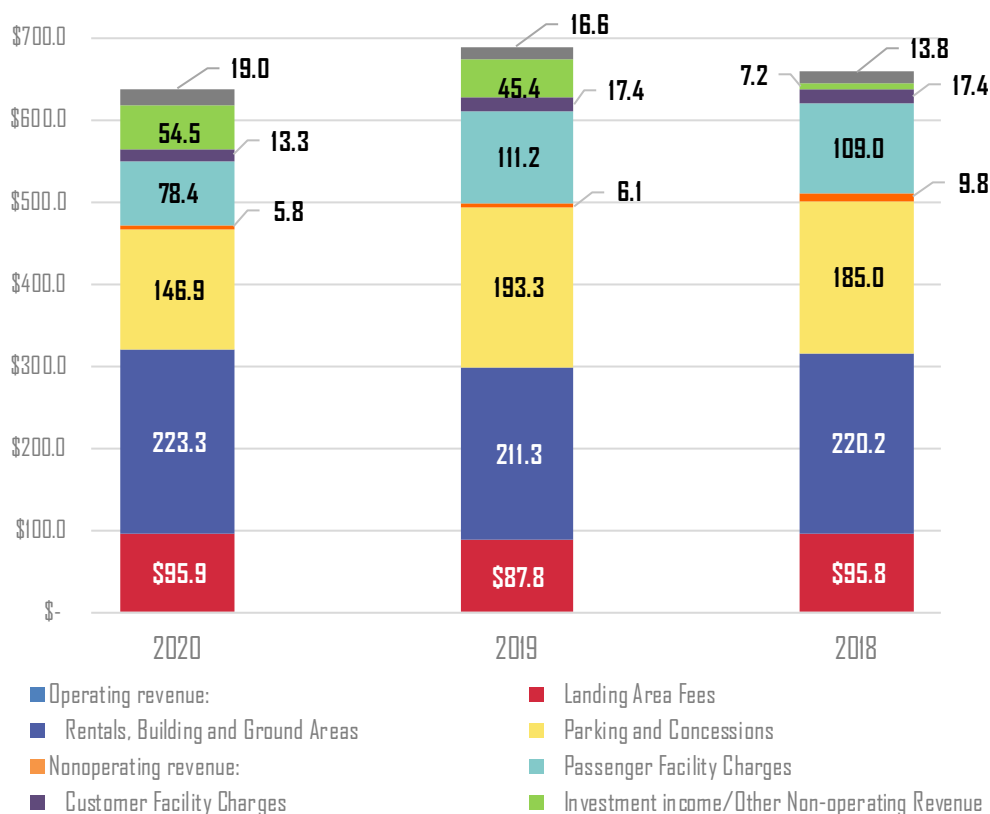


TOTAL REVENUES AND CAPITAL CONTRIBUTION
YEARS ENDED JUNE 30, 2020, JUNE 30, 2019, and JUNE 30, 2018
(in thousands)

| | June 30, 2020 | June 30, 2019 | June 30, 2018 |
|--|---------------|---------------|---------------|
| Operating Revenue | | | |
| Landing area fees | \$ 95,862 | \$ 87,767 | \$ 95,779 |
| Rentals, building and ground areas | 223,301 | 211,323 | 220,214 |
| Parking and concessions | 146,910 | 193,251 | 185,035 |
| Other operating revenue | 5,839 | 6,123 | 9,836 |
| Nonoperating Revenue | | | |
| Passenger Facility Charges | 78,418 | 111,155 | 109,021 |
| Customer Facility Charges | 13,320 | 17,439 | 17,374 |
| Investment income (loss) | 43,701 | 45,067 | 8,591 |
| Other nonoperating revenue | 10,820 | 340 | (1,420) |
| Total revenues | 618,171 | 672,465 | 644,430 |
| Capital contributions | 18,984 | 16,599 | 13,784 |
| Total revenues and capital contributions | \$ 637,155 | \$ 689,064 | \$ 658,214 |



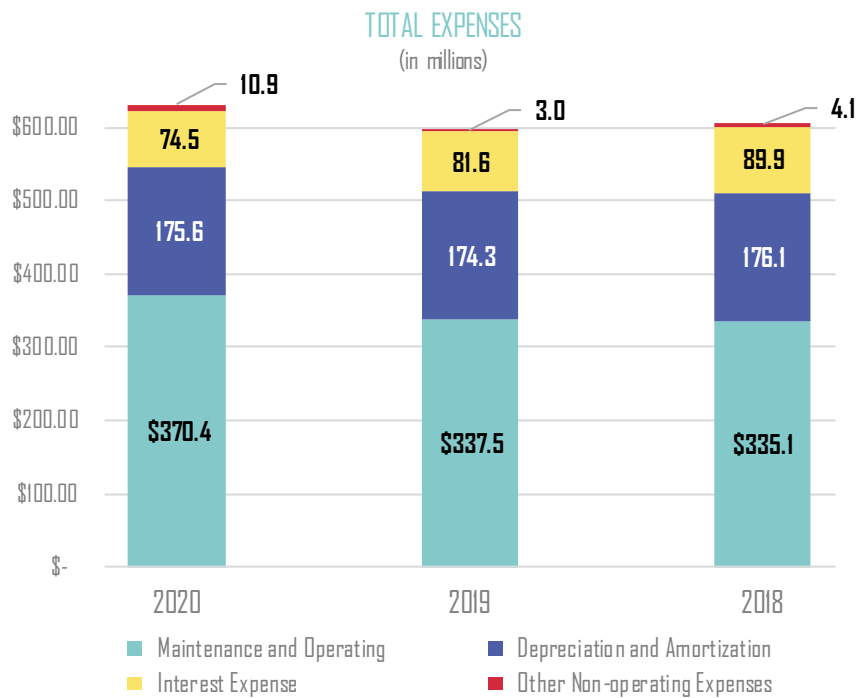
TOTAL REVENUES and CAPITAL CONTRIBUTIONS
(in millions)



In Fiscal Year 2020, total operating expenses increased \$34.3 million or 6.7%; maintenance and operating expenses increased \$33.0 million or 9.8%, and depreciation expense increased \$1.3 million or 0.8%. In Fiscal Year 2019, total operating expenses increased \$0.6 million or 0.1%; maintenance and operating expenses increased \$2.4 million or 0.7%, and depreciation expense decreased \$1.8 million or 1.0%. The Fiscal Year 2020 increase in total operating expenses of \$34.3 million is primarily attributable to a \$36.5 million lease buyout associated with the IAH Terminal Redevelopment Program and a \$9.1 million increase in the renewal and replacement of depreciable property of the airport system; this increase in spending is partially offset by decreases of \$6.0M in building maintenance services, \$3.7M in management consulting services and \$0.9M in advertising services.

TOTAL EXPENSES
 YEARS ENDED JUNE 30, 2020, JUNE 30, 2019, and JUNE 30, 2018
 (in thousands)

| | June 30, 2020 | June 30, 2019 | June 30, 2018 |
|-------------------------------|-------------------|-------------------|-------------------|
| Operating Expenses | | | |
| Maintenance and operating | \$ 370,430 | \$ 337,477 | \$ 335,104 |
| Depreciation and amortization | 175,573 | 174,266 | 176,053 |
| Interest expense | 74,533 | 81,575 | 89,944 |
| Other nonoperating expenses | 10,893 | 3,003 | 4,117 |
| Total expenses | \$ 631,429 | \$ 596,321 | \$ 605,218 |



In Fiscal Year 2020, interest expense decreased \$7.0 million or 8.6%. Interest expense decreased \$8.4 million or 9.3% in Fiscal Year 2019.

The Airport System Fund's investment in capital assets (net of accumulated depreciation and amortization) amounts to \$2.73 billion at June 30, 2020, a decrease of \$33.7 million or 1.2% from June 30, 2019. Capital assets at June 30, 2019 were \$2.77 billion, a decrease of \$50.7 million or 1.8%, from June 30, 2018. See Note 3 for further information.

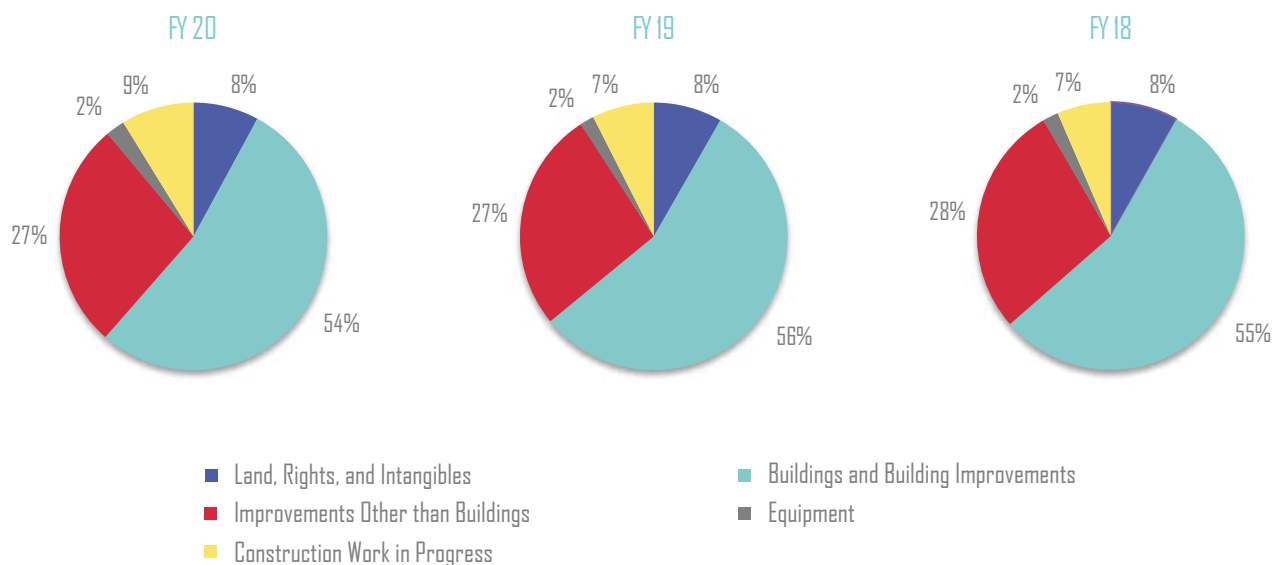
At IAH, HAS is proceeding with the planning and procurement of design and construction support for the IAH Terminal Redevelopment Program (ITRP). This program includes a new 11-gate concourse ("New Terminal C North") that was completed in March 2017, just west of the original Terminal C North location, and the demolition of the original Terminal C North to make way for a new six-widebody gate concourse that will become the West Concourse of the Mickey Leland International Terminal (MLIT). The program will also see the demolition of the D/E parking garage to make way for a new centralized ticketing hall.

Capital Assets

CAPITAL ASSETS

JUNE 30, 2020, JUNE 30, 2019, and JUNE 30, 2018
(Net of Depreciation and Amortization)
(in thousands)

| | June 30, 2020 | June 30, 2019 | June 30, 2018 |
|-------------------------------------|---------------------|---------------------|---------------------|
| Land | \$ 216,100 | \$ 216,100 | \$ 216,107 |
| Rights and intangibles | 13,406 | 12,926 | 13,607 |
| Buildings and building improvements | 1,452,751 | 1,542,612 | 1,560,127 |
| Improvements other than buildings | 742,419 | 739,766 | 789,944 |
| Equipment | 51,837 | 47,217 | 53,415 |
| Construction work in progress | 255,070 | 206,687 | 182,844 |
| | <u>\$ 2,731,583</u> | <u>\$ 2,765,308</u> | <u>\$ 2,816,044</u> |



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 and ticketing hall will be used by United Airlines and all foreign-flag airlines serving IAH.

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 7-12 gate expansion of the existing West Concourse (opened in 2015) and a consolidated rental car facility are being considered. Also, certain drainage and roadway improvement projects are included.

At EFD, construction of a new state-of-the-art air traffic control tower was completed in Fiscal Year 2019. A design/build contract was awarded in Fiscal Year 2019 for Phase I of Spaceport development that will construct the necessary roadways and utilities for future tenants. Ground-breaking of Phase I was held on June 26, 2019. See Note 3 for further information.

Debt

OUTSTANDING DEBT
JUNE 30, 2020, JUNE 30, 2019, AND JUNE 30, 2018
(in thousands)

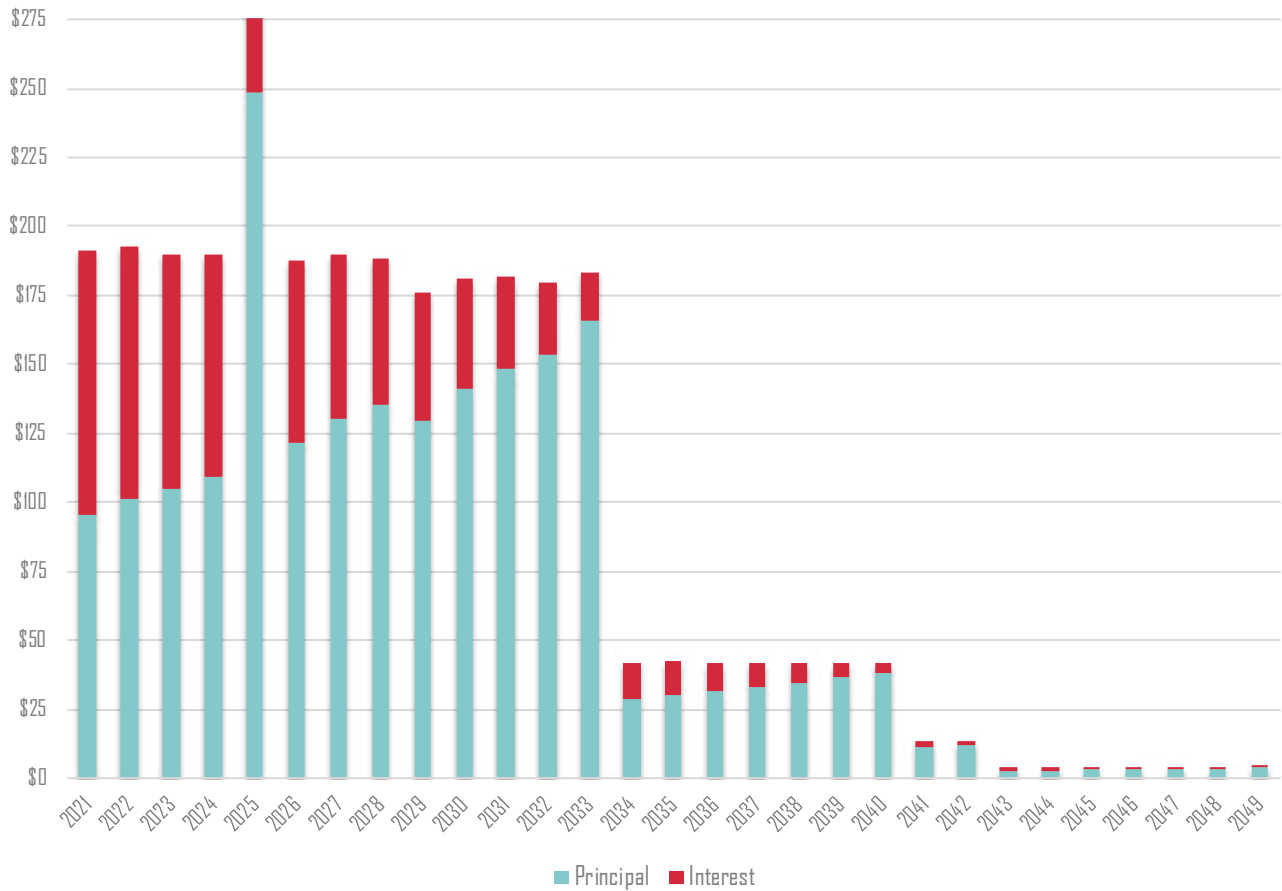
| | June 30, 2020 | June 30, 2019 | June 30, 2018 |
|---------------------------------------|---------------------|---------------------|---------------------|
| Senior Lien Debt | | | |
| Current maturities-revenue bonds | \$ - | \$ - | \$ 10,735 |
| Long-term revenue bonds payable | - | - | 409,685 |
| Unamortized discounts and premium | - | - | (359) |
| Commercial paper | 132,973 | 48,473 | 21,473 |
| Total senior lien debt | <u>132,973</u> | <u>48,473</u> | <u>441,534</u> |
| Subordinate Lien Debt | | | |
| Current maturities-revenue bonds | 89,090 | 80,110 | 67,785 |
| Long-term revenue bonds payable | 1,766,250 | 1,855,340 | 1,598,790 |
| Unamortized discounts and premium | 162,350 | 179,252 | 110,299 |
| Total subordinate lien debt | <u>2,017,690</u> | <u>2,114,702</u> | <u>1,776,874</u> |
| Other Debt | | | |
| Current maturities-note payable | - | - | - |
| Long-term note payable | 324 | - | - |
| Pension obligation bonds | | | |
| Current maturities | - | - | 27,610 |
| Long-term payable | 2,006 | 2,006 | 2,006 |
| Special facility revenue bonds | | | |
| Consolidated rental car facility: | | | |
| Current maturities | 6,240 | 5,960 | 5,715 |
| Long-term payable | 68,185 | 74,425 | 80,385 |
| Total other debt | <u>76,755</u> | <u>82,391</u> | <u>115,716</u> |
| Total outstanding debt | <u>\$ 2,227,418</u> | <u>\$ 2,245,566</u> | <u>\$ 2,334,124</u> |
| Deferred Outflows of Resources | | | |
| Unamortized costs of refunding debt | <u>\$ (17,263)</u> | <u>\$ (19,572)</u> | <u>\$ (20,499)</u> |

At the end of this fiscal year, the Airport System Fund has total debt of \$2.2 billion, which represents outstanding subordinate lien revenue bonds net of unamortized discounts and premiums, and senior lien commercial paper, both secured solely by Airport System Fund revenues. In addition, the Fund is responsible for \$2.0 million of taxable general obligation pension bonds and \$74.4 million of special facility revenue bonds (consolidated rental car facility). At the end of Fiscal Year 2019, the Fund had total debt of \$2.2 billion. See Note 5 for further information.

Total outstanding debt decreased \$18.2 million or 0.8% during Fiscal Year 2020. \$84.5 million in Commercial Paper Notes were drawn. \$81.1 million in subordinate lien bonds, and \$6.0 million in special facility revenue bonds matured and were paid this year. \$16.9 million in bond premiums, net of discounts, were amortized. \$324 thousand in private placement debt was issued in Fiscal Year 2020. During Fiscal Year 2019, total outstanding debt decreased \$88.6 million or 3.8%.

Debt Service Requirements to Maturity
(in millions)

The graph below represents the required principal and interest payments on outstanding debt through Fiscal Year 2049.



The underlying ratings of the Airport System Fund's obligations for Fiscal Year 2020:

| | 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- |

Impact of COVID-19 Pandemic on the Houston Airport System

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic (the "Pandemic"). The Pandemic has adversely affected domestic and international travel and travel-related industries, but the Houston Airport System continues operating as essential infrastructure. Airports in the United States have been acutely impacted by reductions in passenger volumes and number of flights, as well as by the broader economic shutdown, resulting from the Pandemic. Airlines have reported unprecedented reductions in passenger volumes and expect these lower passenger volumes to continue for a period of time. Management of the Houston Airport System has taken a number of actions in response to the Pandemic and is actively reviewing a number of other responsive actions, including revising its spending and projections over the remainder of Fiscal Year 2021. Such actions would be driven by passenger activity levels and the resultant impact to non-airline revenues. Passenger activity levels and non-airline revenues are being monitored on a monthly basis. Management is prepared to make changes to budgeted expenses and capital projects, as appropriate. The Houston Airport System is received an entitlement grant of \$200 million as part of the CARES Act funds allotted to commercial service airports to be expensed for any lawful airport purpose, including operation and maintenance expenses and debt service payments. The Houston Airport System requested reimbursement and received approximately \$8.0 million of CARES Act funds in Fiscal Year 2020, and expects to request grants in the approximate amounts of \$152.0 million during Fiscal Year 2021 and \$40.0 million in Fiscal Year 2022. The \$8.0 million of CARES Act funds received in Fiscal Year 2020 were used to make debt service payments on outstanding subordinate lien bonds. Actual CARES Act reimbursement requests by fiscal year are subject to change.

Non-airlines revenues (i.e. Parking, Concessions, Ground Transportation, etc.) declined by \$42.1 Million or 81% in the fourth quarter of Fiscal Year 2020 when compared to the same period in Fiscal Year 2019. The reduction in non-airline revenue is a result of an 89% reduction in enplaned passengers in the fourth quarter of Fiscal Year 2020 when compared to the same period in Fiscal Year 2019.

Prior to the onset of the pandemic, Houston Airport System published targets on key financial metrics for Fiscal Years 2020 through 2024. The targets and actual performance for Fiscal Year 2020 are shown below:

| FINANCIAL METRIC | TARGET | FY20 ACTUAL |
|---|-----------------------|-------------|
| Total Debt per Enplaned Passenger* | \$120 or Less | \$91.20 |
| Debt Service Coverage Ratio (Net of PFC Offset) | 1.50 times or Greater | 1.59 times |
| Days of Cash On-Hand | 450 or Greater | 495 days |

*Note – Total Debt excludes special facility debt.

Requests for Information

This financial report is designed to provide a general overview of the City of Houston, Texas Airport System Fund's finances for all of those with an interest. 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 Street, 8th Floor, P.O. Box 1562, Houston, Texas 77251-1562.



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CITY OF HOUSTON, TEXAS
 STATEMENTS OF NET POSITION (in thousands)
 JUNE 30, 2020 and 2019

AIRPORT SYSTEM FUND

STATEMENTS

| | 2020 | 2019 |
|---|------------------|------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 353,289 | \$ 144,076 |
| Investments | 48,187 | 290,965 |
| Restricted cash and cash equivalents | 5,736 | 5,593 |
| Restricted accounts receivable | 533 | 1,494 |
| Accounts receivable (net of allowance for doubtful accounts of \$2,707 in 2020 and \$1,110 in 2019) | 77,584 | 30,758 |
| Due from City of Houston | 1,746 | 486 |
| Inventory | 2,002 | 1,739 |
| Prepays | 5,171 | 4,882 |
| Due from other governments - grants receivable | 4,871 | 18,392 |
| Total current assets | 499,119 | 498,385 |
| Noncurrent assets | | |
| Investments | 998,851 | 971,015 |
| Restricted cash and cash equivalents | 48,841 | 45,030 |
| Prepays | 184 | 195 |
| Capital assets | | |
| Land | 216,100 | 216,100 |
| Rights and intangibles | 18,091 | 17,471 |
| Buildings, improvements and equipment | 5,618,769 | 5,532,746 |
| Construction in progress | 255,070 | 206,687 |
| Total capital assets | 6,108,030 | 5,973,004 |
| Less accumulated depreciation and amortization | (3,376,447) | (3,207,696) |
| Net capital assets | 2,731,583 | 2,765,308 |
| Total noncurrent assets | 3,779,459 | 3,781,548 |
| Total assets | 4,278,578 | 4,279,933 |
| Deferred Outflows of Resources | | |
| Deferred outflows from debt refunding | 17,263 | 19,572 |
| Deferred outflows from pensions | 25,876 | 17,720 |
| Deferred outflows from OPEB health benefits | 1,492 | - |
| Deferred outflows from OPEB LTD | 239 | 96 |
| Total deferred outflows of resources | \$ 44,870 | \$ 37,388 |

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

(continued)

CITY OF HOUSTON, TEXAS
 STATEMENTS OF NET POSITION (in thousands)
 JUNE 30, 2020 and 2019

AIRPORT SYSTEM FUND

| | 2020 | 2019 |
|--|---------------------|---------------------|
| Liabilities | | |
| Current Liabilities | | |
| Accounts payable | \$ 12,191 | \$ 15,575 |
| Accrued payroll liabilities | 3,551 | 3,166 |
| Due to City of Houston | 646 | 247 |
| Due to other governments | - | 571 |
| Advances and deposits | 1,636 | 2,439 |
| Unearned revenue | 8,267 | 4,347 |
| Claims for workers' compensation | 928 | 904 |
| Compensated absences | 5,681 | 6,120 |
| Revenue bonds payable | 89,090 | 80,110 |
| Special facility revenue bonds payable | 6,240 | 5,960 |
| Accrued interest payable | 47,201 | 49,339 |
| Contracts and retainages payable | 40,085 | 46,518 |
| Other current liabilities | 2,965 | 1,132 |
| Total current liabilities | <u>218,481</u> | <u>216,428</u> |
| Noncurrent liabilities | | |
| Revenue bonds payable, net | 1,928,601 | 2,034,592 |
| Special facility revenue bonds payable | 68,185 | 74,425 |
| Commercial paper payable | 132,973 | 48,473 |
| Pension obligation bonds payable | 2,006 | 2,006 |
| Note payable | 324 | - |
| Claims for workers' compensation | 593 | 902 |
| Compensated absences | 7,612 | 6,489 |
| Accrued arbitrage rebate liability | 109 | - |
| Net pension liability payable | 258,223 | 229,757 |
| Other post employment benefits | 70,738 | 73,286 |
| Other post employment benefits - LTD | 774 | 586 |
| Total noncurrent liabilities | <u>2,470,138</u> | <u>2,470,516</u> |
| Total liabilities | <u>2,688,619</u> | <u>2,686,944</u> |
| Deferred Inflows of Resources | | |
| Deferred inflows from pensions | 3,425 | 5,800 |
| Deferred inflows from OPEB health benefits | 27,422 | 26,321 |
| Total deferred inflows of resources | <u>30,847</u> | <u>32,121</u> |
| Net Position | | |
| Net investment in capital assets | 522,492 | 542,125 |
| Restricted net position | | |
| Restricted for debt service | 473,008 | 428,856 |
| Restricted for maintenance and operations | 61,818 | 60,525 |
| Restricted for special facility | 46,377 | 43,442 |
| Restricted for renewal and replacement | 10,000 | 10,000 |
| Restricted for capital improvements | 623,701 | 651,664 |
| Unrestricted (deficit) | (133,414) | (138,356) |
| Total net position | <u>\$ 1,603,982</u> | <u>\$ 1,598,256</u> |

STATEMENTS

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

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (in thousands)
FOR YEARS ENDED JUNE 30, 2020 and 2019

| | 2020 | 2019 |
|--|---------------------|---------------------|
| Operating Revenues | | |
| Landing area fees | \$ 95,862 | \$ 87,767 |
| Rentals, building and ground area | 223,301 | 211,323 |
| Parking | 81,173 | 110,136 |
| Concessions | 65,737 | 83,115 |
| Other | 5,839 | 6,123 |
| Total operating revenues | 471,912 | 498,464 |
| Operating Expenses | | |
| Maintenance and operating | 370,430 | 337,477 |
| Depreciation and amortization | 175,573 | 174,266 |
| Total operating expenses | 546,003 | 511,743 |
| Operating income (loss) | (74,091) | (13,279) |
| Nonoperating Revenues (Expenses) | | |
| Investment income (loss) | 43,701 | 45,067 |
| Interest expense | (74,533) | (81,575) |
| Gain / (Loss) on disposal of assets | (10,856) | 119 |
| Passenger Facility Charges | 78,418 | 111,155 |
| Customer Facility Charges | 13,320 | 17,439 |
| Special facility cost | (37) | (43) |
| Cost of issuance for debt | - | (2,960) |
| Other revenue (expense) | 10,820 | 221 |
| Total nonoperating revenues (expenses) | 60,833 | 89,423 |
| Income/(loss) before capital contributions | (13,258) | 76,144 |
| Capital contributions | 18,984 | 16,599 |
| Change in net position | 5,726 | 92,743 |
| Total net position, July 1 | 1,598,256 | 1,505,513 |
| Total net position, June 30 | \$ 1,603,982 | \$ 1,598,256 |

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

CITY OF HOUSTON, TEXAS
 STATEMENTS OF CASHFLOWS (in thousands)
 FOR YEARS ENDED JUNE 30, 2020 and 2019

AIRPORT SYSTEM FUND

| | 2020 | 2019 |
|---|-------------------|-------------------|
| Cash Flows from Operating Activities | | |
| Receipts from customers | \$ 413,848 | \$ 511,854 |
| Payments to employees | (102,726) | (103,091) |
| Payments to suppliers | (147,288) | (145,518) |
| Payments to the City of Houston | (70,069) | (71,263) |
| Claims paid | (928) | (904) |
| Other receipts (payments) | 10,820 | 221 |
| Net cash provided by operating activities | <u>103,657</u> | <u>191,299</u> |
| Cash Flows from Investing Activities | | |
| Sale of investments | 1,954,537 | 1,754,930 |
| Purchase of investments | (1,739,595) | (1,832,687) |
| Investment income (loss) | 43,701 | 45,067 |
| Net cash (used for) provided by investing activities | <u>258,643</u> | <u>(32,690)</u> |
| Cash Flows from Noncapital Financing Activities | | |
| Retirement of pension obligation bonds | - | (27,610) |
| Interest expense for pension obligation bonds | (106) | (715) |
| Net cash (used for) provided by noncapital financing activities | <u>(106)</u> | <u>(28,325)</u> |
| Cash Flows from Capital and Related Financing Activities | | |
| Proceeds from issuance of revenue bonds | - | 653,881 |
| Retirement of revenue bonds | (80,110) | (719,586) |
| Interest expense on debt | (100,186) | (97,352) |
| Retirement of note payable | - | - |
| Proceeds from issuance of commercial paper | 84,500 | 27,000 |
| Proceeds from SECO Loan | 324 | - |
| Retirement of commercial paper | - | - |
| Retirement of inferior lien contract | - | - |
| Retirement of special facility bonds | (5,960) | (5,715) |
| Cost of issuance expense for revenue bonds | - | (3,140) |
| Passenger Facility Charges | 92,773 | 110,892 |
| Customer Facility Charges | 14,281 | 17,388 |
| Grant receipts | 31,933 | 19,377 |
| Acquisition of capital assets | (186,582) | (116,566) |
| Net cash (used for) capital and related financing activities | <u>(149,027)</u> | <u>(113,821)</u> |
| Net increase (decrease) in cash and cash equivalents | 213,167 | 16,463 |
| Cash and cash equivalents, beginning of year | <u>194,699</u> | <u>178,236</u> |
| Cash and Cash Equivalents, End of the Year | <u>\$ 407,866</u> | <u>\$ 194,699</u> |
| | | |
| Current cash and cash equivalents | \$ 353,289 | \$ 144,076 |
| Current restricted cash and cash equivalents | 5,736 | 5,593 |
| Noncurrent restricted cash and cash equivalents | <u>48,841</u> | <u>45,030</u> |
| Cash and Cash Equivalents, End of the Year | <u>\$ 407,866</u> | <u>\$ 194,699</u> |

STATEMENTS

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

(continued)

| | 2020 | 2019 |
|---|-------------------|-------------------|
| Reconciliation of Operating Income (Loss) to Net Cash provided by Operating Activities | | |
| Operating income (loss) | \$ (74,091) | \$ (13,279) |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities | | |
| Depreciation | 175,573 | 174,266 |
| Capital improvement plan expense | 36,556 | 11,541 |
| Other receipts (payments) | 10,820 | 221 |
| Changes in assets and liabilities | | |
| Accounts receivable | (61,181) | 19,619 |
| Due from the City of Houston | (1,260) | (210) |
| Inventory and prepaids | (552) | (246) |
| Accounts payable | (3,384) | (1,199) |
| Accrued payroll liabilities | 384 | 140 |
| Other current liabilities | 1,833 | (8,868) |
| Due to the City of Houston | 400 | (147) |
| Advances and deposits | 3,116 | (6,227) |
| Other post-employment benefits and deferred amounts | (2,891) | 36 |
| Pension related payables and deferred amounts | 17,936 | 16,572 |
| Claims for workers' compensation | (286) | (470) |
| Compensated absences | 684 | (450) |
| Net cash provided by operating activities | <u>\$ 103,657</u> | <u>\$ 191,299</u> |
| Noncash Transactions | | |
| Capitalized interest expense | \$ 9,150 | \$ 7,500 |
| Capital additions included in other liabilities | (6,434) | 10,927 |
| Grants included in receivables | (12,949) | (4,198) |
| Bond amortization expense | 14,581 | 14,868 |
| Gain (loss) on disposal of assets | (10,856) | 220 |
| Noncash transactions | <u>\$ (6,508)</u> | <u>\$ 29,317</u> |

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

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I. 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 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. 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, current, noncurrent and capital in addition to deferred outflows 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 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 periods beginning after December 15, 2019 (FY2021). The City and the Fund are evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In June 2018, the GASB issued Statement No. 89, "Accounting for Interest Cost Incurred before the End of a Construction Period". This statement will enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and will simplify accounting for interest cost incurred before the end of a construction period. The requirements of this statement are effective for reporting 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.

In August 2018, the GASB issued Statement No. 90, "Majority Equity Interests". This statement will improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improve the relevance of financial statement information for certain component units. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. The City has determined that GASB No. 90 is not applicable to its CAFR.

I. Summary of Significant Accounting Policies, continued:

In May 2019, the GASB issued Statement No. 91, "Conduit Debt Obligations". This statement is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with 1) commitments extended by issuers, 2) arrangements associated with conduit debt obligations, and 3) related note disclosures. The requirements of this statement are effective for reporting periods beginning after December 15, 2020. 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 2020, the GASB issued Statement No. 92, "Omnibus 2020". This statement establishes accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. The requirements of this statement are effective for reporting periods beginning after June 15, 2020. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In March 2020, the GASB issued Statement No. 93, "Replacement of Interbank Offered Rates". This Statement establishes accounting and financial reporting requirements related to the replacement of IBORs in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. The requirements of this statement are effective for reporting periods ending after December 31, 2021. The City is evaluating the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In March 2020, the GASB issued Statement No. 94, "Public-Private and Public-Public Partnerships and Availability Payment Arrangements". This Statement establishes standards of accounting and financial reporting for PPPs and APAs for governments. The requirements of this statement are effective for reporting periods beginning after June 15, 2022. The City is 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 and a useful life of more than one year. 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 it is placed in service. 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, 2020, \$9.2 million in interest costs was capitalized. In the year ended June 30, 2019, \$6.8 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 fifty (50) years. Depreciation on equipment is computed using the straight-line method over the estimated useful life, ranging from three (3) 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 earliest collection date of August 1, 2017. On September 24, 2020, a second PFC application was approved at IAH with an earliest

I. Summary of Significant Accounting Policies, continued:

collection date of January 1, 2028. The collection expiration dates are estimated to be April 1, 2039 for IAH and September 1, 2038 for HOU. 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.

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 as amended in 1985. 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.

Statement of Net Position and Cash Flow – Cash and Cash Equivalents and Investments

All highly liquid securities with a maturity date of three months or less are considered to be cash equivalents. Investments are carried at fair value based on quoted market prices.

Statements of Net Position and Cash Flow - Restricted Cash and Accounts Receivable

The Fund reports assets as "restricted" when they are held by trustees according to trust indentures supporting various debt issues, principally the Special Facility Revenue Bonds (Consolidated Rental Car Facility) and Commercial Paper Notes. See Note 2 for restricted deposit details.

Statement 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.

I. Summary of Significant Accounting Policies, continued:

Statement of Net Position – Net Position Classification

Net position is displayed in three separate categories based on the accessibility of the underlying assets: net investment in capital assets; restricted net position; and unrestricted net position. Net investment in capital assets includes all capital assets, however acquired, including accumulated depreciation, and the outstanding debt and deferred 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 timing 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 as a protection to Airport System bondholders.

Restricted net position – Restricted for debt service

This category includes net position in the interest and sinking funds, debt service funds, and debt reserve funds that pay principal and interest for the Revenue Bonds, the Commercial Paper Notes, 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. A debt service fund restricted for the payment of Pension Obligation Bonds, Series 2017, was also included from December 22, 2017 to March 1, 2019.

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 expenses, based on the annual operating budget authorized by City Council for the next fiscal year.

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, for the debt service reserve funds, or for the operating and maintenance reserve fund. 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 funding must be transferred in during 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

1. Summary of Significant Accounting Policies, continued:

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.

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 reported as zero. The unrestricted deficit in net position on June 30, 2017 was the amount of the Fund's net pension liability on July 1, 2014 when the Fund implemented GASB No. 68. Subsequently the deficit was reduced to \$126.9 million by a pension plan change. See Note 6 for further information.

In Fiscal Year 2018, the Fund implemented GASB No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." See Note 7 for further information. The cumulative effect of the implementation added a deficit of (\$21.3) million to the unrestricted net position. Beginning in Fiscal Year 2018, the Airport System will set its rates and charges to amortize the unrestricted net position deficit over thirty years. The deficit was reduced by \$4.9 million in Fiscal Year 2019 to (\$138.4) million, and was further reduced by another \$4.9 million in Fiscal Year 2020 to nearly (\$133.4) million.

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.

Cash and Cash Equivalents and Investments

The City maintains a cash and investment pool (the Pool) that is available for use by all funds. On the Statement of Net Position, "Cash and Cash Equivalents" includes each fund's portion of the Pool and each fund's non-pooled cash; "Investments" represents each fund's portion of the Pool and non-pooled investment. 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) which is included in non-pooled cash. 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 | Pooled Investments | Total Pooled Cash and Investment | Non-pooled cash | Non-pooled Investments | Total Cash and Investments |
|-------------|----------------------------------|--------------------|----------------------------------|-----------------|------------------------|----------------------------|
| 2020 | \$ 353,283,655 | \$ 1,047,037,571 | \$ 1,400,321,226 | \$ 5,250 | \$ 54,576,774 | \$ 1,454,903,250 |
| 2019 | \$ 144,070,828 | \$ 1,261,979,730 | \$ 1,406,050,558 | \$ 5,450 | \$ 50,623,023 | \$ 1,456,679,031 |

The Airport Fund had petty cash and change funds totaling \$5,250 and \$5,450 included in the non-pooled cash at June 30, 2020 and June 30, 2019 respectively.

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, 2020 and June 30, 2019. On these dates, the City had \$4.8 billion and \$4.5 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 citywide 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 98.5% and 98.6% of the City's total investable funds are contained in this portfolio on June 30, 2020 and June 30, 2019 respectively.

| City of Houston Investment | (1)(2) FY2020 & FY2019 Credit Quality Ratings | June 30, 2020 | | June 30, 2019 | |
|---|---|--------------------------------|-----------------|--------------------------------|-----------------|
| | | Fair Value (\$ in millions) | WAM* (years) | Fair Value (\$ in millions) | WAM* (years) |
| U.S. Treasury Securities | AAA | \$ 1,715.83 | 1.121 | \$ 2,577.16 | 1.343 |
| Government Agency Securities (3) | AAA | 874.98 | 2.473 | 1,058.60 | 1.651 |
| Government Agency Securities (State of Israel Bond) | AA | 10.00 | 1.088 | - | - |
| Government Agency Securities (3) (4) | Not Rated | 498.28 | 2.706 | 228.00 | 2.574 |
| Government Mortgaged Backed Securities (3) (4) | Not Rated | 3.40 | 1.251 | 5.91 | 1.427 |
| MMF - TexSTAR Cash Reserves | AAA Short Term | 681.39 | 0.085 | 191.56 | 0.041 |
| Commercial Paper | A-1/P-1 Short Term | 619.50 | 0.260 | 248.79 | 0.215 |
| Municipal Securities | AAA Long Term | 199.70 | 1.861 | 86.93 | 1.120 |
| Municipal Securities | AA Long Term | 192.08 | 1.824 | 126.54 | 1.300 |
| Municipal Securities | A Long Term | - | - | 4.77 | 0.626 |
| Total Investments | | \$ 4,795.16 | | \$ 4,528.26 | |

* 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 S1 volatility rating to the City's General Investment Pool. The AAA signifies the highest level of credit protection, and the S1 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, 2020, this investment portfolio's dollar-weighted average maturity was 1.33 years. Modified duration was 1.23 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 1.23 years would experience approximately a 1.23% 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 365 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; Money Market Mutual Funds up to 25%; 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, 2020 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, 2020, 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:

| Investments by Fair Value Level | FAIR VALUE MEASUREMENTS USING (\$ in millions) | | | | | | | |
|--|--|--------------------|--|-------------------------------------|--------------------|--------------------|--|-------------------------------------|
| | Total | Quoted prices | Other | Significant | Total | Quoted prices | Other | Significant |
| | June 30, 2020 | (Level 1) | significant observable inputs (Level 2) | unobservable inputs (Level 3) | June 30, 2019 | (Level 1) | significant observable inputs (Level 2) | unobservable inputs (Level 3) |
| U.S. Treasury Securities | \$ 1,715.83 | \$ 1,715.83 | \$ - | \$ - | \$ 2,577.16 | \$ 2,577.16 | \$ - | \$ - |
| Government Agency Securities | 1,373.26 | - | 1,373.26 | 10.00 | 1,286.60 | - | 1,286.60 | - |
| Government Agency Securities (State of Israel Bd) | 10.00 | - | - | - | - | - | - | - |
| Government Mortgaged Backed Securities | 3.40 | - | 3.40 | - | 5.91 | - | 5.91 | - |
| Municipal Securities | 391.78 | - | 391.78 | - | 218.24 | - | 218.24 | - |
| Commercial Paper | 619.50 | - | 619.50 | - | 248.79 | - | 248.79 | - |
| Total Investments by Fair Value Level | \$ 4,113.77 | \$ 1,715.83 | \$ 2,387.94 | \$ 10.00 | \$ 4,336.70 | \$ 2,577.16 | \$ 1,759.54 | \$ - |
| Investments Measured at Net Asset Value (NAV) | | | | | | | | |
| MMF - TexSTAR Cash Reserves | \$ 681.39 | \$ - | \$ 681.39 | \$ - | \$ 191.56 | \$ - | \$ 191.56 | \$ - |
| Total investments measured at the net asset value (NAV) | \$ 681.39 | \$ - | \$ 681.39 | \$ - | \$ 191.56 | \$ - | \$ 191.56 | \$ - |
| Total investments measured at fair value and NAV | \$ 4,795.16 | \$ 1,715.83 | \$ 3,069.33 | \$ 10.00 | \$ 4,528.26 | \$ 2,577.16 | \$ 1,951.10 | \$ - |

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 & 3 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Pricing Sources: IDC for municipal securities and Reuters for all else.

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. In instances where 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 Fund's portion of these is as follows:

| | Fair Value June 30, 2020 (\$ in millions) | Credit Quality Ratings | Fair Value June 30, 2019 (\$ in millions) | Credit Quality Ratings | FY2020 & FY2019 Weighted Average Maturity |
|---|---|------------------------------|---|------------------------------|---|
| Blackrock Federal Institutional Fund: Balances held for Consolidated Rental Car Facility operations, improvements, debt service | \$ 50.616 | AAA | \$ 50.616 | AAA | < 60 days |
| First American US Treasury Money Market Fund: Balance held for commercial paper debt service | .004 | AAA | 0.007 | AAA | < 60 days |
| TOTAL FAIR VALUE - MONEY MARKET ACCOUNTS | \$ 50.620 | | \$ 50.623 | | |

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, 2020, none of the City's investments in this pool were subject to custodial credit risk.

Foreign Currency Risk. The City's investments in this pool 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) | | | | | |
|--|--|----------------------------|---|------------------------|----------------------------|---|
| | Total June 30, 2020 | Quoted prices (Level 1) | Other significant observable inputs (Level 2) | Total June 30, 2019 | Quoted prices (Level 1) | Other significant observable inputs (Level 2) |
| Investments Measured at Net Asset Value (NAV) | | | | | | |
| BlackRock FedFund-Institutional | \$ 50.616 | - | \$ 50.616 | \$ 50.616 | - | \$ 50.616 |
| First American US Treasury MMF | .004 | - | .004 | 0.007 | - | 0.007 |
| Total Investments Measured at Net Asset Value (NAV) | \$ 50.620 | \$ - | \$ 51.620 | \$ 50.623 | \$ - | \$ 50.623 |

Security Valuation Disclosure:

Security fair value levels are established on a security by security basis. Matrix pricing, market corroborated pricing inputs such as yield curve and indices; often includes fixed income bonds, over the counter swaps, and other derivatives. These can also include securities priced using quoted prices for similar assets or liabilities in active markets and quoted prices for similar assets or liabilities in markets that are not active.

3. Capital Assets

Summaries of changes in fixed assets for the years ended June 30, 2020 and June 30, 2019 follow (in thousands):

| | Balance June 30, 2019 | Additions | Retirements | Transfers | Balance June 30, 2020 |
|--|--------------------------|--------------------|--------------------|-------------|--------------------------|
| Capital assets not being depreciated: | | | | | |
| Land | \$ 216,100 | \$ - | \$ - | \$ - | \$ 216,100 |
| Rights & Intangibles - Non-Amortizable | 12,774 | - | - | 620 | 13,394 |
| Construction work in progress | 206,687 | 146,824 | - | (98,441) | 255,070 |
| Total capital assets not being depreciated | 435,561 | 146,824 | - | (97,821) | 484,564 |
| Other capital assets: | | | | | |
| Buildings and building improvements | 3,066,213 | 281 | - | 9,637 | 3,076,131 |
| Improvements other than buildings | 2,192,230 | 144 | (17,356) | 73,775 | 2,248,793 |
| Equipment | 274,303 | 5,489 | (356) | 14,409 | 293,845 |
| Rights & Intangibles - Amortizable | 4,697 | - | - | - | 4,697 |
| Total other capital asset | 5,537,443 | 5,914 | (17,712) | 97,821 | 5,623,466 |
| Less accumulated depreciation for: | | | | | |
| Buildings and building improvements | (1,523,601) | (99,319) | - | (460) | (1,623,380) |
| Improvements other than buildings | (1,452,465) | (60,376) | 6,467 | - | (1,506,374) |
| Equipment | (227,086) | (15,737) | 355 | 460 | (242,008) |
| Rights & Intangibles | (4,544) | (141) | - | - | (4,685) |
| Total accumulated depreciation | (3,207,696) | (175,573) | 6,822 | - | (3,376,447) |
| Other capital assets, net | 2,329,747 | (169,659) | (10,890) | 97,821 | 2,247,019 |
| Total capital assets, net | \$ 2,765,308 | \$ (22,835) | \$ (10,890) | \$ - | \$ 2,731,583 |

| | Balance June 30, 2018 | Additions | Retirements | Transfers | Balance June 30, 2019 |
|--|--------------------------|--------------------|-----------------|-------------|--------------------------|
| Capital assets not being depreciated: | | | | | |
| Land | \$ 216,107 | \$ - | \$ (7) | \$ - | \$ 216,100 |
| Rights & Intangibles - Non-Amortizable | 12,679 | - | - | 95 | 12,774 |
| Construction work in progress | 182,844 | 119,871 | - | (96,028) | 206,687 |
| Total capital assets not being depreciated | 411,630 | 119,871 | (7) | (95,933) | 435,561 |
| Other capital assets: | | | | | |
| Buildings and building improvements | 2,985,527 | 23 | (536) | 81,199 | 3,066,213 |
| Improvements other than buildings | 2,181,883 | 45 | - | 10,302 | 2,192,230 |
| Equipment | 268,259 | 3,846 | (2,234) | 4,432 | 274,303 |
| Rights & Intangibles - Amortizable | 4,697 | - | - | - | 4,697 |
| Total other capital asset | 5,440,366 | 3,914 | (2,770) | 95,933 | 5,537,443 |
| Less accumulated depreciation for: | | | | | |
| Buildings and building improvements | (1,425,400) | (98,497) | 296 | - | (1,523,601) |
| Improvements other than buildings | (1,391,939) | (60,526) | - | - | (1,452,465) |
| Equipment | (214,844) | (14,468) | 2,226 | - | (227,086) |
| Rights & Intangibles | (3,769) | (775) | - | - | (4,544) |
| Total accumulated depreciation | (3,035,952) | (174,266) | 2,522 | - | (3,207,696) |
| Other capital assets, net | 2,404,414 | (170,352) | (248) | 95,933 | 2,329,747 |
| Total capital assets, net | \$ 2,816,044 | \$ (50,481) | \$ (255) | \$ - | \$ 2,765,308 |

| Interest Cost: (in thousands) | 2020 | | 2019 | | Percentage Change |
|----------------------------------|------------------|--|------------------|--|----------------------|
| | \$ | | \$ | | |
| Total Interest Cost | \$ 83,683 | | \$ 88,386 | | -5.3% |
| Capitalized Interest | (9,150) | | (6,811) | | 34.3% |
| Interest Expense | \$ 74,533 | | \$ 81,575 | | -8.6% |

In Fiscal Year 2020, the Construction Work in Progress ending balance is 19% higher than in Fiscal Year 2019. This increase is due to these additional projects undertaken but not completed: Reconstruction of Taxiway W/B Phase 2 at IAH, Terminal A Modification Program, the new Fleet Maintenance Building, Reconstruction of Taxiways RA/RB, Infrastructure for Spaceport Development at EFD, and an Interlocal Agreement with the Texas A&M Engineering Experiment Station project.

There is also an increase in completed project assets transferred out of Work in Progress. This increase includes the projects: the new Parking Operations Office Building at Hobby, Air Traffic Control Tower at EFD, and Reconstruction of Taxiway W/B Phase 1 at IAH.

In Fiscal Year 2020 HAS decommissioned and retired several small taxiways. Those taxiways are: Taxiway W/D, Taxiway W/H, Taxiway W/J, Taxiway W/L, Taxiway W/K, Taxiway W/G, Taxiway W/E, Taxiway W/M, plus all the taxiway lighting assets.

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 \$300,376 for the year ended June 30, 2020.

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 \$21,609,968 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 \$5,618,769,676 and carrying costs of \$2,247,007,623. Accumulated depreciation on all these assets is \$3,371,762,053.

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

| Year Ending June 30 | Minimum Rental Income |
|------------------------|-----------------------|
| 2021 | \$ 56,974 |
| 2022 | 53,521 |
| 2023 | 53,073 |
| 2024 | 51,289 |
| 2025 | 47,878 |
| 2026-2030 | 120,735 |
| 2031-2035 | 64,615 |
| 2036-2040 | 61,648 |
| 2041-2045 | 55,183 |
| 2046-2050 | 50,573 |
| 2051-2055 | 29,411 |
| 2056-2058 | 1,317 |
| Total | \$ 646,217 |

Contingent income associated with the Airport System non-cancelable operating leases was approximately \$3,779,466 and \$12,308,101 for the years ended June 30, 2020 and 2019, 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, 2020 and 2019 is as follows (in thousands):

| | Compensatory Income | |
|--------------------------|---------------------|-------------------|
| | 2020 | 2019 |
| Landing Fees | \$ 92,402 | \$ 84,357 |
| Terminal Space – Airline | 193,712 | 186,006 |
| | \$ 286,114 | \$ 270,363 |

5. Long-Term Liabilities

Changes in long-term liabilities for the years ended June 30, 2020 and 2019 are summarized as follows (in thousands):

| | Balance June 30, 2019 | Additions | Retirements/ Transfers | Balance June 30, 2020 | Due within One Year |
|--------------------------------------|--------------------------|-------------------|---------------------------|--------------------------|------------------------|
| Revenue bonds payable | \$ 1,935,450 | \$ - | \$ (80,110) | \$ 1,855,340 | \$ 89,090 |
| Plus unamortized premium | 179,927 | - | (16,978) | 162,949 | - |
| Less unamortized discount | (675) | - | 77 | (598) | - |
| Revenue Bonds Payable, Net | 2,114,702 | - | (97,011) | 2,017,691 | 89,090 |
| Special facility bonds payable | 80,385 | - | (5,960) | 74,425 | 6,240 |
| Commercial paper payable | 48,473 | 84,500 | - | 132,973 | - |
| Pension obligation bonds | 2,006 | - | - | 2,006 | - |
| Note payable | - | 324 | - | 324 | - |
| Claims for workers compensation | 1,806 | 642 | (927) | 1,521 | 928 |
| Compensated absences | 12,609 | 10,020 | (9,336) | 13,293 | 5,681 |
| Accrued Arbitrage Rebate Liability | - | 109 | - | 109 | - |
| Net pension liability payable | 229,757 | 28,466 | - | 258,223 | - |
| Other post employment benefits | 73,286 | - | (2,548) | 70,738 | - |
| Other post employment benefits - LTD | 586 | 188 | - | 774 | - |
| Total Long Term Liabilities | \$ 2,563,610 | \$ 124,249 | \$ (115,782) | \$ 2,572,077 | \$ 101,939 |

| | Balance June 30, 2018 | Additions | Retirements/ Transfers | Balance June 30, 2019 | Due within One Year |
|--------------------------------------|--------------------------|-------------------|---------------------------|--------------------------|------------------------|
| Revenue bonds payable | \$ 2,086,995 | \$ 569,110 | \$ (720,655) | \$ 1,935,450 | \$ 80,110 |
| Plus unamortized premium | 112,362 | 86,243 | (18,678) | 179,927 | - |
| Less unamortized discount | (2,422) | - | 1,747 | (675) | - |
| Revenue Bonds Payable, Net | 2,196,935 | 655,353 | (737,586) | 2,114,702 | 80,110 |
| Special facility bonds payable | 86,100 | - | (5,715) | 80,385 | 5,960 |
| Commercial paper payable | 21,473 | 27,000 | - | 48,473 | - |
| Pension obligation bonds | 29,616 | - | (27,610) | 2,006 | - |
| Claims for workers compensation | 2,276 | 434 | (904) | 1,806 | 904 |
| Compensated absences | 13,059 | 9,539 | (9,989) | 12,609 | 6,120 |
| Net pension liability payable | 230,999 | 1,058 | (2,300) | 229,757 | - |
| Other post employment benefits | 89,450 | - | (16,164) | 73,286 | - |
| Other post employment benefits - LTD | 457 | 129 | - | 586 | - |
| Total Long Term Liabilities | \$ 2,670,365 | \$ 693,513 | \$ (800,268) | \$ 2,563,610 | \$ 93,094 |

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 have been opportunities for 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, 2020 were as follows (in thousands):

| Year Ending June 30 | Airport System Total Future Requirements | | | Year Ending June 30 | SECO Direct Placement | |
|------------------------|---|------------|--------------|------------------------|--------------------------|----------|
| | Principal | Interest | Total | | Principal | Interest |
| 2021 | \$ 95,362 | \$ 95,666 | \$ 191,028 | 2021 | \$ 32 | 3 |
| 2022 | 101,622 | 90,892 | 192,514 | 2022 | 32 | 3 |
| 2023 | 104,572 | 85,594 | 190,166 | 2023 | 32 | 3 |
| 2024 | 109,632 | 80,074 | 189,706 | 2024 | 32 | 4 |
| 2025 | 248,605 | 73,637 | 322,242 | 2025 | 32 | 4 |
| 2026-2030 | 658,595 | 264,279 | 922,874 | 2026-2030 | 164 | 15 |
| 2031-2035 | 527,130 | 102,362 | 629,492 | 2031-2035 | - | - |
| 2036-2040 | 174,380 | 33,940 | 208,320 | 2036-2040 | - | - |
| 2041-2045 | 31,615 | 6,068 | 37,683 | 2041-2045 | - | - |
| 2046-2049 | 13,555 | 1,397 | 14,952 | 2046-2049 | - | - |
| Total | \$ 2,065,068 | \$ 833,909 | \$ 2,898,977 | Total | \$ 324 | \$ 32 |

| Year Ending June 30 | Airport System Subordinate Lien Revenue Bonds | | Year Ending June 30 | Airport System Commercial Paper | |
|------------------------|--|------------|------------------------|------------------------------------|-----------|
| | Principal | Interest | | Principal | Interest |
| 2021 | \$ 89,090 | \$ 88,330 | 2021 | \$ - | \$ 2,349 |
| 2022 | 94,085 | 83,743 | 2022 | - | 2,349 |
| 2023 | 96,375 | 78,961 | 2023 | - | 2,349 |
| 2024 | 100,730 | 73,997 | 2024 | - | 2,353 |
| 2025 | 105,970 | 68,761 | 2025 | 132,973 | 1,763 |
| 2026-2030 | 623,815 | 258,942 | 2026-2030 | - | - |
| 2031-2035 | 525,725 | 102,151 | 2031-2035 | - | - |
| 2036-2040 | 174,380 | 33,940 | 2036-2040 | - | - |
| 2041-2045 | 31,615 | 6,068 | 2041-2045 | - | - |
| 2046-2049 | 13,555 | 1,397 | 2046-2049 | - | - |
| Total | \$ 1,855,340 | \$ 796,290 | Total | \$ 132,973 | \$ 11,163 |

| Year Ending June 30 | Airport System Special Facility Bonds - Rental Car Facility | | Year Ending June 30 | Airport System Pension Obligations | |
|------------------------|--|-----------|------------------------|---------------------------------------|----------|
| | Principal | Interest | | Principal | Interest |
| 2021 | \$ 6,240 | \$ 4,877 | 2021 | \$ - | \$ 107 |
| 2022 | 7,505 | 4,691 | 2022 | - | 106 |
| 2023 | 8,165 | 4,175 | 2023 | - | 106 |
| 2024 | 8,870 | 3,613 | 2024 | - | 107 |
| 2025 | 9,630 | 3,003 | 2025 | - | 106 |
| 2026-2030 | 34,015 | 4,805 | 2026-2030 | 601 | 517 |
| 2031-2035 | - | - | 2031-2035 | 1,405 | 211 |
| 2036-2040 | - | - | 2036-2040 | - | - |
| 2041-2045 | - | - | 2041-2045 | - | - |
| 2046-2049 | - | - | 2046-2049 | - | - |
| Total | \$ 74,425 | \$ 25,164 | Total | \$ 2,006 | \$ 1,260 |

5. Long-Term Liabilities, continued:

| | Maturity Year | Original Interest Rate Range | Face Value Outstanding June 30, 2020 | Face Value Outstanding June 30, 2019 |
|--|------------------|------------------------------------|--|--|
| Airport System Subordinate Revenue Bonds | | | | |
| Series 2000B, \$269,240,000 original principal | 2024 | 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 |
| Airport System Subordinate Lien Revenue Refunding Bonds | | | | |
| Series 2011A, \$449,975,000 original principal | 2026 | 3%-5% | 172,540 | 209,370 |
| Series 2011B, \$116,930,000 original principal | 2026 | 3%-5% | 58,550 | 64,475 |
| Series 2012A, \$286,585,000 original principal | 2032 | 5% | 267,355 | 275,315 |
| Series 2012B, \$217,135,000 original principal | 2032 | 5% | 217,135 | 217,135 |
| Series 2018A, \$130,550,000 original principal | 2041 | 5% | 127,400 | 130,550 |
| Series 2018B, \$285,220,000 original principal | 2048 | 5% | 276,220 | 285,220 |
| Series 2018C, \$212,820,000 original principal | 2032 | 5% | 206,025 | 212,820 |
| Series 2018D, \$356,290,000 original principal | 2039 | 5% | 346,040 | 356,290 |
| Variable Rate Debt Obligations | | | | |
| Series 2010, \$93,730,000 original principal | 2030 | N/A | 92,105 | 92,305 |
| Total Principal | | | \$ 1,855,340 | \$ 1,935,450 |
| Less: Total current maturities | | | (89,090) | (80,110) |
| Unamortized discount | | | (598) | (675) |
| Unamortized premium | | | 162,949 | 179,927 |
| Total Revenue Bonds Payable - Long Term | | | \$ 1,928,601 | \$ 2,034,592 |

5. Long-Term Liabilities, continued:

New Bonds

The Airport System issued no new revenue bonds in Fiscal Year 2020.

In Fiscal Year 2019, the Airport System Subordinate Lien Revenue Refunding Bonds, Series 2018C (AMT) and the Airport System Subordinate Lien Revenue Refunding Bonds, Series 2018D (Non-AMT) were priced on July 17, 2018 and delivered on August 2, 2018, with a combined par amount of \$569,110,000. The bonds have a coupon rate of 5.0%, a true interest cost of 3.34%, and an arbitrage yield of 2.86%. They mature in varying amounts from 2019 to 2039.

Series 2018C was issued with a par amount of \$212,820,000 to current refund the following auction rate bonds: Airport System Subordinate Lien Revenue Bonds, Series 2000P-1 (AMT) \$32,275,000; Airport System Subordinate Lien Revenue Bonds, Series 2000P-2 (AMT) \$32,050,000; Airport System Subordinate Lien Revenue Bonds, Series 2002C (AMT) \$71,175,000; Airport System Subordinate Lien Revenue Bonds, Series 2002D-1 (AMT) \$55,800,000; and Airport System Subordinate Lien Revenue Bonds, Series 2002D-2 (AMT) \$50,975,000, and to pay for costs of issuance. Net present value savings on the refunding were \$12.9 million or 5.3%, with total debt service reduced by \$15.6 million. Series 2018C will reach final maturity on July 1, 2032.

Series 2018D was issued with a par amount of \$356,290,000 to current refund \$409,685,000 in outstanding Airport System Senior Lien Revenue and Refunding Bonds Series 2009A (Non-AMT) and to pay costs of issuance. Series 2018D will reach final maturity on July 1, 2039. Net present value savings on the refunding were \$77.4 million or 18.9% of the refunded bonds. Total debt service was reduced by \$107.0 million.

For information on events that occurred after June 30, 2020, see Note 12.

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.

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 have termination dates ranging from July 1, 2022 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 \$102,949,865, reinsured by National Public Finance Guarantee Corporation; and (2) Assured Guarantee Municipal Corporation in the aggregate maximum amount of \$31,921,384. The Airport System Fund also has a cash reserve of \$68,960,003 in the Subordinate Lien Bond Reserve Fund.

Airport System Inferior Lien Contract

The Airport System had no inferior lien contracts in place during any parts of Fiscal Years 2019 or 2020.

The most recent inferior lien contract arose from a July 2004 sublease agreement between the City and United Airlines, wherein the City assumed and made sublease payments on the Series 1997A Special Facilities Bonds until they matured in July 2017.

5. Long-Term Liabilities, continued:

Variable Rate Debt

The Airport System did not refund or issue any auction or variable rate demand obligation bonds in Fiscal Years 2019 or 2020.

In Fiscal Year 2019, the proceeds from Airport System Revenue Refunding Bonds, Series 2018C, delivered on August 2, 2018, refunded all outstanding balances for the auction rate securities issued in the two previous decades. Final principal payments were made between September 4 and September 7, 2018. The Fund has issued Airport System Subordinate Lien Revenue Bonds Series 2000P-1, Series 2000P-2, Series 2002C, Series 2002D-1, and Series 2002D-2 as auction rate, or auction reset, securities. The auctions initially took place in 7, 28, or 35-day periods, except that in July and August 2005, the auction periods for all five issues were set to 7 days. Starting in February 2008, various auction rate securities began to not be remarketed. Auction rate bonds that could not be sold would have remained with the bondholders. However, if an auction was not successful, the rate would have been reset based on predetermined formulas incorporating the rating of the insurer, or the underlying rating of the Fund if 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 was 200% of LIBOR.

Airport System Revenue Refunding Bonds, Series 2005A, were issued as variable rate demand obligations with weekly resets. Series 2005A was refunded by Series 2010 on December 21, 2010. Series 2010 is also a variable rate demand obligation issue with weekly resets. The rate in effect at June 30, 2020, including remarketing fees, was .22%. Should Series 2010 be tendered and not remarketed, principal and interest would be paid by a letter of credit issued by Barclay's Bank, PLC. The reimbursement agreement for the letter of credit was amended on December 6, 2017, to extend the termination date to December 22, 2020 unless further extended or terminated. The letter of credit covers the outstanding par value of the bonds plus 35 days of accrued interest at a 12% annual rate. The facility fee rate for the letter of credit was increased to .46% from .425% as of July 28, 2019. If the remarketing agent is unable to resell the Series 2010 bonds, then the letter of credit will pay the principal to the bondholders and the bonds will become bank bonds, subject to the greater of several options for interest rates. The maximum interest rate permitted under the ordinance is 10%. After 60 days, the bank bonds become a term loan, where the Airport System must pay six semi-annual principal payments over three years to retire the loan. The Fund has made no draws on the letter of credit through June 30, 2020. 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 not requiring a letter of credit.

For information on events that occurred after June 30, 2020, see Note 12.

Arbitrage Rebate

Arbitrage rebate rules, under Chapter 148 of the Federal Tax Code, require generally that a tax-exempt bond issuer forward to the federal government any profits made from investing bond proceeds at a yield above the bond yield, when investing in a taxable market. Payments based on cumulative profits earned by bonds are due, in general, every five years. At June 30, 2020, a yield restriction/arbitrage rebate of \$109,028 was accrued. At June 30, 2019 and June 30, 2018, none were payable. During Fiscal Year 2017, the Airport Fund paid an arbitrage rebate of \$1,682 on interest income earned by commercial paper notes.

Commercial Paper

In Fiscal Year 2013, the City authorized up to \$150 million in Airport System Commercial Paper Notes (Notes). Series A, B, and C Notes were authorized 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 of Series A and B Notes, 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,

5. Long-Term Liabilities, continued:

2021. Any advances made under the letter of credit and not repaid within 90 days will be converted to term loans payable in twenty quarterly installments, subject to the greater of several options for interest rates. The maximum interest rate permitted under the ordinance is 15%.

On April 1, 2020 the agreement with Sumitomo Mitsui Banking Corporation was expanded to \$350 million in Notes, plus interest. In Fiscal Year 2020, \$84.5 million in Notes were sold, bringing the outstanding amount to \$133 million, with interest rates ranging from 0.20% to 1.40%. During Fiscal Year 2019, the Airport System drew down \$27 million in Notes, bringing the total outstanding to \$48.5 million.

Subordinate Lien Revenue and Refunding Bonds, Series 2018A and Series 2018B, refunded \$83.5 million in Notes. Draws of \$18 million brought the balance of Series A Notes outstanding at June 30, 2018 to \$21.5 million.

Forward Delivery Bond Purchase Agreement

On October 21, 2015, the City terminated its authorization for \$150 million of Series Commercial Paper Notes, and authorized instead up to \$450 million in Airport System Inferior Lien Revenue Bonds, in one or more series. On November 5, 2015 the City authorized execution of a forward delivery purchase agreement with the Royal Bank of Canada, to expire November 5, 2022, for the issuance of \$450 million in Inferior Lien Revenue Bonds. City Council must reauthorize this liquidity arrangement annually. No Inferior Lien Bonds have been issued.

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 Inferior Lien Bonds. The respective amounts of outstanding principal at June 30, 2020 are \$133 million, \$0, \$1,855.3 million, and \$0. The Commercial Paper Notes and Revenue Bonds are issued to establish, improve, enlarge, extend and repair the Airport System.

Pledged airport system revenues exclude any body proceeds, replacement proceeds, 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 \$177.5 million in Fiscal Year 2020, covering principal of \$89.1 million and interest of \$91.6 million. In addition to pledged airport system revenue, passenger facility charges totaling \$55.0 million were available to pay debt service this fiscal year, making the ratio of net pledged revenue to cover debt service costs equal to 1.59 times.

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, 2020, 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, which under the Bond covenants must be set to provide a debt service coverage ratio of at least 125%. The bonds are limited special obligations of the City, payable solely from and secured by pledged customer facility charges. There is no pledge of car rental company revenues, or of any general revenue of the City or the 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

5. Long-Term Liabilities, continued:

Facilities Taxable Revenue Bonds (CRCF), Series 2001, and to pay costs of issuance. Net present value savings 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 Fiscal Year 2015, 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's guidance for conduit debt obligations. Beginning in the fiscal year ending 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, 2020 and June 30, 2019 respectively, special facilities revenue and refunding bonds (CRCF) outstanding totaled \$74.4 million and \$80.4 million.

Pension Obligation Bonds

In 2005 the Airport System Fund was assigned the responsibility to pay principal and interest on a portion of the City of Houston's Pension Obligation Bonds (POB), Series 2005 (Taxable), with a par value of \$2,005,656, a coupon rate of 5.31%, and final maturity on March 1, 2035. The annual POB interest payment is \$106,500.

On December 22, 2017, the City issued City of Houston POB, Series 2017 (Taxable), with a par value of \$1,005,145,000, and a lien against the general revenues of the City, including ad valorem tax. Although there was no direct lien against Airport System Fund revenues, the Airport System was assigned the responsibility to pay principal and interest (and associated costs of issuance) on its fair portion of the POB. The Airport System's portion was a par value of \$27,610,000, a coupon rate of 2.203%, and a final maturity on March 1, 2019.

Private Placement Loans

In Fiscal Year 2020 the Airport System began to borrow and incur interest on two loans obtained from the State Energy Conservation Office (SECO), a segment within the State of Texas Comptroller's Office in Austin, Texas. The SECO program affords low-rate 2% loans for borrowers approved to build or acquire energy efficient equipment or other assets.

The Airport System entered into two reimbursement loan agreements with SECO, each with a SECO-approved list of projects to be completed within approximately eighteen months, and with repayment to commence shortly thereafter. After the Fund has incurred the construction or acquisition costs, it submits the charges to SECO for reimbursement. Upon reimbursement by SECO, interest expense accrues at two percent.

Loan #1 has a maximum amount of \$8 million to be repaid over approximately ten years, with repayment to commence once all projects are completed, and a repayment schedule is forwarded to the Airport System by SECO. Loan #2 has a maximum amount of \$7.5 million, and similar terms. As of June 30, 2020, the Airport System has borrowed \$324.0 thousand, and has accrued \$3.5 thousand of interest expense.

For information on events that occurred after June 30, 2020, see Note 12.

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 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>.

A. General Information

Plan Description

The 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 6243.e2 (1), 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 three contributory 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 between 0% and 2% depending on investment returns. 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 as a percentage of covered payroll was 28.2% for Fiscal Year 2020 and 28.7% for Fiscal Year 2019. 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 the most recent measurement date, June 30, 2020, of the net pension liability, membership data for the pension plan are as follows:

| | |
|--|---------------|
| Retirees and beneficiaries currently receiving benefits | 11,110 |
| Former members entitled to benefits but not yet receiving them | 6,652 |
| Former members not entitled to benefits | - |
| Active members: | |
| ▶ Vested | 7,590 |
| ▶ Non-vested | 3,917 |
| Total participants | <u>29,269</u> |

6. Defined Benefit Pension Plan, continued:

B. 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 and certain sensitivity information are based on an actuarial valuation performed as of July 1, 2019. The total pension liability was rolled forward from that valuation date to the measurement date of June 30, 2020 using generally accepted actuarial principles. A schedule of Net Pension Liability, in addition to the information above, includes multi-year trend information (beginning with Fiscal Year 2015) and is presented in the Required Supplementary Information section.

Net Pension Liability (in thousands)

| Measurement Date | June 30, 2020 | | June 30, 2019 | |
|------------------------------|------------------------------|---------------------------------------|------------------------------|---------------------------------------|
| | Municipal Employees' Pension | The Fund's proportionate share of NPL | Municipal Employees' Pension | The Fund's proportionate share of NPL |
| Total Pension Liability | \$ 5,332,865 | \$ 480,491 | \$ 5,236,133 | \$ 563,449 |
| Less: Fiduciary Net Position | (2,881,788) | (222,268) | (3,100,999) | (333,692) |
| Net Pension Liability | \$ 2,451,077 | \$ 258,223 | \$ 2,135,134 | \$ 229,757 |

The Fund's proportionate percentage of NPL is 9.01% and 10.76% for Fiscal Years 2020 and 2019.

C. Schedule of Changes in Net Pension Liability (in thousands)

| | June 30, 2020 | | | June 30, 2019 | | |
|---|-------------------------|-----------------------------|-----------------------|-------------------------|-----------------------------|-----------------------|
| | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Liability |
| Service Cost | \$ 77,819 | \$ - | \$ 77,819 | \$ 77,175 | \$ - | \$ 77,175 |
| Interest on the Total Pension Liability | 356,430 | - | 356,430 | 349,593 | - | 349,593 |
| Difference between Expected and Actual Experience | (28,865) | - | (28,865) | (11,538) | - | (11,538) |
| Employer Contributions | - | 176,430 | (176,430) | - | 176,261 | (176,261) |
| Employees Contributions | - | 32,582 | (32,582) | - | 32,537 | (32,537) |
| Pension Plan Net Investment Income | - | (115,165) | 115,165 | - | 200,445 | (200,445) |
| Benefit Payments | (308,002) | (308,002) | - | (291,061) | (291,061) | - |
| Refunds | (650) | (650) | - | (1,394) | (1,394) | - |
| Administrative Expense | - | (4,891) | 4,891 | - | (5,363) | 5,363 |
| Other | - | 485 | (485) | - | 710 | (710) |
| Net Change | 96,732 | (219,211) | 315,943 | 122,775 | 112,135 | 10,640 |
| Net Pension Liability Beginning | 5,236,133 | 3,100,999 | 2,135,134 | 5,113,358 | 2,988,864 | 2,124,494 |
| Net Pension Liability Ending | \$ 5,332,865 | \$ 2,881,788 | \$ 2,451,077 | \$ 5,236,133 | \$ 3,100,999 | \$ 2,135,134 |

The Fund participated in the December 22, 2017 issuance of Houston Pension Obligation Bonds, Series 2017 in the amount of \$27,610,000 which is reflected in Employer contributions. These bonds matured in March 2019. For further information, see Note 5, Long Term Liabilities, Pension Obligation Bonds.

6. Defined Benefit Pension Plan, continued:

D. Pension Expense

For the years ended June 30, 2020 and June 30, 2019, the City recognized pension expense as follows (in thousands):

| | June 30, 2020 | June 30, 2019 |
|---|-------------------|-------------------|
| Changes for the Year | | |
| Service Cost | \$ 77,819 | \$ 77,175 |
| Interest | 356,430 | 349,593 |
| Difference between Expected and Actual Experience | 124,325 | 149,067 |
| Differences between Projected and Actual Earnings on plan investments | 65,914 | 24,302 |
| Member Contributions | (32,582) | (32,536) |
| Net Investment Income | (213,428) | (206,130) |
| Administrative Expense | 4,891 | 5,363 |
| Assumption Changes | - | - |
| Other | (484) | (710) |
| Total Pension Expense | \$ 382,885 | \$ 366,124 |

The Fund's proportionate shares of pension expense are \$36.2 million and \$34.0 million for June 30, 2020 and June 30, 2019, respectively.

E. Schedule of Deferred Outflows and Inflows of Resources

Deferred outflows of resources and deferred inflows of resources by source reported by the Fund at June 30, 2020 and June 30, 2019 (in thousands):

| | June 30, 2020 | | | June 30, 2019 | | |
|--|--------------------------------|-------------------------------|------------------|--------------------------------|-------------------------------|------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Total Fund | Deferred Outflows of Resources | Deferred Inflows of Resources | Total Fund |
| Differences between Expected and Actual Experience | \$ - | \$ 2,273 | \$ (2,273) | \$ - | \$ 1,108 | \$ (1,108) |
| Changes of assumptions | 25,210 | - | 25,210 | 17,720 | - | 17,720 |
| Net difference between Projected and Actual Earnings on pension plan investments | - | 1,152 | (1,152) | - | 4,692 | (4,692) |
| Contributions after Measurement Date | 666 | - | 666 | - | - | - |
| Total | \$ 25,876 | \$ 3,425 | \$ 22,451 | \$ 17,720 | \$ 5,800 | \$ 11,920 |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at June 30, 2020 for the Fund will be recognized in pension expense as follows (in thousands):

| Year Ended June 30 | |
|--------------------|------------------|
| 2021 | \$ 8,793 |
| 2022 | 3,634 |
| 2023 | 4,866 |
| 2024 | 5,158 |
| 2025 | - |
| Thereafter | - |
| Total | \$ 22,451 |

6. Defined Benefit Pension Plan, continued:

F. 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 | \$ 3,016,679 | \$ 2,451,078 | \$ 1,977,637 |
| The Fund's proportionate share of NPL | \$ 271,803 | \$ 258,223 | \$ 178,185 |

G. Schedule of Assumptions

| | |
|-----------------------------|---|
| Inflation | 2.25% |
| Salary Changes | 3.00% to 5.25% |
| Investment Rate of Return | 7.00% |
| Valuation Date | 7/1/2019 |
| Actuarial Cost Method | Entry Age Normal Cost |
| Amortization Method | Level Percent of Payroll |
| Amortization Period | 28 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

Retiree Health Insurance Benefits

Pursuant to a City Ordinance, the City provides certain health care benefits for retired employees. Substantially all 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 \$89,617,202 and \$95,170,571 for the years ended June 30, 2020 and June 30, 2019, respectively. Retiree health care is accounted for in the Health Benefits Fund, an Internal Service Fund for the City. At June 30, 2020, there were 11,663 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.

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. As a department of the City of Houston, the Airport System Fund participates in the OPEB plan of the City of Houston's municipal employees. A separate accounting is not done for the Fund's portion. It is allocated its share of expense on an annual basis.

7. Other Employee Benefits, continued:

Actuarially Determined Contribution and Total OPEB Liability

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

| | |
|--|---------------------|
| Actuarially Determined Contribution before Timing Adjustment | \$ 204,585 |
| Expected net benefits payments | - |
| Actuarially Determined Contribution | <u>204,585</u> |
| Contribution made | 45,811 |
| Net OPEB liability, beginning | 2,254,189 |
| Change in Net OPEB liability | <u>(36,132)</u> |
| Net OPEB liability, end of year | <u>\$ 2,218,057</u> |
| HAS Portion of Net OPEB Liability, end of the year | <u>\$ 70,738</u> |

| | Fiscal Year Ended June 30 | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Liability |
|------|---------------------------------|------------------------|--|-----------------------|
| City | 2019 | \$ 103,249 | 55.30% | \$ 2,254,189 |
| City | 2020 | \$ 73,202 | 62.58% | \$ 2,218,057 |
| HAS | 2019 | \$ 10 | 2278.06% | \$ 73,286 |
| HAS | 2020 | \$ 6,593 | 9.01% | \$ 70,738 |

A. Retiree Health Insurance Benefits

1. Membership

As of the most recent actuarial valuation of the net OPEB liability, membership data is as follows:

| | City | HAS |
|---|---------------|--------------|
| Retirees and beneficiaries currently receiving benefits | 10,053 | 487 |
| Active members: | <u>21,696</u> | <u>1,082</u> |
| Total participants | <u>31,749</u> | <u>1,569</u> |

2. Net OPEB Liability

The Net OPEB liability was measured as of June 30, 2019. The Total OPEB Liability was determined from an actuarial valuation as of June 30, 2018. The Net OPEB Liability is the Total OPEB Liability less the Plan Fiduciary Net Position. The Total OPEB Liability is the present value of all future benefit payments for current retirees and active employees, considering assumptions about demographics, turnover, mortality, disability, retirement, health care trends, and other actuarial assumptions.

Net OPEB Liability (in thousands)

Measurement Date: June 30, 2019

Reporting Date: June 30, 2020

| | City | HAS |
|------------------------------|---------------------|------------------|
| Total OPEB Liability | \$ 2,218,057 | \$ 70,738 |
| Less: Fiduciary Net Position | - | - |
| Net OPEB Liability | <u>\$ 2,218,057</u> | <u>\$ 70,738</u> |

A schedule of Net OPEB Liability, in addition to the information above, includes multi-year trend information (beginning with year 2018) and is presented in the Required Supplementary Information section.

7. Other Employee Benefits, continued:

3. Schedule of Changes in Net OPEB Liability

| Change in Net OPEB Liability (in thousands) | Total OPEB Liability | Plan Fiduciary Net Position | Net OPEB Liability | HAS Net OPEB Liability |
|---|----------------------|-----------------------------|--------------------|------------------------|
| Service Cost | \$ 118,901 | \$ 45,811 | \$ 73,090 | \$ 7,289 |
| Interest | 90,952 | - | 90,952 | 8,191 |
| Change of benefit terms | (17,819) | - | (17,819) | (1,605) |
| Difference between Expected and Actual Experience | (17,602) | - | (17,602) | (1,585) |
| Assumptions Changes | (164,752) | - | (164,752) | (14,838) |
| Benefit Payments | (45,811) | (45,811) | - | - |
| Net Change | (36,131) | - | (36,131) | (2,548) |
| Net OPEB Liability Beginning | 2,254,189 | - | 2,254,189 | 73,286 |
| Net OPEB Liability Ending | \$ 2,218,058 | \$ - | \$ 2,218,058 | \$ 70,738 |

4. OPEB Expense

For the reporting year ended June 30, 2020, the City recognized OPEB expense of \$73,202. The Fund recognized \$6,592. OPEB expense recognized is as follows (in thousands):

Components of OPEB Expense

| | City | HAS |
|---|------------|-----------|
| Service Cost | \$ 118,901 | \$ 10,708 |
| Interest | 90,952 | 8,191 |
| Current-period benefit changes | (17,819) | (1,605) |
| Difference between Expected and Actual Experience | (2,514) | (226) |
| Recognition Deferred | (92,782) | (8,356) |
| Expensed Portion of Current Period Changes in Assumptions | (23,536) | (2,120) |
| OPEB Expense | \$ 73,202 | \$ 6,592 |

5. Schedule of Deferred Outflows and Inflows of Resources

Deferred outflows of resources and deferred inflows of resources are differences between actual and expected experience that are not reflected in current year's expenses. Deferred inflows and outflows of resources related to OPEB reported by the City and by the Fund at June 30, 2020 are as follows (in thousands):

| | OPEB Liability (in thousands) | | | |
|---|--------------------------------|-------------------------------|--------------------------------|-------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| | City | | HAS | |
| Changes of assumptions | \$ - | \$ (478,720) | \$ - | \$ (22,885) |
| Difference between Expected and Actual Experience in the Total OPEB Liability | | (94,899) | - | (4,537) |
| Contributions made subsequent to measurement date and prior to reporting date | 16,562 | | 1,492 | |
| Total | \$ 16,562 | \$ (573,619) | \$ 1,492 | \$ (27,422) |

7. Other Employee Benefits, continued:

Amounts reported as deferred outflows of resources and deferred inflows of resources related to the Net OPEB Liability at June 30, 2020 will be recognized in OPEB expense as follows (in thousands):

| Year Ended June 30 | City | HAS |
|--------------------|---------------------|--------------------|
| | | |
| 2021 | (118,832) | (5,372) |
| 2022 | (118,832) | (5,372) |
| 2023 | (118,832) | (5,372) |
| 2024 | (118,832) | (5,372) |
| 2025 | (72,238) | (3,265) |
| 2026 | (26,053) | (1,177) |
| Total | <u>\$ (573,619)</u> | <u>\$ (25,930)</u> |

6. Sensitivity of the Net OPEB Liability to changes in the discount rate

The following presents the Net OPEB Liability, calculated using the discount rate, as well as what the City's Net OPEB Liability would have been if it were calculated using a discount rate that is 1 percentage point lower and 1 percentage point higher than the current rate (in thousands):

| | | 1% Decrease | Current Discount Rate | 1% Increase |
|------|--------------------|--------------|-----------------------|--------------|
| | | 2.50% | 3.50% | 4.50% |
| City | Net OPEB Liability | \$ 2,581,029 | \$ 2,218,057 | \$ 1,927,613 |
| HAS | Net OPEB Liability | \$ 82,314 | \$ 70,738 | \$ 61,475 |

7. Schedule of Assumptions

The Total OPEB Liability is based on an actuarial valuation as of July 1, 2018 using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|-------------------------------|--|
| Inflation | 2.25% |
| Salary Increases | 2.75% to 22.75%, varies by employee class and service/age |
| Discount Rate | 3.50% |
| Measurement Date | June 30, 2019 |
| Healthcare Costs Trend Rates: | |
| Medicare | 6.19% trending down to 4.50% |
| Prescription Drug | 6.83% trending down to 4.50% |
| Medicare Advantage | -1.00% trending down to 4.5% |
| Medicare Supplement | 2.70% trending down to 4.5% |
| Administrative Costs | 3.00% |
| Healthy Mortality Rates | Rates that vary by job classification and employee status. The rates are consistent with the pension plans valuation assumptions for the same employees. |

7. Other Employee Benefits, continued:

B. Health Benefits Internal Service Fund

Effective May 1, 2011, the City elected to be substantially self-insured and on May 1, 2019 once again awarded CIGNA a five-year contract with two (2) one-year renewal options for 3 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 totaling \$251,979,327 and \$256,964,014 for the years ended June 30, 2020 and June 30, 2019, respectively.

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

| | CIGNA Schedule of Changes in Liability (in thousands) | |
|--|---|------------------|
| | June 30, 2020 | June 30, 2019 |
| Beginning actuarial estimate of claims liability reserve, July 1 | \$ 22,950 | \$ 23,067 |
| Catastrophic claim reserve, July 1 | 15,000 | 15,000 |
| Incurred claims for fiscal year | 304,635 | 312,477 |
| Payments on claims - net of RX rebates and refunds | (306,335) | (312,710) |
| Actuarial adjustment | 850 | 116 |
| Ending actuarial estimate of claims liability including catastrophic claims liability, June 30 | <u>\$ 37,100</u> | <u>\$ 37,950</u> |

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 his or her annual salary. The current costs for active employees for both basic and voluntary life insurance totaled \$6,356,473 and \$6,224,962 for the years ended June 30, 2020 and June 30, 2019, respectively.

C. Incurred for Catastrophic claims

In addition to the IBNR, to mitigate claim volatility the City has funded a catastrophic claim liability of \$15 million. This would increase the total liability to \$37 million and designated fund balance of \$38 million for claim volatility.

D. 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 CSL members. Coverage is effective 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 of absence from work. The plan is administered by Reed Group (previously Hewitt Associates LLC), which is reimbursed by the internal service fund for claims as they are paid plus an administrative services fee. As a department of the City of Houston, the Airport System Fund participates in the OPEB-LTD plan for the City of Houston's municipal employees. A separate accounting is not done for the Fund's portion. It is allocated its share of expense on an annual basis.

7. Other Employee Benefits, continued:

| | Schedule of Changes in City Liability (in thousands) | |
|--|---|-----------------|
| | June 30, 2020 | June 30, 2019 |
| Beginning actuarial estimate of claims liability, July 1 | \$ 6,720 | \$ 5,990 |
| Incurring claims for fiscal year | 1,200 | 1,510 |
| Payments on claims | (899) | (957) |
| Actuarial adjustment | 227 | 177 |
| Ending actuarial estimate of claims liability, June 30 | <u>\$ 7,248</u> | <u>\$ 6,720</u> |

Actuarially Determined Contribution and Total Liability

During Fiscal Year 2020, there was an increase of \$528 million in the amount of disabled life reserves.

| | |
|--|-----------------|
| Total claim liability at beginning of period | \$ 6,720 |
| Changes due to assumption changes | 494 |
| Increase attributable to additions | 1,354 |
| Decrease attributable to terminations | (379) |
| Change attributable to passage of time and adjustments | (941) |
| Net change | <u>\$ 528</u> |
| Total Claim Liability at End of Period | <u>\$ 7,248</u> |

| | Fiscal Year Ended June 30 | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Liability |
|------|---------------------------------|------------------------|--|-----------------------|
| City | 2019 | \$ 1,329 | 72.01% | \$ 12,902 |
| City | 2020 | \$ 1,559 | 57.79% | \$ 15,568 |
| HAS | 2019 | \$ 92 | 72.19% | \$ 586 |
| HAS | 2020 | \$ 110 | 57.79% | \$ 774 |

1. Changes in Net OPEB Liability

| | Total OPEB Liability | Increase (Decrease) | | HAS Portion |
|------------------------|-------------------------|--------------------------------|-----------------------------|----------------|
| | | Plan Fiduciary Net Position | Net OPEB Liability (NPL) | |
| Balance at 06/30/2019 | \$ 12,902 | \$ 10 | \$ 12,892 | \$ 586 |
| Changes for the year | | | | |
| Service Cost | 719 | - | 719 | 51 |
| Interest | 461 | - | 461 | 32 |
| Experience | (1,079) | - | (1,079) | (76) |
| Employer Contributions | - | 901 | (901) | (64) |
| Benefit Payments | (910) | (910) | - | - |
| Assumption Changes | 3,476 | - | 3,476 | 245 |
| Net Changes | <u>2,667</u> | <u>1</u> | <u>2,676</u> | <u>188</u> |
| Balance at 06/30/2020 | <u>\$ 15,569</u> | <u>\$ 11</u> | <u>\$ 15,568</u> | <u>\$ 774</u> |

2. OPEB LTD Expense Components

| | City | HAS |
|--|-----------------|---------------|
| Service Cost | \$ 719 | \$ 51 |
| Interest on TOL | 461 | 33 |
| Differences between expected and actual experience | 28 | 2 |
| Changes in Assumptions | 351 | 25 |
| Total OPEB Expense | <u>\$ 1,559</u> | <u>\$ 111</u> |

7. Other Employee Benefits, continued:

For the year ended June 30, 2020, the City will recognize OPEB expense of \$1,558,787. At June 30, 2020, the City reports deferred outflows of resources and deferred inflows of resources related to OPEB expense from the following sources:

3. Deferred Outflows of Resources and Deferred Inflows of Resources

| | City | | HAS | |
|--|--------------------------------|-------------------------------|--------------------------------|-------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ 115 | \$ - | \$ 8 | \$ - |
| Changes in assumptions | 3,228 | - | 231 | - |
| | <u>\$ 3,343</u> | <u>\$ -</u> | <u>\$ 239</u> | <u>\$ -</u> |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Year Ended June 30 | Deferred Outflows and Inflows of Resources | |
|--------------------|--|---------------|
| | City | HAS |
| 2021 | \$ 379 | \$ 27 |
| 2022 | 379 | 27 |
| 2023 | 379 | 27 |
| 2024 | 379 | 27 |
| 2025 | 379 | 27 |
| Thereafter | 1,448 | 104 |
| Total | <u>\$ 3,343</u> | <u>\$ 239</u> |

4. Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability, calculated using the discount rate of 2.21%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate (in thousands):

| | 1% Decrease 1.21% | Current Discount Rate of 2.21% | 1% Decrease 3.21% |
|-----------------------------|----------------------|-----------------------------------|----------------------|
| City Net OPEB-LTD Liability | \$ 16,253 | \$ 15,568 | \$ 14,867 |
| HAS Net OPEB-LTD Liability | \$ 808 | \$ 774 | \$ 739 |

E. 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 loan 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:

F. 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, 2020, the City has an accumulated liability in the amount of \$114 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. The accumulated liability at June 30, 2019 was \$99 million.

| | June 30, 2020 | June 30, 2019 |
|--|-------------------|------------------|
| Beginning actuarial estimate of claims liability, July 1 | \$ 98,734 | \$ 87,502 |
| Incurred claims for fiscal year | 23,603 | 19,984 |
| Payments on claims | (22,501) | (20,387) |
| Actuarial adjustment | 14,380 | 11,635 |
| Ending actuarial estimate of claims liability, June 30 | <u>\$ 114,216</u> | <u>\$ 98,734</u> |

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, 2020 and 2019 (in thousands):

| | June 30, 2020 | June 30, 2019 |
|---------------------------|------------------|------------------|
| Police services | \$ 32,111 | \$ 31,955 |
| Fire services | 19,593 | 21,545 |
| Indirect support services | 3,018 | 3,194 |
| Water and sewer services | 3,602 | 3,691 |
| Other | 10,884 | 10,522 |
| Total | <u>\$ 69,208</u> | <u>\$ 70,907</u> |

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 Fiscal Year 2017 HAS started performing administrative work for vendors seeking airport related permits. Per an Memorandum of Understanding entered into between HAS and Houston Public Works (HPW), HAS began to receive proceeds from permitting revenues from HPW. HAS was reimbursed \$522,258 and \$443,706 in permitting fees as a result of this agreement for the years ended June 30, 2020 and 2019, respectively.

Due to and Due from the City of Houston

Amounts due to and due from other funds of the City at June 30, 2020 and 2019 are as follows (in thousands):

| | June 30, 2020 | | June 30, 2019 | |
|----------------------|---------------|-----------------|---------------|---------------|
| | Due to | Due From | Due to | Due From |
| General Fund | \$ 646 | \$ 1,746 | \$ 247 | \$ 485 |
| Special Revenue Fund | - | - | - | 1 |
| Total | <u>\$ 646</u> | <u>\$ 1,746</u> | <u>\$ 247</u> | <u>\$ 486</u> |

9. Major Customers

In Fiscal Year 2020, the Fund earned 45.8% of its operating revenues from two major customers, United Continental Holdings, Inc. and Southwest Airlines Company. No other company represents more than 2.1% of revenue. The two major companies and their respective percentage of revenue are as follows:

| | <u>Percentage of Operating Revenue</u> | |
|-----------------------------------|--|-------------|
| | <u>2020</u> | <u>2019</u> |
| United Continental Holdings, Inc. | 36.0% | 33.0% |
| Southwest Airlines Co. | 9.8% | 8.1% |

10. Conduit Debt Obligations

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 Airport System Fund will enjoy no direct financial benefit from these facilities for the term of the lease agreements. Accordingly, the Airport System 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.

| <u>Conduit Debt Outstanding at June 30, 2020 and 2019 (in thousands)</u> | <u>June 30, 2020</u> | <u>June 30, 2019</u> |
|---|----------------------|----------------------|
| 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 | 274,480 | 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. Technical Operations Center), Series 2018 (AMT), \$90,650,000 original principal, matures in 2028 | 90,650 | 90,650 |
| Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2018C (AMT), \$46,425,000 original principal, matures in 2028 | 46,425 | 46,425 |
| Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Terminal Improvement Projects), Series 2020A (AMT), \$34,165,000 original principal, matures in 2027 | 34,165 | - |
| Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Terminal Improvement Projects), Series 2020B-2 (AMT), \$47,470,000 original principal, matures in 2027 | 47,470 | 47,390 |
| Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2020C (AMT), \$66,890,000 original principal, matures in 2027 | 66,890 | 65,785 |
| Total Conduit Debt Outstanding | \$ 850,035 | \$ 848,865 |

10. Conduit Debt Obligations, continued:

On June 29, 2020, the City issued \$34,165,000 in Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2020A (AMT) on behalf of United Airlines, to refund certain outstanding Special Facilities Revenue Bonds, and to pay the Series 2020A costs of issuance. The bonds were issued as a 5% Term Bond due July 1, 2027, with a yield of 4.375%.

On June 29, 2020, the City issued \$47,470,000 in Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2020B-2 (AMT) on behalf of United Airlines, to refund certain outstanding Special Facilities Revenue Bonds, and to pay the Series 2020B-2 costs of issuance. The bonds were issued as a 5% Term Bond due July 15, 2027, with a yield of 4.375%.

On June 29, 2020, the City issued \$66,890,000 in Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2020C (AMT) on behalf of United Airlines, to refund certain outstanding Special Facilities Revenue Bonds, and to pay the Series 2020C costs of issuance. The bonds were issued as a 5% Term Bond due July 15, 2027, with a yield of 4.625%.

On February 20, 2018, the City issued \$90,650,000 in Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Technical Operations Center Project), Series 2018 (AMT) on behalf of United Airlines, to finance the construction of a technical operations center and related facilities at the George Bush Intercontinental Airport. The bonds were issued as a 5% Term Bond due July 15, 2028, with a yield of 3.60%.

On February 20, 2018, the City issued \$46,425,000 in Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2018C (AMT) on behalf of United Airlines, to finance the improvement, renovation, expansion and repair of certain special facilities at George Bush Intercontinental Airport, 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 bonds were issued as a 5% Term Bond due July 15, 2028, with a yield of 3.60%.

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.

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, 2027. 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. 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.

10. Conduit Debt Obligations, continued:

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. These bonds matured just after the close of this fiscal year, in July 2020.

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.

Environmental Liabilities

The Houston Airport System recorded a \$2.2 million environmental liability in Fiscal Year 2020 for pollution remediation at George Bush Intercontinental Airport. The scope of work includes disposal of contaminated soils at the Mickey Leland International Terminal.

The Houston Airport System recorded a \$10 million environmental liability in Fiscal Year 2017 for pollution remediation associated with a hangar addition project at George Bush Intercontinental Airport. The scope of work encompasses vapor intrusion mitigation and soil & groundwater remediation. In Fiscal Years 2019 and 2020, \$8.9 million and \$343 thousand of this environmental liability was realized, respectively. The remaining \$789 thousand liability recorded in Fiscal Year 2017 remains on the books at the end of Fiscal Year 2020. The Houston Airport System is expected to recover the \$10 million through a Customer Facility Charge on rental car transactions at William P. Hobby Airport beginning January 2021, following the approval by Houston City Council on March 20, 2019, and has recorded a \$10 million receivable in Fiscal Year 2020.

The Houston Airport System has received results for supplemental site testing from an independent study that will result in additional environmental remediation costs associated with the afore-mentioned hangar addition project. Additional cost of ~\$5 million has been estimated. No additional pollution remediation liability has been recorded in these financial statements in accordance with GASB 49 as the Houston Airport System is expected to recover the full ~\$5 million from United Airlines.

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, 2020 and 2019, the Fund had contracted for, but not spent, \$548,378,492 and \$451,978,730 respectively, for capital projects.

II. Commitments and Contingencies, continued:

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 \$175 million. The commercial 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 \$25 million sub-limit for nuclear, chemical, biological and biochemical 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.

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, 2020 | June 30, 2019 |
| Unpaid claims, beginning of fiscal year | \$ 431,385 | \$ 159,930 |
| Incurred claims (including IBNRs) | 1,741,934 | 898,403 |
| Claim payments | (1,422,042) | (626,948) |
| Unpaid claims, end of fiscal year | \$ 751,277 | \$ 431,385 |

Electricity Futures Contracts

On July 1, 2020 the City of Houston entered into an electricity supply agreement with Reliant Energy Retail Services, Inc. for a 5-year term with two 1-year options. The total committed price is approximately \$634 million for expected usage of the potentially 7-year contract. The City of Houston has entered into this agreement with locked rates for the duration of the contract terms.

II. Commitments and Contingencies, continued:

Risk and Uncertainties

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been characterized as a pandemic (the "Pandemic") by the World Health Organization and is currently affecting many parts of the world, including the United States and Texas. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. Subsequently, the President's Coronavirus Guidelines for America and the United States Centers for Disease Control and Prevention called upon Americans to take actions to slow the spread of COVID-19 in the United States.

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all Texas counties in response to the Pandemic. Pursuant to Chapter 41, Texas Government Code, the Governor has broad authority to respond to disasters, including the authority to suspend any regulatory statute prescribing the procedures for conducting State business or any order or rule of a State agency that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and to issue executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness and mitigation. Many of the Federal and State actions and policies are focused on limiting opportunities for the public to congregate and individuals to interact with each other, which affects the operation of businesses and directly impacts the national, State and local economies.

In addition to actions by State and Federal officials, on March 11, 2020, the Harris County Judge activated the County's emergency management plan by issuing a Declaration of Local Disaster for Public Health Emergency (the "Declaration") in order to contain the COVID-19 outbreak and prevent its spread throughout Harris County. On March 24, 2020, the Harris County Judge issued a "Stay Home, Work Safe" Order ("Stay Home Order") prohibiting gatherings and providing that residents stay home other than to perform Essential Services as defined in Federal guidance. The Stay Home Order, which lasted until June 10, 2020, provided that in performing or obtaining Essential Services, residents should follow Center for Disease Control and Prevention ("CDC") guidelines on social distancing.

The Pandemic has negatively affected travel, commerce, and financial markets globally and is widely expected to continue negatively affecting economic growth and financial markets worldwide. The City continues to monitor the Pandemic and work with local, State and national agencies to address its potential impact on the City. The impact of COVID-19 is expected to have a negative financial impact on local, State and national economies, the severity of which is unknown at this time, in a manner that could adversely affect the amount of property and sales and use taxes, franchise charges and fees, and other general revenues received by the City.

The City has identified several funding sources to assist with expenses related to the COVID-19 outbreak. In April 2020, the City established the COVID-19 Disaster Fund and transferred \$5 million out of the Budget Stabilization Fund to cover expenditures related to public health emergency response efforts and also received another \$5 million through a CDC grant. Most significantly, in April 2020 the City received approximately \$405 million from the U.S. Department of Treasury pursuant to the Coronavirus Aid Relief & Economic Security Act (the "CARES ACT"). The Houston Airport System is scheduled to receive up to \$200.2 million from the Federal Aviation Administration as part of the CARES Act's attempt to help offset the negative impact on major airports' revenue due to the reduction in passenger traffic. In Fiscal Year 2020 the Fund received and applied \$8.1 million against its Subordinate Lien Bond debt service. The City's Administration is currently evaluating how to best utilize the funding, but to date has identified some top priorities including: rental assistance, contact tracing, and funding to cover the redeployment of certain employees. The Houston Airport System intends to use additional CARES Act proceeds of approximately \$152 million to offset operating and debt service expenditures during Fiscal Year 2021.

Prior to COVID-19, Fiscal Year 2020 sales tax revenues were budgeted at \$695 million, and post-COVID-19, actual sales tax revenues are \$684 million. General Fund expenditures have also been reduced significantly to come in under budget by approximately \$90 million. Coupled with reduced revenues, significant reductions in expenditures for Fiscal Year 2020 were made by utilizing the Coronavirus Relief Fund money made available through the CARES Act to cover costs of redeploying personnel that were previously paid out of the General Fund. Notwithstanding the preceding estimates, the City at this time cannot predict with any certainty the actual impact COVID-19 may have on revenues in the coming fiscal year. While the impact on the City is uncertain at this time, the City is monitoring the impact of COVID-19 and will address such impacts, as necessary.

12. Subsequent Events

Approval of Second Passenger Facility Charge Application for George Bush Intercontinental Airport (IAH)

On September 24, 2020, the Federal Aviation Administration's Southwest Regional Office issued a Final Agency Decision (FAD) approving the Houston Airport System's second Passenger Facility Charge application (20-02-C-00-IAH). The second application is at the same \$4.50 per eligible enplanement level as the current approved application, and is expected to have an effective charge collection date of January 1, 2028. The total amount approved to be collected is approximately \$1.4 billion and is anticipated to be collected over a period of approximately 11 years, ending in April 2039.

Bonds and Commercial Paper Notes

On October 20, 2020, the City issued \$863,676,000 in Houston Airport Subordinate Lien Revenue Refunding Bonds in three series: Series 2020A (AMT), 2020B (NON-AMT) and 2020C (Taxable) with coupons at 4.0% to 5.0%. The proceeds were placed in escrow for the purpose of generating resources for debt service payments of the refunded portions of HAS Series: 2010 (AMT), 2000B (NON-AMT), 2011A (AMT), 2011B (AMT), 2012A (AMT), 2012B (NON-AMT); to refund \$150,973,000 of Houston Airport System Commercial Paper Notes; and to pay costs of issuance of the bonds. The true interest cost of the 2020A Bonds is 3.061%, 2020B is 1.143%, and 2020C is 2.086%. The bonds mature in varying amounts from year 2020 to 2040. Net present value savings related to the bond refundings totaled \$94,799,712 and reduced debt service by \$98,213,180.

CARES Act Federal Assistance

As of June 30, 2020, the Fund has received \$8.1 million in CARES Act funding from the FAA. Since the Fiscal Year 2020 ended, through December 3, 2020, The Airport System received \$88.4 million. The program seeks to mitigate the economic impact of COVID-19 on the nation's commercial service airports.



Schedule of Changes in the Municipal Net Pension Liability and Related Ratios
for Fiscal Years ended June 30
(in thousands)

| | MUNICIPAL | | | | | |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 (l) |
| Total Pension Liability | | | | | | |
| Service cost | \$ 77,819 | \$ 77,175 | \$ 78,149 | \$ 75,961 | \$ 68,968 | \$ 65,810 |
| Interest | 356,430 | 349,592 | 341,276 | 331,166 | 379,781 | 361,007 |
| Changes of benefit terms | - | - | - | (724,683) | - | - |
| Differences between expected and actual experience | (28,865) | (11,538) | 19,158 | (38,387) | (16,194) | (23,380) |
| Changes of assumptions | - | - | - | 562,237 | 91,248 | - |
| Benefit payments including refunds of employee contributions | (308,002) | (291,060) | (283,928) | (280,456) | (253,178) | (234,955) |
| Refunds | (650) | (1,394) | (807) | (718) | (1,105) | (1,549) |
| Net change in total pension liability | 96,732 | 122,775 | 153,848 | (74,880) | 269,520 | 166,933 |
| Total pension liability - beginning | 5,236,133 | 5,113,358 | 4,959,510 | 5,034,390 | 4,764,870 | 4,597,937 |
| Total pension liability - ending (a) | 5,332,865 | 5,236,133 | 5,113,358 | 4,959,510 | 5,034,390 | 4,764,870 |
| Plan Fiduciary Net Position | | | | | | |
| Contributions-employer | 176,430 | 176,261 | 421,562 | 182,558 | 159,958 | 145,007 |
| Contributions-employee | 32,582 | 32,536 | 27,905 | 15,902 | 15,874 | 16,198 |
| Net investment income | (115,165) | 200,445 | 231,815 | 290,911 | 27,639 | 73,370 |
| Benefit payments, including refunds of employee contributions | (308,002) | (291,060) | (283,928) | (280,456) | (253,178) | (234,955) |
| Administrative expense | (4,891) | (1,394) | (807) | (718) | (1,105) | (1,549) |
| Refunds | (650) | (5,363) | (6,442) | (6,827) | (7,360) | (7,007) |
| Other | 484 | 710 | (3,905) | 1,272 | 1,651 | 1,041 |
| Net change in plan fiduciary net position | (219,212) | 112,135 | 386,200 | 202,642 | (56,521) | (7,895) |
| Plan fiduciary net position-beginning | 3,101,000 | 2,988,865 | 2,602,665 | 2,400,023 | 2,456,544 | 2,464,439 |
| Plan fiduciary net position-ending (b) | 2,881,788 | 3,101,000 | 2,988,865 | 2,602,665 | 2,400,023 | 2,456,544 |
| City's Net Pension Liability-Ending (a)-(b) | \$ 2,451,077 | \$ 2,135,133 | \$ 2,124,493 | \$ 2,356,845 | \$ 2,634,367 | \$ 2,308,326 |
| Plan fiduciary net position as percentage of the total pension Liability | 54.04% | 59.22% | 58.45% | 52.48% | 47.67% | 51.56% |
| Covered payroll | \$ 625,056 | \$ 614,451 | \$ 611,493 | \$ 604,895* | \$ 640,529* | \$ 624,205* |
| Net position liability as a percentage of covered payroll | 392.14% | 347.49% | 347.43% | 389.63%* | 411.28%* | 369.80%* |

* In Fiscal Year 2020 figures were updated due to an adjustment by the City of Houston.

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.

(l) The 2015 amounts are based on 8.0% per City actuary

**Schedule of Changes in the Fund's Net Pension Liability and Related Ratios
for Fiscal Years ended June 30
(in thousands)**

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|-----------------------------|------------|------------|------------|------------|------------|------------|
| Total Pension Liability | \$ 480,491 | \$ 563,449 | \$ 555,982 | \$ 535,376 | \$ 540,464 | \$ 512,642 |
| Plan Fiduciary Net Position | (222,268) | (333,692) | (324,983) | (280,956) | (257,653) | (264,294) |
| Net Pension Liability | \$ 258,223 | \$ 229,757 | \$ 230,999 | \$ 254,420 | \$ 282,811 | \$ 248,348 |
| Proportionate Percentage | 9.01% | 10.76% | 10.87% | 10.79% | 10.74% | 10.76% |

**Schedule of City Contributions for Municipal Pension Plans for Fiscal Years ended June 30
(in thousands)**

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|------------|------------|------------|------------|------------|------------|------------|
| Actuarially determined contribution | \$ 182,950 | \$ 178,256 | \$ 423,989 | \$ 184,733 | \$ 162,230 | \$ 155,299 | \$ 144,953 |
| Contributions in relation to the actuarially determined contribution | 176,430 | 176,261 | 421,562 | 182,558 | 159,959 | 145,007 | 128,274 |
| Contribution deficiency (excess) | \$ 6,520 | \$ 1,995 | \$ 2,427 | \$ 2,175 | \$ 2,271 | \$ 10,292 | \$ 16,679 |
| Covered payroll | 625,056 | 614,451 | 611,493 | 604,895* | 640,529* | 624,205* | 557,226 |
| Contributions as a percentage of covered payroll | 28.2% | 28.7% | 68.9% | 30.2%* | 25.0%* | 23.2%* | 23.0% |

**Schedule of the Fund's Contributions for Municipal Pension Plans for Fiscal Years ended June 30
(in thousands)**

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Actuarially determined contribution | \$ 16,484 | \$ 17,719 | \$ 42,738 | \$ 18,898 | \$ 17,148 | \$ 16,306 | \$ 15,626 |
| Contributions in relation to the actuarially determined contribution | 15,896 | 17,520 | 42,493 | 18,676 | 16,908* | 15,226* | 13,828* |
| Contribution deficiency (excess) | \$ 587 | \$ 198 | \$ 245 | \$ 223 | \$ 240* | \$ 1,081* | \$ 1,798* |
| Covered payroll | 56,318 | 61,076 | 61,638 | 61,881* | 67,704* | 65,542* | 60,069* |
| Contributions as a percentage of covered payroll | 28.2% | 28.7% | 68.9% | 30.2%* | 25.0%* | 23.2%* | 23.0%* |

* In Fiscal Year 2020 figures were updated due to an adjustment by the City of Houston.

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.



Schedule of OPEB Contributions
(in thousands)

| | Health Benefits | | | Long Term Disability | | |
|--|-----------------|------------|-------------|----------------------|----------|----------|
| | 2020 | 2019 | 2018 | 2020 | 2019 | 2018 |
| Actuarially determined contribution | \$ 133,961 | \$ 133,961 | \$ 194,236 | \$ 7,248 | \$ 6,720 | \$ 5,990 |
| Contributions in relation to the actuarially determined contribution | (45,811) | (57,100) | (39,820) | (899) | (947) | (975) |
| Contribution deficiency (excess) | \$ 88,150 | \$ 76,861 | \$ 154,416 | \$ 6,349 | \$ 5,773 | \$ 5,015 |
| Covered payroll | 1,332,000 | 1,285,000 | 1,234,545 * | 625,056 | 614,451 | 611,493 |
| Contribution as a percentage of covered payroll | 10.06% | 10.42% | 15.73% | 1.16% | 1.09% | 0.98% |

Schedule of Changes in the Net OPEB Liability and Related Ratios
(in thousands)

| | Health Benefits | | | Long Term Disability | | |
|---|-----------------|--------------|--------------|----------------------|-------------|-------------|
| | 2020 | 2019 | 2018 | 2020 | 2019 | 2018 |
| Total OPEB Liability | | | | | | |
| Service Cost | \$ 118,901 | \$ 110,793 | \$ 139,332 | \$ 719 | \$ 776 | \$ 730 |
| Interest | 90,952 | 90,245 | 73,306 | 461 | 409 | 379 |
| Changes of benefit terms | (17,819) | (5,007) | - | - | - | - |
| Differences between expected and actual experience | (17,603) | (99,153) | (15,727) | (1,079) | 1,369 | (14) |
| Changes of assumptions | (164,752) | (224,161) | (310,431) | 3,476 | 255 | (158) |
| Benefit payments including refunds of employee contributions | (45,811) | (57,100) | (39,820) | (901) | (957) * | (975) |
| Net change OPEB liability | (36,132) | (184,383) | (153,340) | 2,676 | 1,862 | (38) |
| Net OPEB liability - beginning | 2,254,189 | 2,438,572 | 2,591,912 | 12,892 | 11,030 * | 11,068 |
| Net OPEB liability - ending (a) | \$ 2,218,057 | \$ 2,254,189 | \$ 2,438,572 | \$ 15,568 | \$ 12,892 * | \$ 11,030 * |
| Plan Fiduciary Net Position | | | | | | |
| Service Cost | 45,811 | 57,100 | 39,820 | - | - | - |
| Employer contributions | - | - | - | (901) | (975) | (975) |
| Benefit payments including refunds of employee contributions | (45,811) | (57,100) | (39,820) | 901 | 975 | 975 |
| Net change in plan fiduciary net position | - | - | - | - | - | - |
| Net OPEB liability - beginning | - | - | - | - | - | - |
| Net OPEB liability - ending (b) | - | - | - | - | - | - |
| City's Net OPEB Liability-Ending (a)-(b) | \$ 2,218,057 | \$ 2,254,189 | \$ 2,438,572 | \$ 15,568 | \$ 12,892 * | \$ 11,030 * |
| Plan fiduciary net position as percentage of the total OPEB liability | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Covered payroll | \$ 1,332,000 | \$ 1,285,000 | \$ 1,235,000 | \$ 625,056 | \$ 614,451 | \$ 611,493 |
| Net OPEB liability as a percentage of covered payroll | 166.52% | 175.42% | 197.46% | 2.49% | 2.10% | 1.80% * |

* In Fiscal Year 2020 figures were updated due to an adjustment by the City of Houston.

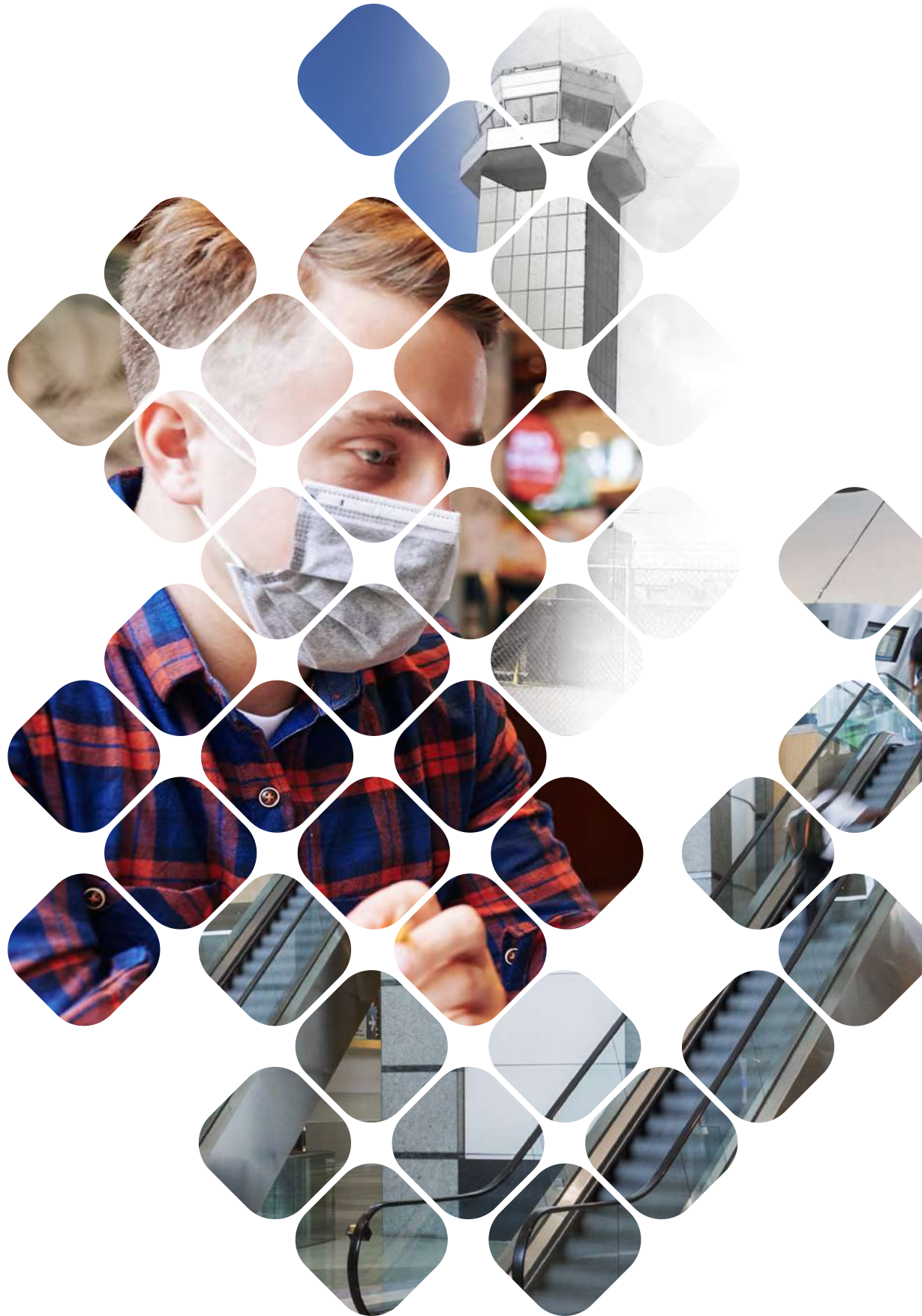
The Fund's proportionate share of OPEB is as follows (in thousands):

| | Health Benefits | | | Long Term Disability | | |
|-----------------------------|-----------------|-----------|-----------|----------------------|--------|--------|
| | 2020 | 2019 | 2018 | 2020 | 2019 | 2018 |
| Total OPEB Liability | \$ 70,738 | \$ 73,286 | \$ 89,450 | \$ 774 | \$ 586 | \$ 457 |
| Plan Fiduciary Net Position | - | - | - | - | - | - |
| Net OPEB Liability | \$ 70,738 | \$ 73,286 | \$ 89,450 | \$ 774 | \$ 586 | \$ 457 |
| Proportionate Percentage | 3.19% | 8.89% | 8.79% | 4.97% | 6.94% | 4.14% |

Schedule is intended to show information for 10 years. 2018 is the first year for this presentation. Additional years will be included as they become available.

STATISTICAL SECTION (UNAUDITED)

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.

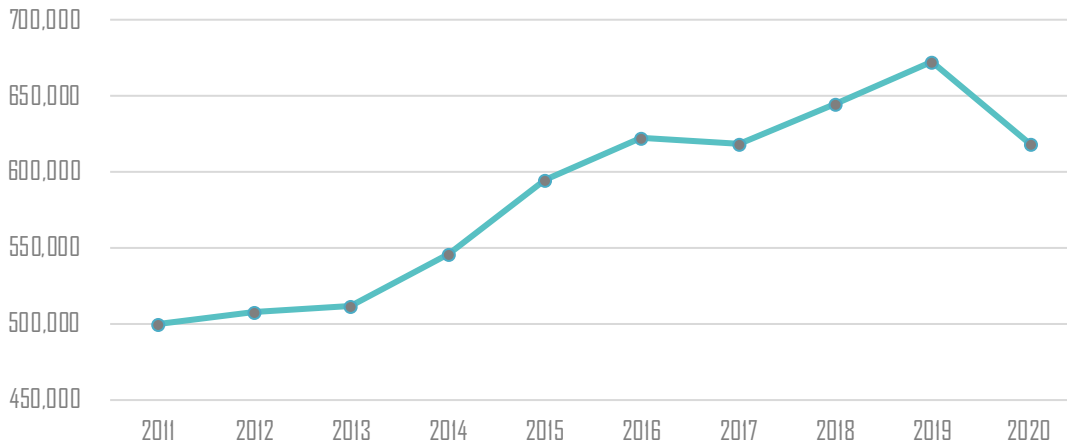
REVENUE CAPACITY – intended to assist users in understanding and assessing the factors affecting the Houston Airport System's ability to generate its own sources of revenues.

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.

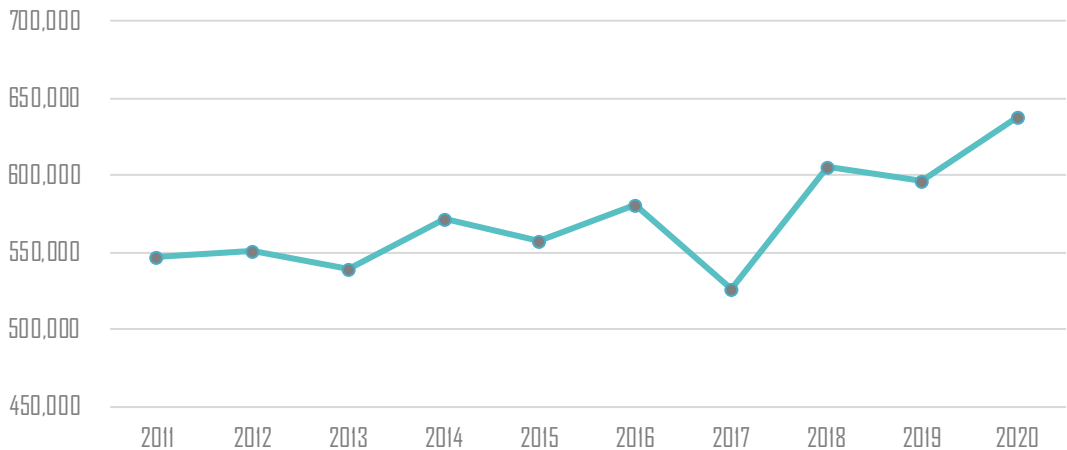
OPERATIONAL INFORMATION – intended to provide contextual information about the Houston Airport System's operations and resources to assist readers in using financial statement information to understand and assess the Houston Airport System economic condition.

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 similiar entities.

REVENUES



EXPENSES



STATISTICS

Houston Airport System CAFR ■ For fiscal years ended June 30, 2020 and 2019

CITY OF HOUSTON, TEXAS
TOTAL ANNUAL REVENUES AND EXPENSES (in thousands)

AIRPORT SYSTEM FUND

CHANGE IN NET POSITION

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|-------------------|--------------------|--------------------|------------------|------------------|------------------|-------------------|------------------|------------------|-----------------|
| Operating Revenues | | | | | | | | | | |
| Landing area fees | \$ 90,384 | \$ 86,935 | \$ 91,059 | \$ 88,342 | \$ 93,575 | \$ 86,870 | \$ 88,046 | \$ 95,779 | \$ 87,767 | \$ 95,862 |
| Building and ground area fees | 181,182 | 182,320 | 181,701 | 186,505 | 197,039 | 216,018 | 221,181 | 220,214 | 211,323 | 223,301 |
| Concession, parking, and other revenues | 138,836 | 148,295 | 160,234 | 177,260 | 185,668 | 186,009 | 184,814 | 194,871 | 199,374 | 152,749 |
| Total Operating Revenues | 410,402 | 417,550 | 432,994 | 452,107 | 476,282 | 488,897 | 494,041 | 510,864 | 498,464 | 471,912 |
| Nonoperating Revenues | | | | | | | | | | |
| Investment income (loss) | 9,735 | 5,636 | (1,934) | 11,170 | 7,496 | 13,260 | 3,403 | 8,591 | 45,067 | 43,701 |
| Passenger Facility Charges | 63,138 | 63,550 | 61,195 | 62,602 | 85,392 | 104,230 | 101,539 | 109,021 | 111,155 | 78,418 |
| Customer Facility Charges | 13,478 | 15,904 | 17,104 | 17,152 | 17,535 | 16,417 | 14,200 | 17,374 | 17,439 | 13,320 |
| Other nonoperating revenues | 3,409 | 4,644 | 1,978 | 3,225 | 7,969 | 124 | 5,596 | (1,420) | 340 | 10,820 |
| Total Nonoperating Revenues | 89,760 | 89,734 | 78,343 | 94,149 | 118,392 | 134,031 | 124,738 | 133,566 | 174,001 | 146,259 |
| TOTAL REVENUES | 500,162 | 507,284 | 511,337 | 546,256 | 594,674 | 622,928 | 618,779 | 644,430 | 672,465 | 618,171 |
| Operating Expenses | | | | | | | | | | |
| Maintenance and operating | | | | | | | | | | |
| Personnel costs | 111,861 | 107,532 | 104,162 | 108,520 | 114,947 | 123,872 | 56,721 | 133,253 | 119,841 | 119,481 |
| Supplies | 6,534 | 7,290 | 7,344 | 8,823 | 7,933 | 8,140 | 7,794 | 5,219 | 8,390 | 8,223 |
| Services | 143,327 | 139,612 | 140,019 | 149,957 | 159,577 | 177,677 | 184,032 | 184,826 | 196,608 | 204,811 |
| Non-capital outlay | 22,585 | 9,626 | 14,052 | 10,202 | 4,072 | 5,730 | 5,912 | 8,806 | 12,638 | 37,915 |
| Impairment to capital assets | - | - | 6,514 | 7,710 | - | - | - | - | - | - |
| Total M & O expenses | 284,307 | 264,060 | 272,091 | 285,212 | 286,529 | 315,419 | 254,459 | 335,104 | 337,477 | 370,430 |
| Depreciation expense | 165,657 | 193,266 | 173,448 | 174,825 | 177,512 | 179,398 | 184,203 | 176,053 | 174,266 | 175,573 |
| Total Operating Expenses | 449,964 | 457,326 | 445,539 | 460,037 | 464,041 | 494,817 | 438,662 | 511,157 | 511,743 | 546,003 |
| Nonoperating Expenses | | | | | | | | | | |
| Interest expense and others | 97,515 | 94,012 | 93,749 | 112,350 | 92,803 | 86,259 | 87,574 | 94,061 | 84,578 | 85,426 |
| Total Nonoperating Expenses | 97,515 | 94,012 | 93,749 | 112,350 | 92,803 | 86,259 | 87,574 | 94,061 | 84,578 | 85,426 |
| TOTAL EXPENSES | 547,479 | 551,338 | 539,288 | 572,387 | 556,844 | 581,076 | 526,236 | 605,218 | 596,321 | 631,429 |
| Contributions | 44,135 | 15,029 | 12,761 | 44,614 | 36,432 | 22,542 | 35,513 | 13,784 | 16,599 | 18,984 |
| TOTAL CHANGE IN NET POSITION | \$ (3,182) | \$ (29,025) | \$ (15,190) | \$ 18,483 | \$ 74,262 | \$ 64,394 | \$ 128,056 | \$ 52,996 | \$ 92,743 | \$ 5,726 |

CHANGES IN NET POSITION AND PASSENGER FACILITY CHARGE COLLECTIONS (in thousands)

NET POSITION AT YEAR END

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Net investment in capital assets | \$ 624,507 | \$ 580,636 | \$ 518,464 | \$ 469,971 | \$ 466,196 | \$ 537,172 | \$ 542,363 | \$ 531,232 | \$ 542,125 | \$ 522,492 |
| Restricted net position | | | | | | | | | | |
| Restricted for debt service | 168,841 | 189,966 | 213,064 | 242,558 | 303,371 | 333,635 | 287,858 | 357,588 | 428,856 | 473,008 |
| Restricted for maintenance and operations | 43,320 | 44,023 | 46,309 | 49,736 | 53,912 | 54,942 | 54,805 | 56,891 | 60,525 | 61,818 |
| Restricted for special facility | 15,081 | 20,025 | 26,026 | 30,986 | 25,732 | 26,944 | 29,369 | 36,049 | 43,442 | 46,377 |
| 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 | 549,091 | 537,165 | 552,762 | 581,857 | 600,159 | 561,071 | 676,360 | 657,050 | 651,664 | 623,701 |
| Unrestricted (deficit) | - | - | - | - | (178,003) | (178,003) | (126,938) | (143,297) | (138,356) | (133,414) |
| TOTAL NET POSITION | \$ 1,410,840 | \$ 1,381,815 | \$ 1,366,625 | \$ 1,385,108 | \$ 1,281,367 | \$ 1,345,761 | \$ 1,473,817 | \$ 1,505,513 | \$ 1,598,256 | \$ 1,603,982 |

PASSENGER FACILITY CHARGE COLLECTIONS
(in thousands)

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|------------------------------|---------------|--------------|---------------|--------------|---------------|---------------|---------------|--------------|--------------|----------------|
| Intercontinental | \$ 50,982 | \$ 50,358 | \$ 47,464 | \$ 48,181 | \$ 66,491 | \$ 80,574 | \$ 77,351 | \$ 83,220 | \$ 85,167 | \$ 61,120 |
| Hobby | 12,156 | 13,192 | 13,731 | 14,421 | 18,901 | 23,656 | 24,188 | 25,801 | 25,988 | 17,298 |
| Total | \$ 63,138 | \$ 63,550 | \$ 61,195 | \$ 62,602 | \$ 85,392 | \$ 104,230 | \$ 101,539 | \$ 109,021 | \$ 111,155 | \$ 78,418 |
| Year-over-Year Change | -4.89% | 0.65% | -3.71% | 2.30% | 36.40% | 22.06% | -2.58% | 7.37% | 1.96% | -29.45% |

CITY OF HOUSTON, TEXAS
PLEGGED REVENUES (in thousands)

AIRPORT SYSTEM FUND

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| OPERATING REVENUES | | | | | | | | | | |
| Landing area fees | | | | | | | | | | |
| Landing fees | \$ 87,163 | \$ 83,059 | \$ 86,911 | \$ 84,098 | \$ 89,426 | \$ 82,703 | \$ 84,036 | \$ 91,258 | \$ 83,318 | \$ 91,271 |
| Aviation fuel | 1,378 | 1,382 | 1,444 | 1,529 | 1,521 | 1,527 | 1,350 | 1,679 | 1,554 | 1,249 |
| Aircraft parking | 1,843 | 2,494 | 2,704 | 2,715 | 2,628 | 2,640 | 2,660 | 2,842 | 2,895 | 3,343 |
| Subtotal | 90,384 | 86,935 | 91,059 | 88,342 | 93,575 | 86,870 | 88,046 | 95,779 | 87,767 | 95,863 |
| Building and ground area revenues | | | | | | | | | | |
| Terminal space rentals | 160,563 | 160,247 | 158,237 | 163,297 | 173,392 | 191,321 | 196,162 | 195,198 | 185,943 | 196,844 |
| Cargo building rentals | 2,511 | 2,473 | 2,397 | 2,432 | 2,506 | 2,484 | 2,448 | 2,390 | 2,391 | 2,378 |
| Other rentals | 5,067 | 5,394 | 5,848 | 6,174 | 6,252 | 6,808 | 6,453 | 6,460 | 6,454 | 6,574 |
| Hangar rental | 5,446 | 6,165 | 6,675 | 6,605 | 6,355 | 6,577 | 6,813 | 6,691 | 6,530 | 6,821 |
| Ground rental | 7,595 | 8,041 | 8,544 | 7,997 | 8,534 | 8,828 | 9,305 | 9,475 | 10,005 | 10,684 |
| Subtotal | 181,182 | 182,320 | 181,701 | 186,505 | 197,039 | 216,018 | 221,181 | 220,214 | 211,323 | 223,301 |
| Parking, concession, and other revenues | | | | | | | | | | |
| Retail concessions | 34,426 | 38,429 | 41,604 | 41,444 | 41,855 | 35,215 | 39,999 | 41,245 | 41,521 | 32,265 |
| Auto parking | 70,681 | 72,833 | 77,596 | 90,173 | 97,515 | 101,650 | 99,752 | 103,961 | 110,136 | 81,172 |
| Auto rental concession | 23,932 | 26,771 | 29,522 | 32,783 | 31,991 | 30,737 | 28,735 | 28,767 | 28,949 | 23,400 |
| Ground transportation | 5,946 | 6,186 | 6,639 | 8,301 | 9,323 | 10,083 | 10,402 | 11,062 | 12,645 | 10,072 |
| Other operating revenues | 3,851 | 4,076 | 4,873 | 4,559 | 4,984 | 8,324 | 5,926 | 9,836 | 6,123 | 5,839 |
| Subtotal | 138,836 | 148,295 | 160,234 | 177,260 | 185,668 | 186,009 | 184,814 | 194,871 | 199,374 | 152,748 |
| TOTAL OPERATING REVENUES | \$ 410,402 | \$ 417,550 | \$ 432,994 | \$ 452,107 | \$ 476,282 | \$ 488,897 | \$ 494,041 | \$ 510,864 | \$ 498,464 | \$ 471,912 |

Gross revenues include all operating revenue of the Airport Fund, and all nonoperating revenue except for revenue with legal spending restrictions. Maintenance and operating expenses include 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.

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|------------|------------|------------|------------|------------|------------|-------------|------------|--------------|------------|
| NET REVENUE | | | | | | | | | | |
| Operating revenue | \$ 410,402 | \$ 417,550 | \$ 432,994 | \$ 452,107 | \$ 476,282 | \$ 488,897 | \$ 494,041 | \$ 510,864 | \$ 498,464 | \$ 471,912 |
| Interest on investments - revenue fund | 12,889 | 9,826 | 7,029 | 5,499 | 6,014 | 6,986 | 9,306 | 13,348 | 19,681 | 19,503 |
| Other nonoperating revenues | 341 | 2,289 | 1,222 | 3,162 | 7,526 | (52) | 7,177 | (1,805) | 47 | 122 |
| Gross revenues | 423,632 | 429,665 | 441,245 | 460,768 | 489,822 | 495,831 | 510,524 | 522,407 | 518,192 | 491,537 |
| Less: Maintenance and operating expenses | (262,668) | (255,507) | (252,745) | (268,745) | (283,557) | (314,715) | * (254,506) | (326,889) | ** (315,153) | (314,034) |
| Net pledged revenue | \$ 160,964 | \$ 174,158 | \$ 188,500 | \$ 192,023 | \$ 206,265 | \$ 181,116 | \$ 256,018 | \$ 195,518 | *** 203,039 | \$ 177,503 |
| DEBT SERVICE | | | | | | | | | | |
| Principal | \$ 61,136 | \$ 59,575 | \$ 56,800 | \$ 60,419 | \$ 71,999 | \$ 79,093 | \$ 82,707 | \$ 81,137 | \$ 80,110 | \$ 89,090 |
| Interest | 97,546 | 91,736 | 97,138 | 96,005 | 91,320 | 84,811 | 92,316 | 93,319 | 96,202 | 91,641 |
| | 158,682 | 151,311 | 153,938 | 156,424 | 163,319 | 163,904 | 175,023 | 174,456 | 176,312 | 180,731 |
| Less PFC revenue available for debt service | (38,828) | (36,619) | (34,390) | (35,614) | (38,054) | (42,320) | (54,673) | (50,642) | (60,646) | (55,040) |
| Less grant revenue available for debt service | (17,999) | (7,360) | - | (22,942) | (16,399) | (13,888) | - | - | - | (14,169) |
| Total debt service | \$ 101,855 | \$ 107,332 | \$ 119,548 | \$ 97,868 | \$ 108,866 | \$ 107,696 | \$ 120,350 | \$ 123,814 | \$ 115,666 | \$ 111,522 |
| COVERAGE OF DEBT SERVICE | | | | | | | | | | |
| | 1.58 | 1.62 | 1.58 | 1.96 | 1.89 | 1.68 | 2.13 | 1.58 | *** 1.76 | 1.59 |
| RATIO OF REQUIRED REVENUE | | | | | | | | | | |
| Net Required revenue per bond rate covenant | \$ 112,873 | \$ 119,343 | \$ 133,552 | \$ 108,369 | \$ 122,822 | \$ 120,125 | \$ 134,348 | \$ 137,474 | \$ 127,430 | \$ 122,935 |
| | 1.43 | 1.46 | 1.41 | 1.77 | 1.68 | 1.51 | 1.91 | 1.42 | *** 1.59 | 1.44 |

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 Fiscal Year 2016, \$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.

*Maintenance and operating expense for debt coverage calculations decreased by \$60.2 million between Fiscal Year 2017 and Fiscal Year 2016, 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.

** Fiscal Year 2019 maintenance and operating expenses is updated due to allowable exclusions in the definition of maintenance and operating expense in the Master Bond Ordinance.

*** Fiscal Year 2019 Net pledged revenue, coverage of debt service and ratio of required revenue are updated accordingly.

RECONCILIATION OF HISTORICAL FINANCIAL RESULTS (in thousands)

JUNE 30, 2020 and 2019

| | 2020 | 2019 |
|---|-------------------|-------------------|
| Net Revenues under Bond Resolution | | |
| Revenues | \$ 491,537 | \$ 518,192 |
| Operation and Maintenance Expenses | (314,034) | (315,152) |
| Net Revenues under Bond Resolution | <u>177,503</u> | <u>203,040</u> |
| Reconciliation of Change in Net Assets to Bond Resolution Net Revenues | | |
| Change in Net Assets | 5,726 | 92,743 |
| Exclusion: | | |
| Passenger Facility Charge Revenues Collected | 78,418 | 111,155 |
| Interest Income - Total | 43,701 | 45,067 |
| Interest Expenses | (74,533) | (81,575) |
| Gain/(Loss) on Disposal of Assets | (10,856) | 119 |
| Customer Facility Charges | 13,320 | 17,439 |
| Specialist Facility Cost | (37) | (43) |
| Cost of Issuance for Debt | - | (2,960) |
| Other Revenue (Expenses) | 10,820 | 221 |
| Capital Contributions | 18,984 | 16,599 |
| Total Exclusion | <u>79,817</u> | <u>106,022</u> |
| Inclusion: | | |
| Net Expense Adjustment under Bond Resolution | | |
| Operating Expenses Exc. Depreciation & Amortization in other funds | | |
| Fund 8000 HAS Grants | - | 994 |
| Fund 8010 Renewal & Replacement Fund | 19,310 | 10,189 |
| Fund 8011 Airport Improvement Fund | 56 | 9,437 |
| Fund 8037 HAS - O&M Grants | 425 | 636 |
| Fund 8044 HAS Disaster Recovery O&M | - | 15 |
| Fund 8051 HAS State Energy Conservation Loan CL311 | 214 | - |
| Fund 8052 HAS State Energy Conservation Loan CL312 | 110 | - |
| Fund 8207 HAS Consolidated ITRP AMT Construction | 36,500 | 1,165 |
| Miscellaneous | (219) | (111) |
| Total Inclusion | <u>56,396</u> | <u>22,325</u> |
| Changes in Net Assets less Exclusion plus Inclusion | <u>(17,695)</u> | <u>9,046</u> |
| Depreciation & Amortization | 175,573 | 174,266 |
| Interest on investments - Eligible per Bond Resolution | 19,503 | 19,681 |
| Other revenues - Eligible per Bond Resolution | 122 | 47 |
| Net Revenues Per Bond Resolution | <u>\$ 177,503</u> | <u>\$ 203,040</u> |

| | 2020 | 2019 |
|--|-------------------|-------------------|
| Operations and Maintenance Expense Reconciliation | | |
| Operations and Maintenance Expense per Financial Statement | \$ 546,003 | \$ 511,743 |
| Exclusion: | | |
| Depreciation & Amortization | (175,573) | (174,266) |
| Allowable Exclusions per Bond Resolution | | |
| Fund 8000 HAS Grants | - | (994) |
| Fund 8010 Renewal & Replacement Fund | (19,310) | (10,189) |
| Fund 8011 Airport Improvement Fund | (56) | (9,437) |
| Fund 8037 HAS - O&M Grants | (425) | (636) |
| Fund 8044 HAS Disaster Recovery O&M | - | (15) |
| Fund 8051 HAS State Energy Conservation Loan CL311 | (214) | - |
| Fund 8052 HAS State Energy Conservation Loan CL312 | (110) | - |
| Fund 8207 HAS Consolidated ITRP AMT Construction | (36,500) | (1,165) |
| Miscellaneous | 219 | 111 |
| Total Operation and Maintenance Expense per Bond Resolution | <u>\$ 314,034</u> | <u>\$ 315,152</u> |

The Airport System's operation and maintenance expense per our Statement of Revenues, Expenditures and Changes in Net Position (financial statement) and our Master Bond Ordinance (bond resolution) differ due to allowable exclusions in the definition of operation and maintenance expense in the Master Bond Ordinance. The Operations and Maintenance Expense Reconciliation above provides a listing of allowable exclusions by fund.

CITY OF HOUSTON, TEXAS
 PLEDGED REVENUES FOR CONSOLIDATED RENTAL CAR FACILITY

AIRPORT SYSTEM FUND

(not rounded to the nearest thousand)

| Resources Available for Debt Service | For Years Ended December 31: | | | | | | | | | |
|---|------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| Customer facility charge collections | \$ 12,300,253 | \$ 14,596,573 | \$ 16,444,942 | \$ 17,317,058 | \$ 17,451,368 | \$ 17,359,920 | \$ 14,822,377 | \$ 15,669,757 | \$ 17,311,972 | \$ 17,615,108 |
| Interest income | 7,961 | 475 | 318 | 731 | 785 | 3,840 | 29,003 | 56,976 | 131,162 | 167,666 |
| Transfers from Rate Stabilization Account | - | - | - | - | - | - | - | - | - | - |
| 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 | \$ 15,477,357 | \$ 17,766,191 | \$ 19,614,403 | \$ 20,486,932 | \$ 20,621,296 | \$ 20,532,903 | \$ 18,020,523 | \$ 18,895,876 | \$ 20,612,277 | \$ 20,951,917 |
| Annual Debt Service | | | | | | | | | | |
| Special Facility Revenue Bonds, Series 2001: | | | | | | | | | | |
| Principal | \$ 2,675,000 | \$ 2,960,000 | \$ 3,260,000 | \$ 3,590,000 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Interest | 8,108,278 | 7,944,033 | 7,759,329 | 7,552,645 | 6,006,288 | 4,691,128 | 4,691,128 | 4,691,128 | 4,691,128 | 4,691,128 |
| Subtotal Series 2001 | 10,783,278 | 10,904,033 | 11,019,329 | 11,142,645 | 6,006,288 | 4,691,128 | 4,691,128 | 4,691,128 | 4,691,128 | 4,691,128 |
| Special Facility Refunding Bonds, Series 2014: | | | | | | | | | | |
| Principal | - | - | - | - | 4,355,000 | 5,160,000 | 5,305,000 | 5,490,000 | 5,715,000 | 5,960,000 |
| Interest | - | - | - | - | 230,243 | 691,019 | 652,835 | 584,082 | 478,893 | 346,534 |
| Subtotal Series 2014 | - | - | - | - | 4,585,243 | 5,851,019 | 5,957,835 | 6,074,082 | 6,193,893 | 6,306,534 |
| Total Annual Debt Service | \$ 10,783,278 | \$ 10,904,033 | \$ 11,019,329 | \$ 11,142,645 | \$ 10,591,531 | \$ 10,542,147 | \$ 10,648,963 | \$ 10,765,210 | \$ 10,885,021 | \$ 10,997,662 |
| DEBT SERVICE COVERAGE RATIO | 1.44 | 1.63 | 1.78 | 1.84 | 1.95 | 1.95 | 1.69 | 1.76 | 1.89 | 1.91 |

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.

CITY OF HOUSTON, TEXAS
OUTSTANDING DEBT (in thousands)

AIRPORT SYSTEM FUND

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| OUTSTANDING DEBT BY TYPE (1) | | | | | | | | | | |
| Senior lien revenue bonds, fixed rate | \$ 449,660 | \$ 449,660 | \$ 449,660 | \$ 449,660 | \$ 449,660 | \$ 440,385 | \$ 430,645 | \$ 420,420 | \$ - | \$ - |
| Subordinate lien revenue bonds, fixed rate | 1,582,080 | 1,464,905 | 1,419,125 | 1,376,505 | 1,331,765 | 1,284,860 | 1,232,585 | 1,331,795 | 1,843,145 | 1,763,235 |
| Subordinate lien revenue bonds, periodic auction rate | 315,550 | 305,425 | 298,525 | 286,300 | 276,275 | 266,925 | 254,475 | 242,275 | - | - |
| Subordinate lien revenue bonds, variable rate | 93,730 | 93,630 | 93,505 | 93,305 | 93,105 | 92,905 | 92,705 | 92,505 | 92,305 | 92,105 |
| Subtotal, revenue bonds payable | 2,441,020 | 2,313,620 | 2,260,815 | 2,205,770 | 2,150,805 | 2,085,075 | 2,010,410 | 2,086,995 | 1,935,450 | 1,855,340 |
| Unamortized discount | (16,216) | (4,176) | (3,905) | (3,619) | (3,317) | (3,016) | (2,717) | (2,422) | (675) | (599) |
| Unamortized premium | 11,583 | 96,928 | 89,587 | 82,318 | 75,141 | 68,118 | 61,302 | 112,362 | 179,927 | 162,949 |
| Revenue bonds payable, net | \$ 2,436,387 | \$ 2,406,372 | \$ 2,346,497 | \$ 2,284,469 | \$ 2,222,629 | \$ 2,150,177 | \$ 2,068,995 | \$ 2,196,935 | \$ 2,114,702 | \$ 2,017,690 |
| Senior lien commercial paper payable | - | - | - | 1,200 | 49,500 | 87,000 | 87,000 | 21,473 | 48,473 | 132,973 |
| Inferior lien contract payable | 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 | 29,616 | 2,006 | 2,006 |
| Note payable (3) | - | - | - | - | - | 120,439 | 115,421 | - | - | - |
| Privately placed long term loans (4) | - | - | - | - | - | - | - | - | - | 324 |
| Special facilities revenue bonds, rental car (5) | 115,240 | 112,280 | 109,020 | 105,430 | 102,055 | 96,895 | 91,590 | 86,100 | 80,385 | 74,425 |
| TOTAL OUTSTANDING DEBT PAYABLE | \$ 2,591,063 | \$ 2,553,553 | \$ 2,485,638 | \$ 2,416,180 | \$ 2,393,950 | \$ 2,468,672 | \$ 2,371,252 | \$ 2,334,124 | \$ 2,245,566 | \$ 2,227,418 |
| Total enplaned passengers | 24,944,816 | 25,303,825 | 25,132,792 | 25,944,623 | 26,903,969 | 27,813,447 | 27,364,057 | 27,712,788 | 29,807,599 | 21,828,420 |
| Outstanding debt per enplaned passenger | \$ 103.87 | \$ 100.92 | \$ 98.90 | \$ 93.13 | \$ 88.98 | \$ 88.76 | \$ 86.66 | \$ 84.23 | \$ 75.34 | \$ 102.04 |
| OUTSTANDING CONDUIT DEBT | | | | | | | | | | |
| Special facilities revenue bonds (6) | \$ 455,895 | \$ 565,500 | \$ 565,090 | \$ 561,470 | \$ 711,790 | \$ 711,790 | \$ 711,790 | \$ 848,865 | \$ 848,865 | \$ 924,460 |

(1) Includes both current and long-term liabilities.

(2) A portion of the City of Houston Taxable General Obligation Pension Bonds, Series 2005 and Series 2017, have been allocated to the Airport Fund for payment. Series 2017 was paid on March 1, 2019.

(3) A Note payable to Southwest Airlines for the construction of the Hobby International Terminal project was paid with Revenue and Refunding Bond Series 2018A proceeds on March 20, 2018.

(4) Two flex loans were executed in 2019 with the Texas State Energy Conservation Office (SECO). These 2% loans are capped at \$7.9 and \$7.5 million, payable over 14.6 and 10 years starting in 2022.

(5) 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 Notes 1 and 5).

(6) 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.

CITY OF HOUSTON, TEXAS
SUMMARY OF CERTAIN FEES AND CHARGES

| IAH | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|
| Landing Rates (1) (5) | 2.737 | 2.743 | 2.850 | 2.844 | 2.803 | 2.635 | 2.571 | 2.763 | 2.561 | 2.533 |
| Terminal Space Rentals (2) (5) | 23.88-80.97 | 21.38-79.14 | 21.67-78.25 | 20.77-72.51 | 21.75-75.45 | 22.88-76.08 | 22.95-72.46 | 24.26-72.69 | 24.02 - 69.27 | 24.54 - 70.22 |
| Apron Rentals (2) (5) | 1.841-2.613 | 1.712-2.612 | 1.927-2.702 | 2.051-2.576 | 2.114-2.597 | 2.155-2.703 | 2.236-2.649 | 2.453-2.780 | 2.697 - 2.984 | 2.683 - 2.859 |
| Aircraft Parking (per day) (4) | 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 | 100.00-400.00 | 100.00-400.00 | 100.00 - 400.00 |
| Cargo (per day) (3) | 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 | 200.00-600.00 | 200.00-600.00 | 200.00 - 600.00 |
| Parking Rates (6) | | | | | | | | | | |
| Economy (Ecopark) Uncovered (7) | 5.00 | 5.00 | 5.00 | 6.00 | 6.00 | 6.00 | 6.00 | 6.00 | 6.00 | 6.00 |
| Economy (Ecopark) Covered (7) | 7.00 | 7.00 | 7.00 | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 |
| Economy (Ecopark2) Covered (8) | - | - | - | - | - | 5.00 | 6.00 | 6.00 | 7.00 | 7.00 |
| Structured (9) | 17.00 | 17.00 | 17.00 | 19.00 | 19.00 | 20.00 | 22.00 | 22.00 | 24.00 | 10.00 |
| Sure Park (10) | 20.00 | 20.00 | 20.00 | 23.00 | 23.00 | 24.00 | 24.00 | 24.00 | 26.00 | 26.00 |
| Valet (10) | - | - | 23.00 | 25.00 | 25.00 | 26.00 | 26.00 | 26.00 | 28.00 | 28.00 |

| HOU | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|
| Landing Rates (1) (5) | 2.227 | 1.941 | 1.925 | 1.768 | 2.113 | 1.835 | 1.982 | 2.013 | 2.000 | 2.049 |
| Terminal Space Rentals (2) (5) | 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 | 48.10-68.15 | 54.33 - 73.42 | 58.04 - 70.94 |
| Apron Rentals (2) (5) | 1.973 | 1.787 | 1.815 | 1.891 | 2.209 | 1.765 | 1.652-1.853 | 1.791-1.848 | 1.874 - 1.924 | 2.002 - 2.040 |
| Aircraft Parking (per day) (4) | 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 | 100.00-400.00 | 100.00-400.00 | 100.00 - 400.00 |
| Cargo (per day) (3) | 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 | 200.00-600.00 | 200.00-600.00 | 200.00 - 600.00 |
| Parking Rates (6) | | | | | | | | | | |
| Economy (Ecopark) (11) | 8.00 | 10.00 | 10.00 | 12.00 | - | - | - | - | - | - |
| Economy (Ecopark2) (12) | 6.00 | 6.00 | 6.00 | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 | 10.00 |
| Structured (9) | 17.00 | 17.00 | 17.00 | 19.00 | 19.00 | 20.00 | 22.00 | 22.00 | 24.00 | 10.00 |
| Valet (10) | - | - | 23.00 | 25.00 | 25.00 | 26.00 | 26.00 | 26.00 | 28.00 | 28.00 |

(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) 2011-2019 actual rates provided versus budgeted; 2020 budgeted rates provided.
 (6) Maximum per day
 (7) New rates effective September 1, 2013
 (8) New rates effective December 3, 2018
 (9) Covid 19 Temporary rates March 20 - May 30, 2020 \$5.00/Day; June 1 - June 30, 2020 \$10.00/Day
 (10) New rates effective February 4, 2019
 (11) Ecopark 1 at Hobby closed March 18, 2014
 (12) New rates effective May 5, 2014

DOMESTIC PASSENGERS

| Fiscal Year | IAH | | HOU | | EFD | | Domestic Total | |
|-------------|--|-------------------|--|-------------------|--|-------------------|--|-------------------|
| | Enplanements & Deplanements (in thousands) | Percentage Change | Enplanements & Deplanements (in thousands) | Percentage Change | Enplanements & Deplanements (in thousands) | Percentage Change | Enplanements & Deplanements (in thousands) | Percentage Change |
| 2011 | 31,638 | -1.4% | 9,434 | 7.8% | - | - | 41,072 | 0.5% |
| 2012 | 31,778 | 0.4% | 10,192 | 8.0% | - | - | 41,970 | 2.2% |
| 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 | 31,967 | 3.7% | 11,837 | 2.0% | - | - | 43,804 | 3.2% |
| 2016 | 31,959 | 0.0% | 12,209 | 3.1% | - | - | 44,168 | 0.8% |
| 2017 | 30,809 | -3.6% | 12,423 | 1.8% | - | - | 43,232 | -2.1% |
| 2018 | 31,102 | 1.0% | 12,864 | 3.5% | - | - | 43,966 | 1.7% |
| 2019 | 33,972 | 9.2% | 13,628 | 5.9% | - | - | 47,600 | 8.3% |
| 2020 | 25,068 | -26.2% | 9,998 | -26.6% | - | - | 35,066 | -26.3% |

INTERNATIONAL PASSENGERS

HAS PASSENGERS

| Fiscal Year | IAH | | HOU | | International Total | | GRAND TOTAL | |
|-------------|--|-------------------|--|-------------------|--|-------------------|--|-------------------|
| | Enplanements & Deplanements (in thousands) | Percentage Change | Enplanements & Deplanements (in thousands) | Percentage Change | Enplanements & Deplanements (in thousands) | Percentage Change | Enplanements & Deplanements (in thousands) | Percentage Change |
| 2011 | 8,730 | 7.3% | - | - | 8,730 | 7.3% | 49,802 | 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% | 53,826 | 3.7% |
| 2016 | 10,904 | 8.8% | 519 | 12875.0% | 11,423 | 14.0% | 55,591 | 3.3% |
| 2017 | 10,662 | -2.2% | 860 | 65.7% | 11,522 | 0.9% | 54,754 | -1.5% |
| 2018 | 10,404 | -2.4% | 957 | 11.3% | 11,361 | -1.4% | 55,327 | 1.0% |
| 2019 | 10,939 | 5.1% | 966 | 0.9% | 11,905 | 4.8% | 59,505 | 7.6% |
| 2020 | 7,969 | -27.2% | 591 | -38.8% | 8,560 | -28.1% | 43,626 | -26.7% |

CITY OF HOUSTON, TEXAS
PASSENGER STATISTICS BY CARRIER
FOR YEARS ENDED JUNE 30, 2020 AND 2019

AIRPORT SYSTEM FUND

| DOMESTIC | AIRLINES | IAH | | | | HOU | | | |
|-----------------------|--|-------------------|--------------|-------------------|--------------|-------------------|--------------|------------------|--------------|
| | | 2019 | | 2020 | | 2019 | | 2020 | |
| | | Total Passengers | Market Share | Total Passengers | Market Share | Total Passengers | Market Share | Total Passengers | Market Share |
| | Alaska Airlines | 188,351 | 0.4% | 163,808 | 0.5% | - | 0.0% | - | 0.0% |
| | All Nippon Airways Company, Ltd. | - | 0.0% | 325 | 0.0% | - | 0.0% | - | 0.0% |
| | American Airlines, Inc. | 2,126,489 | 4.7% | 1,500,662 | 4.6% | - | 0.0% | - | 0.0% |
| | Compass Airlines - AE | 40,225 | 0.1% | 34,091 | 0.1% | - | 0.0% | - | 0.0% |
| | Envoy Air - AA | 86,774 | 0.2% | 66,797 | 0.2% | 20,245 | 0.1% | 26,839 | 0.3% |
| | ExpressJet Airlines Inc. - AE | - | 0.0% | - | 0.0% | 12,693 | 0.1% | - | 0.0% |
| | Mesa Airlines - HP | 4,176 | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% |
| | Mesa Airlines - AE | 118,240 | 0.3% | 85,391 | 0.3% | 57,496 | 0.4% | 200,245 | 1.9% |
| | PSA Airlines - AE | - | 0.0% | 2,023 | 0.0% | - | 0.0% | - | 0.0% |
| | Republic Airlines - AE | 69,186 | 0.2% | 47,133 | 0.1% | 10,736 | 0.1% | - | 0.0% |
| | SkyWest Airlines - AE | 7,855 | 0.0% | 13,187 | 0.0% | 33,628 | 0.2% | 17,768 | 0.1% |
| | American Airlines, Inc. Subtotal | 2,452,945 | 5.5% | 1,749,284 | 5.3% | 134,798 | 0.9% | 244,852 | 2.3% |
| | Delta | 1,159,756 | 2.7% | 1,285,389 | 3.9% | 436,104 | 3.0% | 281,781 | 2.7% |
| | Compass Airlines - DL | 6,345 | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% |
| | Endeavor - DL | 156,440 | 0.3% | - | 0.0% | - | 0.0% | - | 0.0% |
| | GO JET Airlines - DL | 13,201 | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% |
| | Republic Airlines - DL | 98,807 | 0.2% | - | 0.0% | - | 0.0% | - | 0.0% |
| | SkyWest Airlines - DL | 154,214 | 0.3% | - | 0.0% | - | 0.0% | - | 0.0% |
| | Delta Subtotal | 1,588,763 | 3.5% | 1,285,389 | 3.9% | 436,104 | 3.0% | 281,781 | 2.7% |
| | Boutique Air | 2,918 | 0.0% | 3,857 | 0.0% | - | 0.0% | - | 0.0% |
| | Frontier | 192,057 | 0.4% | 297,303 | 0.9% | - | 0.0% | - | 0.0% |
| | JetBlue Airways | - | 0.0% | 71,103 | 0.2% | 176,990 | 1.2% | 60,276 | 0.6% |
| | Kalitta Charters, LLC | 7 | 0.0% | 1 | 0.0% | 5 | 0.0% | 7 | 0.0% |
| | Southwest Airlines Company | - | 0.0% | - | 0.0% | 12,709,594 | 87.1% | 9,403,219 | 88.8% |
| | Southwest Airlines Company Subtotal | - | 0.0% | - | 0.0% | 12,709,594 | 87.1% | 9,403,219 | 88.8% |
| | Spirit Airlines | 2,244,010 | 5.1% | 1,777,892 | 5.4% | - | 0.0% | - | 0.0% |
| | United Airlines | 17,999,240 | 40.1% | 12,392,954 | 37.5% | - | 0.0% | 78 | 0.0% |
| | ExpressJet Airlines, Inc. - UA | 2,883,776 | 6.4% | 2,230,876 | 6.8% | - | 0.0% | - | 0.0% |
| | Mesa Airlines - UA | 4,145,441 | 9.2% | 3,235,459 | 9.8% | - | 0.0% | - | 0.0% |
| | Republic Airlines - UA | 1,529,222 | 3.4% | 886,482 | 2.7% | - | 0.0% | - | 0.0% |
| | SkyWest Airlines - UA | 715,846 | 1.6% | 874,679 | 2.6% | - | 0.0% | - | 0.0% |
| | United Airlines Inc. Subtotal | 27,273,525 | 60.7% | 19,620,450 | 59.4% | - | 0.0% | 78 | 0.0% |
| | US Airways | - | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% |
| | Mesa Airlines - US | 14,379 | 0.0% | - | 0.0% | 165,816 | 1.2% | - | 0.0% |
| | PSA Airlines - US | 11,199 | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% |
| | Republic Airlines - US | - | 0.0% | 96,217 | 0.3% | - | 0.0% | - | 0.0% |
| | US Airways Subtotal | 25,578 | 0.0% | 96,217 | 0.3% | 165,816 | 1.2% | - | 0.0% |
| | Charter Airlines | 4,122 | 0.0% | 2,692 | 0.0% | 4,686 | 0.0% | 7,194 | 0.0% |
| TOTAL DOMESTIC | | 33,972,276 | 75.6% | 25,068,321 | 75.9% | 13,627,993 | 93.4% | 9,997,407 | 94.4% |

| DOMESTIC | AIRLINES | Houston Airport System | | | |
|-----------------------|--|------------------------|--------------|-------------------|--------------|
| | | 2019 | | 2020 | |
| | | Total Passengers | Market Share | Total Passengers | Market Share |
| | Alaska Airlines | 188,351 | 0.3% | 163,808 | 0.4% |
| | All Nippon Airways Company, Ltd. | - | 0.0% | 325 | 0.0% |
| | American Airlines, Inc. | 2,126,489 | 3.6% | 1,500,662 | 3.4% |
| | Compass Airlines - AE | 40,225 | 0.1% | 34,091 | 0.1% |
| | Envoy Air - AA | 107,019 | 0.2% | 93,636 | 0.2% |
| | ExpressJet Airlines Inc. - AE | 12,693 | 0.0% | - | 0.0% |
| | Mesa Airlines - HP | 4,176 | 0.0% | - | 0.0% |
| | Mesa Airlines - AE | 175,736 | 0.3% | 285,636 | 0.7% |
| | PSA Airlines - AE | - | 0.0% | 2,023 | 0.0% |
| | Republic Airlines - AE | 79,922 | 0.1% | 47,133 | 0.1% |
| | SkyWest Airlines - AE | 41,483 | 0.1% | 30,955 | 0.1% |
| | American Airlines, Inc. Subtotal | 2,587,743 | 4.4% | 1,994,136 | 4.6% |
| | Delta | 1,595,860 | 2.6% | 1,567,170 | 3.6% |
| | Compass Airlines - DL | 6,345 | 0.0% | - | 0.0% |
| | Endeavor - DL | 156,440 | 0.3% | - | 0.0% |
| | GO JET Airlines - DL | 13,201 | 0.0% | - | 0.0% |
| | Republic Airlines - DL | 98,807 | 0.2% | - | 0.0% |
| | SkyWest Airlines - DL | 154,214 | 0.3% | - | 0.0% |
| | Delta Subtotal | 2,024,867 | 3.4% | 1,567,170 | 3.6% |
| | Boutique Air | 2,918 | 0.0% | 3,857 | 0.0% |
| | Frontier | 192,057 | 0.3% | 297,303 | 0.7% |
| | JetBlue Airways | 176,990 | 0.3% | 131,379 | 0.3% |
| | Kalitta Charters, LLC | 12 | 0.0% | 8 | 0.0% |
| | Southwest Airlines Company | 12,709,594 | 21.4% | 9,403,219 | 21.6% |
| | Southwest Airlines Company Subtotal | 12,709,594 | 21.4% | 9,403,219 | 21.6% |
| | Spirit Airlines | 2,244,010 | 3.8% | 1,777,892 | 4.0% |
| | United Airlines | 17,999,240 | 30.2% | 12,393,032 | 28.4% |
| | ExpressJet Airlines, Inc. - UA | 2,883,776 | 4.8% | 2,230,876 | 5.1% |
| | Mesa Airlines - UA | 4,145,441 | 7.0% | 3,235,459 | 7.5% |
| | Republic Airlines - UA | 1,529,222 | 2.6% | 886,482 | 2.0% |
| | SkyWest Airlines - UA | 715,846 | 1.2% | 874,679 | 2.0% |
| | United Airlines Inc. Subtotal | 27,273,525 | 45.8% | 19,620,528 | 45.0% |
| | US Airways | - | 0.0% | - | 0.0% |
| | Mesa Airlines - US | 180,195 | 0.3% | - | 0.0% |
| | PSA Airlines - US | 11,199 | 0.0% | - | 0.0% |
| | Republic Airlines - US | - | 0.0% | 96,217 | 0.2% |
| | US Airways Subtotal | 191,394 | 0.3% | 96,217 | 0.2% |
| | Charter Airlines | 8,808 | 0.0% | 9,886 | 0.0% |
| TOTAL DOMESTIC | | 47,600,269 | 80.0% | 35,065,728 | 80.4% |

CITY OF HOUSTON, TEXAS
PASSENGER STATISTICS BY CARRIER TOTAL
FOR YEARS ENDED JUNE 30, 2020 AND 2019

AIRPORT SYSTEM FUND

| INTERNATIONAL AIRLINES | IAH | | | | HOU | | | |
|--|---------------------|-----------------|---------------------|-----------------|---------------------|-----------------|---------------------|-----------------|
| | 2019 | | 2020 | | 2019 | | 2020 | |
| | Total Passengers | Market Share | Total Passengers | Market Share | Total Passengers | Market Share | Total Passengers | Market Share |
| AeroMéxico | 142,906 | 0.3% | 116,243 | 0.4% | - | 0.0% | - | 0.0% |
| All Nippon Airways Company, Ltd. - ANA | 153,685 | 0.3% | 110,634 | 0.3% | - | 0.0% | - | 0.0% |
| Air China | 156,832 | 0.4% | 94,549 | 0.3% | - | 0.0% | - | 0.0% |
| Air France | 156,864 | 0.4% | 105,440 | 0.3% | - | 0.0% | - | 0.0% |
| Air New Zealand | 144,018 | 0.3% | 82,478 | 0.2% | - | 0.0% | - | 0.0% |
| BahamasAir | 9,805 | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% |
| British Airways | 239,024 | 0.5% | 160,264 | 0.5% | - | 0.0% | - | 0.0% |
| Emirates | 261,321 | 0.6% | 177,930 | 0.5% | - | 0.0% | - | 0.0% |
| Ethiopian Airlines | - | 0.0% | 7,500 | 0.0% | - | 0.0% | - | 0.0% |
| EVA Airways Corporation | 202,101 | 0.5% | 142,604 | 0.4% | - | 0.0% | - | 0.0% |
| Interjet | 193,987 | 0.4% | 173,062 | 0.5% | - | 0.0% | - | 0.0% |
| JetBlue Airways | - | 0.0% | - | 0.0% | 598 | 0.0% | - | 0.0% |
| Jazz Air - Air Canada | 329,540 | 0.8% | 231,407 | 0.7% | - | 0.0% | - | 0.0% |
| KLM | 174,729 | 0.4% | 117,347 | 0.4% | - | 0.0% | - | 0.0% |
| Lufthansa | 290,560 | 0.7% | 186,610 | 0.6% | - | 0.0% | - | 0.0% |
| Qatar Airways | 156,608 | 0.3% | 133,981 | 0.4% | - | 0.0% | - | 0.0% |
| Singapore Airlines | 92,005 | 0.2% | 61,853 | 0.2% | - | 0.0% | - | 0.0% |
| Spirit Airlines | 182,717 | 0.4% | 170,449 | 0.5% | - | 0.0% | - | 0.0% |
| Southwest Airlines Company | - | 0.0% | - | 0.0% | 964,942 | 6.6% | 590,946 | 5.6% |
| TACA | 63,021 | 0.1% | 58,030 | 0.2% | - | 0.0% | - | 0.0% |
| Turkish Airlines | 197,000 | 0.5% | 148,092 | 0.4% | - | 0.0% | - | 0.0% |
| United Airlines Inc. | 6,355,437 | 14.2% | 4,579,371 | 13.9% | - | 0.0% | - | 0.0% |
| ExpressJet Airlines, Inc. - UA | 261,267 | 0.5% | 169,233 | 0.5% | - | 0.0% | - | 0.0% |
| Mesa Airlines - UA | 903,072 | 2.0% | 706,658 | 2.1% | - | 0.0% | - | 0.0% |
| United Airlines Inc. Subtotal | 7,519,776 | 16.7% | 5,460,796 | 16.5% | - | 0.0% | - | 0.0% |
| WestJet Airlines | 124,447 | 0.3% | 85,590 | 0.3% | - | 0.0% | - | 0.0% |
| Viva Aerobus | 81,766 | 0.2% | 88,184 | 0.3% | - | 0.0% | - | 0.0% |
| Volaris Airline | 57,754 | 0.1% | 56,079 | 0.2% | - | 0.0% | - | 0.0% |
| Charter Airlines | 8,819 | 0.0% | - | 0.0% | - | 0.0% | - | 0.0% |
| TOTAL INTERNATIONAL | 10,939,285 | 24.4% | 7,969,122 | 24.1% | 965,540 | 6.6% | 590,946 | 5.6% |
| TOTAL AIRLINES | 44,911,561 | 100.0% | 33,037,443 | 100.0% | 14,593,533 | 100.0% | 10,588,353 | 100.0% |

| INTERNATIONAL AIRLINES | Houston Airport System | | | |
|--|------------------------|-----------------|---------------------|-----------------|
| | 2019 | | 2020 | |
| | Total Passengers | Market Share | Total Passengers | Market Share |
| AeroMéxico | 142,906 | 0.2% | 116,243 | 0.3% |
| All Nippon Airways Company, Ltd. - ANA | 153,685 | 0.3% | 110,634 | 0.3% |
| Air China | 156,832 | 0.3% | 94,549 | 0.2% |
| Air France | 156,864 | 0.3% | 105,440 | 0.2% |
| Air New Zealand | 144,018 | 0.2% | 82,478 | 0.2% |
| BahamasAir | 9,805 | 0.0% | - | 0.0% |
| British Airways | 239,024 | 0.4% | 160,264 | 0.4% |
| Emirates | 261,321 | 0.4% | 177,930 | 0.4% |
| Ethiopian Airlines | - | 0.0% | 7,500 | 0.0% |
| EVA Airways Corporation | 202,101 | 0.3% | 142,604 | 0.3% |
| Interjet | 193,987 | 0.3% | 173,062 | 0.4% |
| JetBlue Airways | 598 | 0.0% | - | 0.0% |
| Jazz Air - Air Canada | 329,540 | 0.6% | 231,407 | 0.5% |
| KLM | 174,729 | 0.3% | 117,347 | 0.3% |
| Lufthansa | 290,560 | 0.5% | 186,610 | 0.4% |
| Qatar Airways | 156,608 | 0.3% | 133,981 | 0.3% |
| Singapore Airlines | 92,005 | 0.2% | 61,853 | 0.1% |
| Spirit Airlines | 182,717 | 0.3% | 170,449 | 0.4% |
| Southwest Airlines Company | 964,942 | 1.6% | 590,946 | 1.4% |
| TACA | 63,021 | 0.1% | 58,030 | 0.1% |
| Turkish Airlines | 197,000 | 0.4% | 148,092 | 0.3% |
| United Airlines Inc. | 6,355,437 | 10.7% | 4,579,371 | 10.5% |
| ExpressJet Airlines, Inc. - UA | 261,267 | 0.4% | 169,233 | 0.4% |
| Mesa Airlines - UA | 903,072 | 1.5% | 706,658 | 1.6% |
| United Airlines Inc. Subtotal | 7,519,776 | 12.6% | 5,460,796 | 12.5% |
| WestJet Airlines | 124,447 | 0.3% | 85,590 | 0.2% |
| Viva Aerobus | 81,766 | 0.1% | 88,184 | 0.3% |
| Volaris Airline | 57,754 | 0.1% | 56,079 | 0.1% |
| Charter Airlines | 8,819 | 0.0% | - | 0.0% |
| TOTAL INTERNATIONAL | 11,904,825 | 20.0% | 8,560,068 | 19.6% |
| TOTAL AIRLINES | 59,505,094 | 100.0% | 43,625,796 | 100.0% |

IAH

| Fiscal Year | Originating Enplanements | Connecting Enplanements | Total Enplaned Passengers | Originating Enplanement Percentage |
|-------------|--------------------------|-------------------------|---------------------------|------------------------------------|
| 2011 | 9,683,773 | 10,506,727 | 20,190,500 | 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 | 11,130,370 | 10,301,326 | 21,431,696 | 51.9% |
| 2017 | 11,127,432 | 9,602,708 | 20,730,140 | 53.7% |
| 2018 | 11,332,305 | 9,443,423 | 20,775,728 | 54.5% |
| 2019 | 12,410,801 | 10,067,653 | 22,478,454 | 55.2% |
| 2020 | 9,274,636 | 7,252,407 | 16,527,043 | 56.1% |

HOU

| Fiscal Year | Originating Enplanements | Connecting Enplanements | Total Enplaned Passengers | Originating Enplanement Percentage |
|-------------|--------------------------|-------------------------|---------------------------|------------------------------------|
| 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% |
| 2018 | 4,829,823 | 2,107,238 | 6,937,061 | 69.6% |
| 2019 | 4,996,510 | 2,332,635 | 7,329,145 | 68.2% |
| 2020 | 3,656,655 | 1,644,722 | 5,301,377 | 69.0% |

Houston Airport System

| Fiscal Year | Originating Enplanements | Connecting Enplanements | Total Enplaned Passengers | Originating Enplanement Percentage |
|-------------|--------------------------|-------------------------|---------------------------|------------------------------------|
| 2011 | 13,301,314 | 11,628,369 | 24,929,683 | 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 | 15,826,003 | 11,989,028 | 27,815,031 | 56.9% |
| 2017 | 15,980,243 | 11,410,154 | 27,390,397 | 58.3% |
| 2018 | 16,162,128 | 11,550,661 | 27,712,789 | 58.3% |
| 2019 | 17,407,311 | 12,400,288 | 29,807,599 | 58.4% |
| 2020 | 12,931,291 | 8,897,129 | 21,828,420 | 59.2% |

| Fiscal Year | AIRCRAFT OPERATIONS (in thousands) | | | AIRCRAFT LANDED WEIGHT (in million pounds) | | |
|-------------|---------------------------------------|------------------------|----------------------|---|------------------------|----------------------|
| | Total | Increase (Decrease) | Percentage Change | Total | Increase (Decrease) | Percentage Change |
| 2011 | 861 | 3 | 0.35% | 32,536 | 874 | 2.76% |
| 2012 | 838 | (23) | -2.67% | 32,841 | 305 | 0.94% |
| 2013 | 799 | (39) | -4.65% | 33,044 | 203 | 0.62% |
| 2014 | 811 | 12 | 1.50% | 33,881 | 837 | 2.53% |
| 2015 | 816 | 5 | 0.62% | 34,969 | 1,088 | 3.21% |
| 2016 | 787 | (29) | -3.55% | 35,519 | 550 | 1.57% |
| 2017 | 760 | (27) | -3.43% | 34,648 | (871) | -2.45% |
| 2018 | 735 | (25) | -3.29% | 34,814 | 166 | 0.48% |
| 2019 | 752 | 17 | 2.31% | 37,210 | 2,396 | 6.88% |
| 2020 | 624 | (128) | -17.02% | 30,348 | (6,862) | -18.44% |

| Fiscal Year | CARGO ACTIVITY (in metric tons) | | | | Total Cargo | Year-over-Year Change |
|-------------|------------------------------------|-----------------------|--------|--|-------------|-----------------------|
| | Domestic Freight | International Freight | Mail | | | |
| 2011 | 205,174 | 208,748 | 33,897 | | 447,819 | 8.1% |
| 2012 | 203,042 | 216,893 | 33,253 | | 453,188 | 1.2% |
| 2013 | 203,082 | 216,693 | 27,142 | | 446,917 | -1.4% |
| 2014 | 193,776 | 225,400 | 27,333 | | 446,509 | -0.1% |
| 2015 | 192,331 | 252,876 | 30,026 | | 475,233 | 6.4% |
| 2016 | 195,644 | 205,361 | 25,713 | | 426,718 | -10.2% |
| 2017 | 209,343 | 224,226 | 24,983 | | 458,552 | 7.5% |
| 2018 | 231,670 | 234,384 | 23,790 | | 489,844 | 6.8% |
| 2019 | 270,965 | 240,260 | 23,413 | | 534,638 | 9.1% |
| 2020 | 303,101 | 181,244 | 19,857 | | 504,202 | -5.7% |

| PERFORMANCE MEASURES | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|--|-----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Revenue per Enplaned Passenger | \$ 20.05 | \$ 20.05 | \$ 20.35 | \$ 21.06 | \$ 22.10 | \$ 22.40 | \$ 22.59 | \$ 23.25 | \$ 22.56 | \$ 28.32 |
| Maintenance and Operations Expenses per Enplaned Passenger | \$ 11.40 | \$ 10.44 | \$ 10.83 | \$ 10.99 | \$ 10.65 | \$ 11.34 | \$ 9.29 | \$ 12.09 | \$ 11.32 | \$ 16.97 |
| Debt Service per Enplaned Passenger | \$ 6.81 | \$ 6.43 | \$ 6.58 | \$ 6.47 | \$ 6.54 | \$ 6.69 | \$ 7.06 | \$ 6.77 | \$ 6.33 | \$ 8.83 |
| Outstanding Debt per Enplaned Passenger (1) | \$ 104.06 | \$ 97.25 | \$ 95.49 | \$ 90.11 | \$ 86.31 | \$ 86.41 | \$ 84.43 | \$ 80.26 | \$ 69.32 | \$ 94.60 |
| Intercontinental Budgeted Airline Cost per Est. Enplaned Passenger (2) | \$ 10.42 | \$ 10.79 | \$ 10.72 | \$ 11.21 | \$ 11.28 | \$ 10.94 | \$ 11.31 | \$ 11.38 | \$ 11.57 | \$ 10.48 |
| Intercontinental Actual Airline Cost per Enplaned Passenger (2) | \$ 10.52 | \$ 10.39 | \$ 10.52 | \$ 10.61 | \$ 10.56 | \$ 10.62 | \$ 11.08 | \$ 11.39 | \$ 10.48 | \$ 14.19 |
| Hobby Budgeted Airline Cost per Est. Enplaned Passenger (2) | \$ 7.99 | \$ 7.24 | \$ 7.34 | \$ 7.37 | \$ 6.99 | \$ 6.76 | \$ 6.48 | \$ 6.22 | \$ 6.52 | \$ 6.44 |
| Hobby Actual Airline Cost per Enplaned Passenger (2) | \$ 7.68 | \$ 6.63 | \$ 6.64 | \$ 6.19 | \$ 6.43 | \$ 7.15 | \$ 6.15 | \$ 6.40 | \$ 6.64 | \$ 9.21 |

(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 estimate of 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.

CITY OF HOUSTON, TEXAS
CASH AVAILABLE BY DAYS FUNDED (in thousands)

AIRPORT SYSTEM FUND

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Airport System Revenue Fund (1) (2) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Operating & Maintenance Reserve | 42,643 | 43,630 | 46,397 | 49,633 | 50,754 | 51,615 | 51,807 | 52,686 | 55,845 | 55,845 |
| Renewal & Replacement Fund (3) | 19,777 | 20,876 | 11,822 | 11,822 | 10,011 | 10,001 | 10,514 | 11,483 | 18,770 | (15,378) |
| Airports Improvement Fund (3) | 438,368 | 455,030 | 460,634 | 487,974 | 396,631 | 449,768 | 417,930 | 444,464 | 410,795 | 384,169 |
| Total cash available for operations | \$ 500,788 | \$ 519,536 | \$ 518,853 | \$ 549,429 | \$ 457,396 | \$ 511,384 | \$ 480,251 | \$ 508,633 | \$ 485,410 | \$ 424,636 |
| Maintenance and operating expense (4) (5) | \$ 262,668 | \$ 255,507 | \$ 252,745 | \$ 268,745 | \$ 283,557 | \$ 314,715 | \$ 254,506 | \$ 326,889 | \$ * 315,153 | \$ 314,034 |
| Days in fiscal year | 365 | 366 | 365 | 365 | 365 | 366 | 365 | 365 | 365 | 366 |
| Daily cash requirement | \$ 720 | \$ 698 | \$ 692 | \$ 736 | \$ 777 | \$ 860 | \$ 697 | \$ 896 | \$ ** 863 | \$ 858 |
| Days funded | 696 | 744 | 749 | 746 | 589 | 595 | 689 | 568 | ** 562 | 495 |
| TOTAL AIRPORT SYSTEM CASH AND INVESTMENTS | \$ 1,057,458 | \$ 1,034,122 | \$ 1,087,394 | \$ 1,139,956 | \$ 1,222,307 | \$ 1,248,346 | \$ 1,259,622 | \$ 1,362,459 | \$ 1,456,679 | \$ 1,454,903 |

- (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 cash required for accrued liabilities and capital appropriations.
- (4) Excludes capital asset impairments and retirements, and expense incurred on cancelled capital projects. Includes interest expense for the Series 2005 pension obligation bonds and the debt service on the note payable to Southwest Airlines.
- (5) Maintenance and operating expense funded by cash available for operations decreased by \$60.2 million between Fiscal Year 2017 and Fiscal Year 2016, 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 June 30, 2017 would be 557.

* Fiscal Year 2019 maintenance and operating expenses is updated due to allowable exclusions in the definition of maintenance and operating expense in the Master Bond Ordinance.

** Fiscal Year 2019 daily cash requirement and days funded are updated accordingly.

| | IAH | | HOU | | EFD (I) | |
|-------------------------------------|--------------------------------|---------------|--------------------------------|--------------|---------------------------------|--------------|
| 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 | 13L-31R | 5,148x100 ft | 17L-35R | 4,609x80 ft |
| | 9-27 | 10,000x150 ft | 13R-31L | 7,602x150 ft | 17R-35L | 9,001x150 ft |
| | 15L-33R | 12,001x150 ft | 4-22 | 7,602x150 ft | 4-22 | 8,001x150 ft |
| | 15R-33L | 10,000x150 ft | | | | |
| | 8L-26R | 9,000x150 ft | | | | |
| TERMINAL SPACE | Airlines | 2,970,924 sf | Airlines | 531,197 sf | n/a | |
| | Tenants | 201,134 sf | Tenants | 63,672 sf | | |
| | Public/Common | 795,426 sf | Public/Common | 152,648 sf | | |
| | Mechanical | 278,048 sf | Mechanical | 115,815 sf | | |
| | Other | 213,879 sf | Other | 47,615 sf | | |
| | Total | 4,459,411 sf | Total | 910,947 sf | | |
| NUMBER OF GATES/HARDSTAND POSITIONS | 128/7 | | 30/n/a | | n/a | |
| COMMERCIAL AIRLINES APRON | 3,871,192 sf | | 681,239 sf | | n/a | |
| RENTAL CAR FACILITY | 10 Rental Car Agencies | | 10 Rental Car Agencies | | 1 Rental Car Agency | |
| PARKING SPACES | S-T Hourly | 14,818 | S-T Hourly | 5,611 | | |
| | L-T ECO | 8,612 | L-T ECO | 958 | | |
| | Employee | 2,031 | Employee | 906 | Employee | 27 |
| | Total | 25,461 | Total | 7,475 | Total | 27 |

(I) No scheduled commercial flights

FULL TIME EQUIVALENT (FTE)
Number of Employees (1)

| DEPARTMENT | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|----------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Administration | 361.0 | 329.6 | 292.3 | 303.5 | 314.3 | 343.0 | 321.1 | 304.4 | 287.4 | 288.0 |
| IAH Operations (2) | 833.9 | 789.9 | 755.8 | 775.6 | 704.4 | 630.5 | 620.4 | 615.8 | 609.0 | 611.3 |
| HOU Operations (2) | 300.8 | 266.6 | 264.1 | 260.1 | 245.6 | 246.3 | 244.2 | 243.9 | 233.1 | 223.6 |
| EFD Operations (2) | 30.8 | 28.9 | 27.3 | 29.5 | 27.7 | 25.4 | 25.8 | 25.9 | 26.8 | 22.3 |
| TOTAL FTE EMPLOYEES | 1,526.5 | 1,415.0 | 1,339.5 | 1,368.7 | 1,292.0 | 1,245.2 | 1,211.5 | 1,190.0 | 1,156.3 | 1,145.2 |

(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

(2) Includes Airside, Landside, Communication Center and Ground Transportation

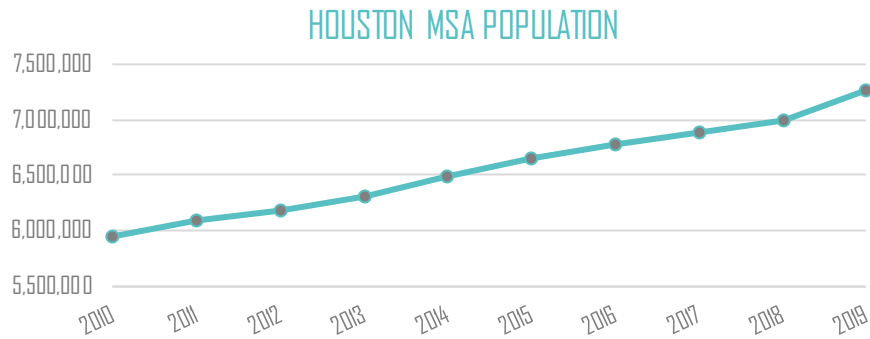
SERVICE AREA/SERVICE AREA POPULATION/PRINCIPAL EMPLOYERS

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 7.07 million for the MSA and 7.26 million for the CSA as of July 1, 2019.

Houston, the nation's fourth most populous city, is the largest in the South. The Houston MSA ranks fifth in population among the nation's metropolitan areas.

SERVICE AREA POPULATION

| Year | Houston MSA Population |
|------|------------------------|
| 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 |
| 2017 | 6,892,427 |
| 2018 | 6,997,384 |
| 2019 | 7,264,844 |



Source: Greater Houston Partnership and U.S. Census Bureau, Population Division

PRINCIPAL EMPLOYERS
Current Year and Nine Years Ago

EMPLOYER

| EMPLOYER | June 30, 2020 | | | June 30, 2011 | | |
|---|----------------|------|-------------------------------------|----------------|------|-------------------------------------|
| | Employees | Rank | Percentage of Total City Employment | Employees | Rank | Percentage of Total City Employment |
| Houston Methodist | 25,543 | 1 | 2.23% | | | |
| HEB | 25,337 | 2 | 2.21% | | | |
| Walmart | 22,854 | 3 | 1.99% | | | |
| Memorial Hermann Health System | 21,925 | 4 | 1.91% | 19,500 | 1 | 1.96% |
| The University of Texas MD Anderson Cancer Center | 21,576 | 5 | 1.88% | 15,000 | 3 | 1.51% |
| HCA Houston Healthcare | 15,000 | 6 | 1.31% | | | |
| United Airlines | 13,500 | 7 | 1.18% | | | |
| Kroger | 13,490 | 8 | 1.18% | | | |
| ExxonMobil | 13,000 | 9 | 1.13% | 13,000 | 4 | 1.31% |
| Shell Oil Company | 11,500 | 10 | 1.00% | 13,000 | 5 | 1.31% |
| Schlumberger Limited | | | | 10,000 | 8 | 1.00% |
| United Continental Holdings | | | | 16,000 | 2 | 1.61% |
| United Space Alliance | | | | 10,185 | 7 | 1.02% |
| The Methodist Hospital System | | | | 12,000 | 6 | 1.21% |
| National Oilwell Varco | | | | 10,000 | 9 | 1.00% |
| Baylor College of Medicine | | | | 9,232 | 10 | 0.93% |
| TOTAL | 183,725 | | 16.03% | 127,917 | | 12.86% |

Source: GHP Houston Facts - 2020

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 place of employment:

| | | |
|--|------|-----------|
| June 2020 Local Area Unemployment Statistics, Bureau of Labor Statistics | 2020 | 1,146,428 |
| U.S. Census Bureau, American communit Survey | 2011 | 995,620 |



| Fiscal Year | Population (1) | Personal Income (in thousands) (2) | Per Capita Personal Income (2) | Median Age (2) | Education Level in Years of Formal Schooling (2) | School Enrollment (2) | Average Unemployment Rate (percentage) |
|-------------|-------------------|--|--------------------------------------|-------------------|---|--------------------------|---|
| 2011 | 2,099,451 (7) | Not available | \$ 26,109 | 32.2 | 12.7 | 560,316 (3) | 8.2 (4) |
| 2012 | 2,145,146 | Not available | \$ 26,179 (5) | 33.2 (5) | 13.0 (5) | 576,020 (5) | 7.5 (7) |
| 2013 | 2,160,821 | Not available | \$ 26,849 (5) | 32.1 (5) | 13.0 (3), (5) | 548,061 (3) | 6.5 (4) |
| 2014 | 2,195,914 | Not available | \$ 27,029 (5) | 32.3 (5) | 13.0 (5) | 557,780 (5) | 9.0 (8) |
| 2015 | 2,239,558 | Not available | \$ 27,305 (7) | 32.4 (5) | 13.0 (3), (5) | 564,871 (5) | 4.4 (8) |
| 2016 | 2,296,224 (5) | Not available | \$ 27,938 (5) | 32.6 (5) | 13.0 (3), (5) | 580,250 (5) | 5.8 (6) |
| 2017 | 2,303,482 (5) | Not available | \$ 28,503 (5) | 32.6 (5) | 13.1 (3), (5) | 594,377 (5) | 5.7 (6) |
| 2018 | 2,312,717 (5) | Not available | \$ 29,224 (5) | 32.7 (5) | 13.2 (3) | 597,728 (5) | 5.1 (6) |
| 2019 | 2,325,205 (5) | Not available | \$ 30,547 (5) | 32.9 (5) | 13.2 (3) | 594,916 (5) | 4.4 (6) |
| 2020 | 2,320,268 (9) | Not available | \$ 31,576 (9) | 32.9 (9) | 13.4 (9) | 1,889,245 (9) | 10.0 (6) |

(1) Source: Population Estimate program, U. S. Census Bureau, as of the beginning of the fiscal year. (Fiscal Year 2020 is as of July 1, 2019.)

(2) Source: American Community Survey, U. S. Census Bureau. (Fiscal Year 2020 data is for calendar year 2019.)

(3) School enrollment includes nursery school through graduate school.

(4) Source: Local Area Unemployment Statistics, Bureau of Labor Statistics Texas Workforce Commission

(5) Source: U. S. Census Bureau FactFinder

(6) Source: Bureau of Labor Statistics

(7) Source: American FactFinder

(8) Source: Texas Labor Market TRACER

(9) Source: Census data school based on MSA (Metro Area Houston-The Woodlands-Sugar Land)

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COMPLIANCE SECTION

COMPREHENSIVE ANNUAL FINANCIAL REPORT





**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, 2020.

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.

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

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, 2020.

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 weaknesses 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.

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

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, 2020, and have issued our report thereon dated December 11, 2020, 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.

December 11, 2020

CITY OF HOUSTON, TEXAS
 PASSENGER FACILITY CHARGE REVENUES AND DISBURSEMENTS SCHEDULE
 GEORGE BUSH INTERCONTINENTAL AIRPORT (IAH)
 FOR THE YEAR ENDED JUNE 30, 2020

| | Fiscal Year 2019 Program Total | Quarter 1 Jul-Sept | Quarter 2 Oct-Dec | Quarter 3 Jan-Mar | Quarter 4 Apr-Jun | Fiscal Year 2020 Total | Fiscal Year 2020 Program Total |
|--|-----------------------------------|-----------------------|----------------------|----------------------|----------------------|---------------------------|-----------------------------------|
| REVENUES | | | | | | | |
| Collections (Note 3) | \$ 650,997,235 | 20,860,566 | 22,386,922 | 19,930,489 | 10,680,494 | 73,858,471 | \$ 724,855,706 |
| Other revenue-insurance (Note 3) | 2,059,629 | - | - | - | - | - | 2,059,629 |
| Interest | 13,378,418 | 1,225,059 | 1,317,378 | 1,325,575 | 1,286,630 | 5,154,642 | 18,533,060 |
| Total Revenues | 666,435,282 | 22,085,625 | 23,704,300 | 21,256,064 | 11,967,124 | 79,013,113 | 745,448,395 |
| DISBURSEMENTS | | | | | | | |
| 1.01 Automated People Mover System | \$ 195,996,659 | - | 3,189,078 | - | 13,227,206 | 16,416,284 | \$ 212,412,943 |
| 1.02 Terminal B Expansion & Improvemts | 95,555,400 | - | 707,833 | - | 1,930,302 | 2,638,135 | 98,193,535 |
| 1.03 Central FIS Facility | 92,017,806 | - | 2,020,601 | - | 7,732,280 | 9,752,881 | 101,770,687 |
| 1.04 North Parallel Runway 8L/26R | 31,682,510 | - | 864,153 | - | 1,822,588 | 2,686,741 | 34,369,251 |
| 1.05 Administrative Costs | 112,917 | - | - | - | - | - | 112,917 |
| 1.06 Central Plant HVAC Upgrades | 15,863,207 | - | 355,650 | - | 719,631 | 1,075,281 | 16,938,488 |
| 1.07 Terminal A/B South Taxiways | 15,580,752 | - | 385,520 | - | 986,628 | 1,372,148 | 16,952,900 |
| Total Disbursements | 446,809,251 | - | 7,522,835 | - | 26,418,635 | 33,941,470 | 480,750,721 |
| Net PFC Revenues | \$ 219,626,031 | 22,085,625 | 16,181,465 | 21,256,064 | (14,451,511) | 45,071,643 | \$ 264,697,674 |
| PFC Account Balance | \$ 219,626,031 | 241,711,656 | 257,893,121 | 279,149,185 | 264,697,674 | 264,697,674 | \$ 264,697,674 |

Please see Notes to the Passenger Facility Charge Revenues and Disbursements Schedules

CITY OF HOUSTON, TEXAS
PASSENGER FACILITY CHARGE REVENUES AND DISBURSEMENTS SCHEDULE

AIRPORT SYSTEM FUND

WILLIAM P. HOBBY AIRPORT (HOU)
FOR THE YEAR ENDED JUNE 30, 2020

| | Fiscal Year 2019 Program Total | Quarter 1 Jul-Sept | Quarter 2 Oct-Dec | Quarter 3 Jan-Mar | Quarter 4 Apr-Jun | Fiscal Year 2020 Total | Fiscal Year 2020 Program Total |
|--|-----------------------------------|-----------------------|----------------------|----------------------|----------------------|---------------------------|-----------------------------------|
| REVENUES | | | | | | | |
| Collections (Note 3) | \$ 208,491,877 | 6,282,665 | 6,208,047 | 6,204,672 | 218,685 | 18,914,069 | \$ 227,405,946 |
| Other revenue-insurance (Note 3) | 755,196 | - | - | - | - | - | 755,196 |
| Interest | 4,138,345 | 202,799 | 232,161 | 224,449 | 219,966 | 879,375 | 5,017,720 |
| Total Revenues | 213,385,418 | 6,485,464 | 6,440,208 | 6,429,121 | 438,651 | 19,793,444 | 233,178,862 |
| DISBURSEMENTS | | | | | | | |
| 1.01 Rehab Runways | 3,535,302 | - | 19,489 | - | 167,854 | 187,343 | 3,722,645 |
| 1.02 Rehab & Modification to Taxiways | 14,894,352 | - | 51,147 | - | 363,819 | 414,966 | 15,309,318 |
| 1.03 Expand Taxiway Electrical System | 3,220,026 | - | - | - | - | - | 3,220,026 |
| 1.04 Arpt Drainage & Stormwater Improvs | 4,375,799 | - | 59,125 | - | 234,748 | 293,873 | 4,669,672 |
| 1.05 Acquire Runway 17 Protection Zone | 604,226 | - | 6,411 | - | 28,095 | 34,506 | 638,732 |
| 1.06 Airfield Lighting & Control | 7,314,850 | - | 24,946 | - | 50,237 | 75,183 | 7,390,033 |
| 1.07 Central Terminal Expansion | 29,899,654 | - | 213,378 | - | 1,144,425 | 1,357,803 | 31,257,457 |
| 1.08 Conduct Master Plan | 393,948 | - | - | - | - | - | 393,948 |
| 1.09 Central Concourse Equipment | 13,364,188 | - | 85,565 | - | 185,878 | 271,443 | 13,635,631 |
| 1.10 Apron Reconstruction | 3,403,154 | - | 105,776 | - | 198,990 | 304,766 | 3,707,920 |
| 1.11 Taxiway & Taxilane Reconstruction | 7,124,120 | - | 221,430 | - | 416,562 | 637,992 | 7,762,112 |
| 1.12 Overlay Runway 12R/30L | 5,256,894 | - | 27,066 | - | 45,690 | 72,756 | 5,329,650 |
| 1.13 Perimeter Fencing & Obstruction | 1,517,249 | - | 1,036 | - | 1,749 | 2,785 | 1,520,034 |
| 1.14 Access Controls & Telecom | 716,014 | - | 30,498 | - | 51,485 | 81,983 | 797,997 |
| 1.15 Environmental Impact Statement | 264,171 | - | 5,177 | - | 10,634 | 15,811 | 279,982 |
| 1.16 Land Acquisition RW4 RPZ | 603,221 | - | 1,325 | - | 9,425 | 10,750 | 613,971 |
| 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 | 97,959,789 | - | 852,369 | - | 2,909,591 | 3,761,960 | 101,721,749 |
| 2.01 International Terminal Expansion | 7,668,597 | - | 2,122,128 | - | 4,327,652 | 6,449,780 | 14,118,377 |
| 2.02 International Terminal - Apron | 1,237,510 | - | 342,456 | - | 698,369 | 1,040,825 | 2,278,335 |
| 2.03 International Terminal - Roadways | 4,167,046 | - | 272,823 | - | 445,455 | 718,278 | 4,885,324 |
| 2.04 Elevated passenger walkway | 734,964 | - | 88,881 | - | 145,783 | 234,664 | 969,628 |
| 2.05 Satellite utilities plant - Phase I | 2,548,355 | - | 301,484 | - | 614,939 | 916,423 | 3,464,778 |
| 2.06 Passenger walkway canopy | - | - | - | - | - | - | - |
| 2.07 Central concourse expansion | 56,011,603 | - | 2,449,320 | - | 7,042,813 | 9,492,133 | 65,503,736 |
| 2.08 Explosive detection baggage equip. | 5,295,282 | - | - | - | - | - | 5,295,282 |
| 2.09 Partial reconstruction R/W 4-22 | 1,718,298 | - | (525,978) | - | (597,696) | (1,123,674) | 594,624 |
| 2.10 Partial reconstruction Taxiway C | 394,108 | - | (119,134) | - | (124,224) | (243,358) | 150,750 |
| 2.11 Partial reconstruct NE perimeter rd | 240,844 | - | (72,804) | - | (75,914) | (148,718) | 92,126 |
| 2.12 Air units - central concourse | - | - | - | - | - | - | - |
| Subtotal HOU 2.00 Projects | 80,016,607 | - | 4,859,176 | - | 12,477,177 | 17,336,353 | 97,352,960 |
| Total Disbursements | 177,976,396 | - | 5,711,545 | - | 15,386,768 | 21,098,313 | 199,074,709 |
| Net PFC Revenues | \$ 35,409,022 | 6,485,464 | 728,663 | 6,429,121 | (14,948,117) | (1,304,869) | \$ 34,104,153 |
| PFC Account Balance | \$ 35,409,022 | 41,894,486 | 42,623,149 | 49,052,270 | 34,104,153 | 34,104,153 | \$ 34,104,153 |

Please see Notes to the Passenger Facility Charge Revenues and Disbursements Schedules

NOTES TO PASSENGER FACILITY CHARGE REVENUES AND DISBURSEMENTS SCHEDULES FOR THE YEAR ENDED JUNE 30, 2020

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 2020 | William P. Hobby Airport | George Bush Intercontinental Airport | Airport System Total |
|---|-----------------------------|--|----------------------|
| Passenger Facility Charges | | | |
| Cash collections per Revenues and Disbursements Schedule | \$ 18,914,069 | \$ 73,858,471 | \$ 92,772,540 |
| Less prior year accrual | (2,376,284) | (14,060,520) | (16,436,804) |
| Add current year accrual | 760,129 | 1,321,688 | 2,081,817 |
| Amounts per Statement of Revenues, Expenses and Changes in Net Position | <u>\$ 17,297,914</u> | <u>\$ 61,119,639</u> | <u>\$ 78,417,553</u> |

| | | |
|-----|---|------------------------|
| 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. | <u>X</u> Yes ___ No |
| 4. | PFC Revenues and Interest are accurately reported. | <u>X</u> Yes ___ No |
| 5. | The Public Agency maintains a separate financial accounting record for each application. | <u>X</u> 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. | <u>X</u> Yes ___ No |
| 7. | Monthly carrier receipts were reconciled with quarterly carrier reports. | <u>X</u> Yes ___ No |
| 8. | PFC revenues were maintained in a separate interest-bearing capital account or commingled only with other interest-bearing airport capital funds. | <u>X</u> Yes ___ No |
| 9. | Serving carriers were notified of PFC program actions/changes approved by the FAA. | <u>X</u> Yes ___ No |
| 10. | Quarterly Reports were transmitted (or available via website) to remitting carriers. | <u>X</u> Yes ___ No |
| 11. | The Public Agency is in compliance with Assurances 5, 6, 7 and 8. | <u>X</u> Yes ___ No |
| 12. | Project design and implementation are carried out in accordance with Assurance 9. | <u>X</u> Yes ___ No |
| 13. | Program administration is carried out in accordance with Assurance 10. | <u>X</u> 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. | <u>X</u> Yes ___ No |

PASSENGER FACILITY CHARGE PROGRAM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2020

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 reported

