HOUSTON AIRPORTS

Annual Comprehensive Financial Report

The Airport System Fund

An Enterprise Fund of the City of Houston, Texas

(For the Fiscal Years Ended - June 30, 2023 and June 30, 2022)

AIRPORT SYSTEM FUND

An Enterprise Fund of the

City of Houston, Texas

ANNUAL COMPREHENSIVE FINANCIAL REPORT

For the Fiscal Years Ended June 30, 2023 and June 30, 2022

Prepared by:

Office of City Controller

Chris Brown
City Controller

Beverly Riggans
Deputy City Controller

Houston Airport System

Clint Stephen
Chief Financial Officer

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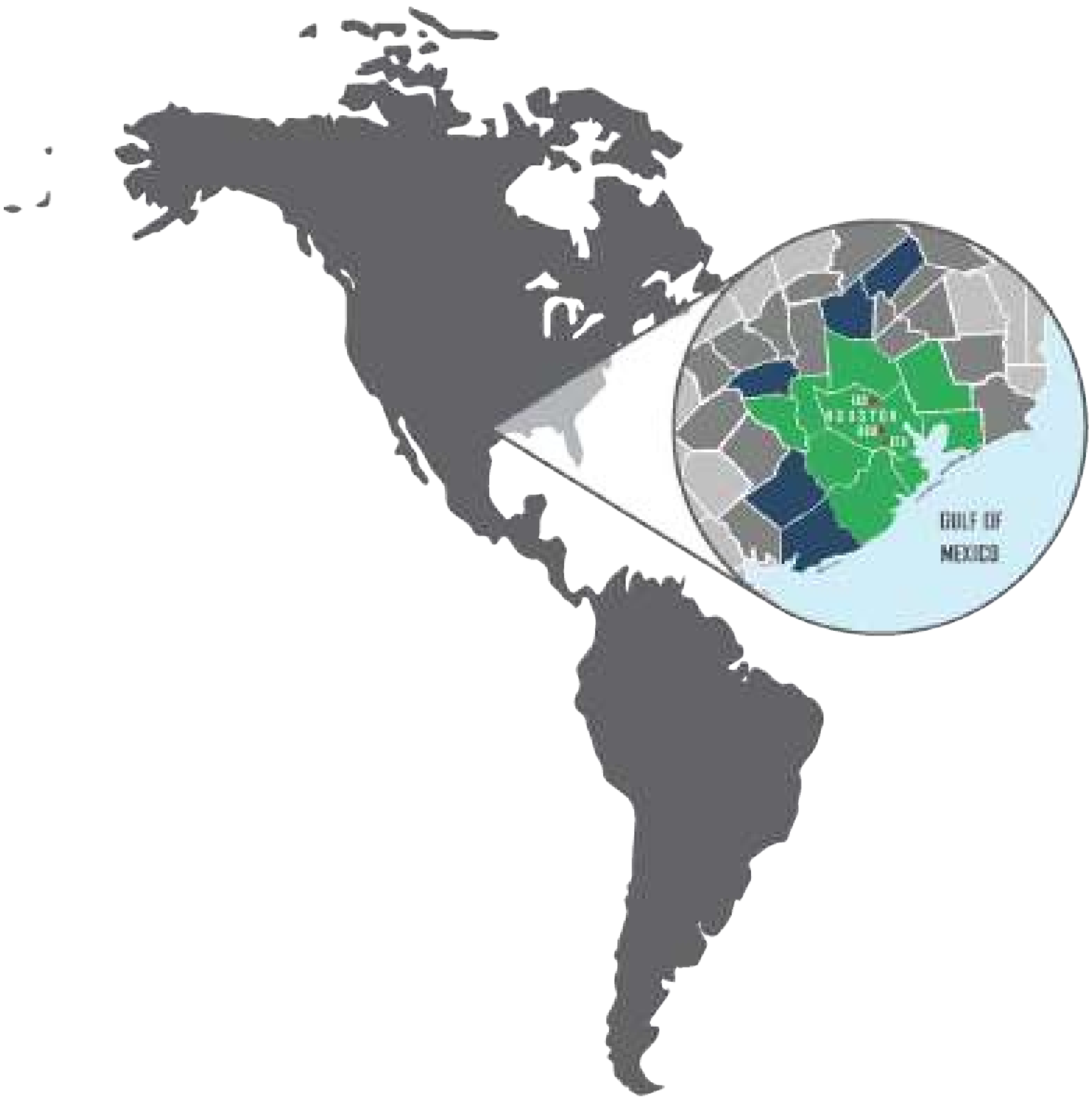

Metropolitan Statistical Area (MSA) of Houston-The Woodlands-Sugar Land, TX includes 9 counties.

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 Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2022

Christopher P. Morrill
Executive Director/CEO

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OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON, TEXAS

CHRIS B. BROWN

November 17,2023

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

I am pleased to present you with the Annual Comprehensive Financial Report ("ACFR") for the City of Houston, Texas (the "City"), Airport System Fund (the "Fund") for the fiscal year ended June 30, 2023 ("FY2023"), and June 30, 2022 ("FY2022"), including the independent auditors' report. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering unmodified opinions on the Fund's basic financial statements as of and for the years ended June 30, 2023, and 2022. The Controller's Office and the Houston Airport System ("HAS") 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 ACFR includes four sections: Introductory, Financial, Statistical, and Compliance. The Introductory Section includes this transmittal letter, a list of principal officials, and the HAS organizational chart. The Financial Section includes Management's Discussion and Analysis ("MD&A"), financial statements with accompanying notes, required supplementary information, as well as the independent auditors' report on the financial statements. The Statistical Section includes selected financial trends, revenue capacity, debt capacity, demographic, economic, and operating information, generally presented on a ten-year basis. The Compliance Section includes the independent auditors' report on HAS' compliance with the requirements of the Federal Aviation Administration ("FAA") Passenger Facility Charge ("PFC") Program.

The Financial Section described above is prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for governments as prescribed by the Governmental Accounting Standards Board. The MD&A 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

The Fund is an enterprise fund of the City and is included in the City's Annual Comprehensive Financial Report. 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. HAS, under the administrative control of the Mayor, manages and operates the Fund. The City Controller, as the chief financial officer of the City, maintains the book of accounts, 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.

HAS OVERVIEW

Houston Airport System ("HAS") encompasses three airports: George Bush Intercontinental Airport ("IAH"), William P. Hobby Airport ("HOU"), and Ellington Airport ("EFD"). George Bush Intercontinental Airport serves as a major hub for United Airlines ("United"), and William P. Hobby Airport is predominantly operated by Southwest Airlines ("Southwest"). IAH ranks as the 15th busiest airport in the United States, as measured by enplaned passengers in calendar year 2022, 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. In 2022, IAH was the fourth largest hub for United based on number of available seats and the third largest hub by the number of departures. Additionally, IAH is the primary air cargo airport for the region and ranked 16th in the nation, as measured by cargo landed weight.

HOU is the United States' 35th busiest airport, as measured by enplaned passengers in calendar year 2022, and is classified as a "medium hub airport" by the FAA. HOU is one of the major operating bases for Southwest, which offers domestic service and international service, including destinations in Mexico, Central America, and the Caribbean. Notably, HOU ranked seventh for the number of available seats and flight departures for Southwest last year.

EFD is primarily used for general aviation, military, and the National Aeronautics and Space Administration's ("NASA") space operations, and currently has no commercial passenger service. In June 2015, HAS obtained a commercial spaceport license from the FAA for EFD, allowing EFD to accommodate horizontal-launch commercial spaceflight operations.

ECONOMIC CONDITIONS AND MAJOR INITIATIVES

The city is the nation's fourth most populous and lies within the nine-county, Houston-The Woodlands-Sugar Land metropolitan statistical area (the "MSA"), the fifth largest metropolitan statistical area in the United States. The MSA continues to see year-over-year population growth. Based on the latest available data from 2022, the estimated population for the MSA increased to 7.34 million. In addition, the overall business environment and available workforce in the State of Texas continue to attract multi-national enterprises and supporting industries to the region. The MSA is home to 26 Fortune 500 companies in 2022, including Phillips 66, Sysco Corp., ConocoPhillips, Plains GP Holdings, Enterprise Product Partners, and Hewlett Packard Enterprise among others. As a result, the primary service region for HAS entertains a diverse economic base. Leading industries include energy, petrochemical, engineering and construction, real estate, aerospace, medicine and health care, transportation, biotechnology, and computer technology.

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

Fiscal Year 2023 in Review

During FY2023, HAS systemwide passengers increased by 11.1% over FY2022 totals. IAH passengers increased 11.8% in total, including a domestic passenger increase of 7.7% and an international passenger increase of 26.7% over FY2022. At HOU, total passenger traffic increased by 9.1%, consisting of a domestic increase of 8.6% and an international increase of 15.8%. HAS systemwide passenger volume returned to 97.1% of the FY2019 traffic level, with IAH reaching 98.3%, and HOU reaching 93.4%. Overall HAS domestic traffic was 96.9% of the FY2019 domestic passenger level and 98.0% of the FY2019 international passenger level. HAS currently connects directly to 195 destinations, of which 124 are domestic and 71 are international. Prior to COVID-19, HAS connected directly to 199 destinations – 127 domestic and 72 international.

Key factors that will affect future airline traffic and passenger volume at HAS include (1) the cost and availability of financing, labor, fuel, aircraft, and insurance, (2) regional, national, and international economic conditions, (3) international trade, (4) competitive considerations, including the effects of airline ticket pricing, (5) traffic and airport capacity constraints of the HAS airports and competing airports, and (6) passenger demand for air travel. The number of passengers at HAS airports depends partly on the profitability of the U.S. airline industry and the associated ability of the industry and individual airlines, particularly United and Southwest, to make the necessary investments to provide service.

As of FY2023, EFD - Houston Spaceport has four prominent tenants. Collins Aerospace is now operational at their new eight-acre, approximately 120,000 square-foot campus that, among other activities, is working on NASA's $3.5 billion project to manufacture the new generation of astronaut suits for Low Earth Orbit ("LEO") and Lunar activities. They also have completed the 10,000 square-foot facility that will become Houston's Aerospace Accelerator/ Incubator facility at the Houston Spaceport.

Intuitive Machines' expansion into their new 125,000 square-foot facility is now complete and fully operational. They have announced the launching of their Lunar Lander NOVA-C which is scheduled for January 12, 2024. This lander is part of the company's lunar program, which includes moon lander and deep space communications development.

The first commercial space station builder, Axiom Space has now completed a 105,000 square-foot facility which is phase one of their planned worldwide headquarters at the Houston Spaceport. This campus will contain employee offices, astronaut training, mission control facilities, engineering development, testing labs, and a high bay production facility to house space station modules.

Venus Aerospace a startup company working on hypersonic technology has grown its operations at EFD to over 100 employees and has garnered success through their first round of financing.

Capital Improvement Program

The HAS five-year Capital Improvement Plan ("CIP") for fiscal years 2024-2028 calls for $2.8 billion to expand, update, and maintain the airport system. 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 PFCs. The CIP excludes projects funded by airline tenants under the terms of special facilities leases. 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 continues with construction activities for the IAH Terminal Redevelopment Program (the "ITRP"). Once complete, the International Central Processor will house ticketing counters, baggage claims, and a 17-lane security checkpoint that will be one of the largest in the country. The ITRP program also includes the addition of a new concourse and renovates the remainder of Terminal D, with updated facilities where travelers can board their planes, relax in the many lounges, or explore multiple dining options and vendors. The brand-new D West Concourse space in the Mickey Leland International Terminal ("MLIT") will house an additional 10 new narrow-body gates. It will also have the capacity to accommodate up to six wide-body aircraft simultaneously. ITRP will accommodate international airline growth, resolve current and future roadway and curbside capacity constraints, and vastly improve the baggage handling system. The Domestic Redevelopment Program will address increased airline demand for gates and includes roadway and curb improvements.

At HOU, passenger traffic growth will be supported with a seven-gate expansion to the West Concourse. Other projects include baggage claim expansion, sewer system replacement, and other capital improvements planned for the airfield as required by the FAA, as well as normal pavement management and customer service enhancements for the HOU Central Concourse.

HAS will continue to review the 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 the use of resources and to expand facilities in a financially responsible manner. More specifically, the financial target set in the strategic plan for fiscal years 2020-2024 includes the following:

FINANCIAL METRIC	TARGET		FY23 ACTUAL
Total debt per enplaned passenger	$120 or Less	*	$91.65
Debt service coverage ratio (net of PFC offset)	1.5 or Greater	**	2.98
Days of cash on-hand for operations	450 or Greater		531 days

*Note - Total debt excludes special facility debt.

**Note - HAS used $50 million from federal Covid grant proceeds to pay debt service in fiscal year 2023.

FINANCIAL INFORMATION

The Fund's financial accounting system utilizes the accrual basis of accounting. Management of HAS and the City are responsible for establishing and maintaining internal controls designed to ensure that the assets of the Fund are protected from loss, theft, or misuse, and to ensure that adequate accounting data is compiled to allow for the preparation of the ACFR in conformity with GAAP. HAS controls current expenses at all division levels. HAS' 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 level (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.

However, the Fund as a whole is not budgeted. The City Council approves the Fund's annual budget for operational expenses and authorizes capital project expenditures through individual appropriation ordinances based on a five-year CIP that is proposed by the Mayor and HAS Director. 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

A joint venture of two independent accounting firms, McConnell & Jones, LLP and Banks, Finley, White & Co., performed the audits of the Fund's financial statements for the years ended June 30, 2023, and 2022. The financial section of this report includes the independent auditors' report on the basic financial statements. The compliance section of this report includes the independent auditors' report on HAS' compliance, and internal control over compliance, applicable to the PFC Program instituted by the FAA.

The City, as a whole, is also required to undergo an annual compliance audit in conformity with the provisions of Title 2 of the U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and the State of Texas Uniform Grants Management Standards. This audit is conducted in conjunction with the City's annual financial statements audit. Information related to this compliance audit, including the schedule of expenditures of federal and state awards and related notes, and the schedule of findings, and questioned costs, are included in the City's Single Audit Report.

Awards/Acknowledgments

The Government Finance Officers Association of the United States and Canada ("GFOA") awarded a Certificate of Achievement for Excellence in Financial Reporting ("COA") to the City of Houston, Texas, Airport System Fund for its Financial Report submitted for the fiscal year ended June 30, 2022. This was the 29th consecutive year that the Fund has achieved this prestigious award. In order to be awarded a COA, a governmental unit must publish an easily readable and efficiently organized ACFR. This report must satisfy both GAAP and applicable legal requirements. A COA is valid for a period of one year. We believe our current ACFR continues to conform to the COA program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

The preparation of this ACFR was made possible by the dedicated service of the Finance Department of HAS and the City Controller's Office.

Respectfully submitted,

DocuSigned by:
Chris Brown
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Chris B. Brown, City Controller

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AS OF JUNE 30, 2023

SYLVESTER TURNER
MAYOR

CHRIS BROWN
CONTROLLER

AMY PECK
DISTRICT A

TARSHA JACKSON
DISTRICT B

ABBIE KAMIN
DISTRICT C

CAROLYN EVANS-SHABAZZ
DISTRICT D

DAVE MARTIN
DISTRICT E

TIFFANY D. THOMAS
DISTRICT F

MARY NAN HUFFMAN
DISTRICT G

KARLA CISNEROS
DISTRICT H

ROBERT GALLEGOS
DISTRICT I

EDWARD POLLARD
DISTRICT J

MARTHA CASTEX-TATUM
DISTRICT K

MIKE KNOX
AT-LARGE POSITION 1

DAVID ROBINSON
AT-LARGE POSITION 2

MICHAEL KUBOSH
AT-LARGE POSITION 3

LETITIA PLUMMER
AT-LARGE POSITION 4

SALLIE ALCORN
AT-LARGE POSITION 5

AS OF JUNE 30, 2023

Saba Abashawl
Chief External Affairs Officer

Francisco Cuellar
Chief Commercial Officer

Darryl Daniel
Chief Technology Officer

Gary High
Interim Chief Development Officer*

Jocelyn Labove
Chief Aviation Risk and Regulatory Compliance Officer

Liliana Rambo
Chief Terminal Management Officer
Interim Deputy Director, Workforce Innovation and Development

Mario C. Diaz
Director of Aviation

Arturo Machuca
Director
Ellington Airport & Houston Spaceport

Steve Runge
Chief of Operations

Clint Stephen
Chief Financial Officer

Jim Szczesniak
Chief Operating Officer

Molly Waits
Chief Marketing, Air Service Development & Communications Officer

* As of August 1, 2023 Gary High was named Chief Development Officer

2023 SKYTRAX WORLD AIRPORT AWARDS

Houston Airports maintain 5-Star rating at Hobby Airport &

4-Star rating at Bush Intercontinental Airport in 2023

Houston Airports was awarded 2023 Best Art in the Airport

The win is historic for Houston Airports and the global commercial aviation industry. This year Skytrax created a new awards category, Best Art in an Airport. Houston Airports is the first-ever recipient. Houston Airports has one of the largest public art collections in the aviation industry.

IAH

Bush Airport maintains its 4-Star rating for six consecutive years

Ranked third Best Airport in the United States in 2023

Ranked fourth Best Airport in North America in 2023

HOU

Hobby Airport maintains its 5-Star rating for second consecutive year

Best Regional Airport in North America for second consecutive year

Ranked second Best Airport in the United States and third Best Airport in North America in 2023

4 STAR AIRPORT SKYTRAX

5 STAR AIRPORT SKYTRAX

GOVERNMENT FINANCE OFFICERS ASSOCIATION

The City of Houston Airport System Fund was awarded the Certificate of Achievement for Excellence in Financial Reporting for the 29th consecutive year for its Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2022.

AIRPORT SERVICE QUALITY AWARD

The 5-Star guest experience offered by Houston Airports, continues to set the standard for airports worldwide. William P. Hobby Airport, HOU, is now the Most Enjoyable Airport in North America. Airports Council International (ACI) World, in partnership with travel technology company Amadeus, announced the winners of this year's Airport Service Quality (ASQ) Awards, which recognizes the best airports for customer experience worldwide, as selected by passengers.

$560M

OPERATING REVENUE

57.8

MILLION PASSENGERS

48 (A)

AIRLINES*

195 (A)

NON-STOP DESTINATIONS

41 (A)

COUNTRIES

*MKT

(A) Data presented for the Houston Airport System as a whole, not by airport; for fiscal year 2023

7.3 MILLION

POPULATION SERVICE AREA*

*MSA

697 (A)

DAILY DEPARTURES*

*AVG flights

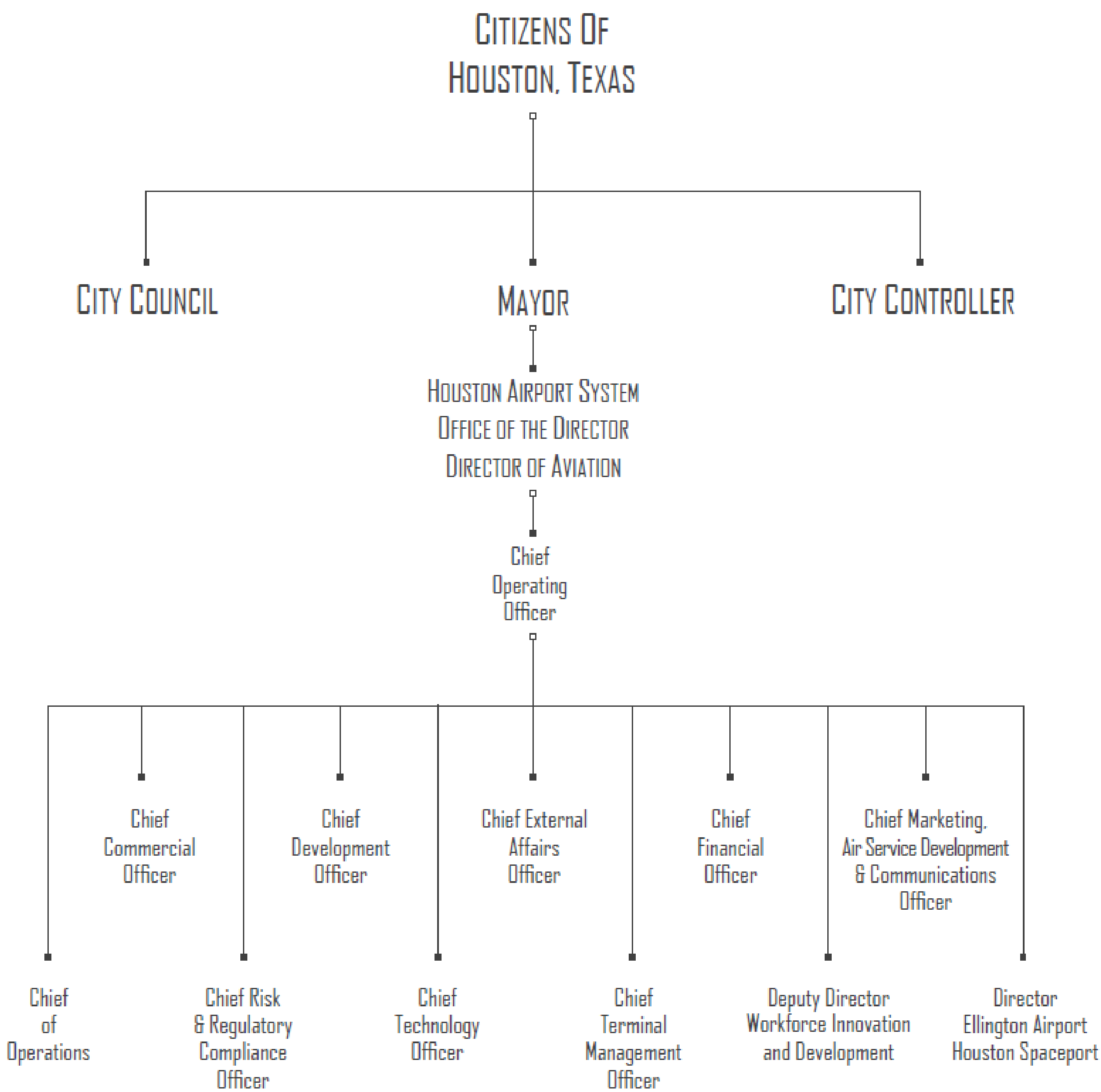
24,711

PUBLIC PARKING SPACES

127,693 sq ft

CONCESSION SPACE

(A) Data presented for the Houston Airport System as a whole, not by airport; for fiscal year 2023


Citizens Of Houston, Texas
City Council
Mayor
City Controller
Houston Airport System Office of the Director Director of Aviation
Chief Operating Officer
Chief Commercial Officer
Chief Development Officer
Chief External Affairs Officer
Chief Financial Officer
Chief Marketing, Air Service Development & Communications Officer
Chief of Operations
Chief Risk & Regulatory Compliance Officer
Chief Technology Officer
Chief Terminal Management Officer
Deputy Director Workforce Innovation and Development
Director Ellington Airport Houston Spaceport

FINANCIAL SECTION

CITY OF HOUSTON

TEXAS

McConnell Jones

BANKS, FINLEY, WHITE & CO.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of the Airport System Fund of the City of Houston Texas (the "Airport System Fund"), as of and for the years ended June 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Airport System Fund's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Airport System Fund, as of June 30, 2023 and 2022, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Houston, Texas, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Airport System Fund and do not purport to, and do not, present fairly the financial position of the City of Houston, Texas, as of June 30, 2023 and 2022, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Change in Accounting Principles

As described in Notes 1 and 12 to the financial statements, for the year ended June 30, 2023, the Airport System Fund, adopted new accounting guidance, GASBS No. 96, *Subscription-Based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

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

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BANKS, FINLEY, WHITE & CO.
CERTIFIED PUBLIC ACCOUNTANTS

To the Honorable Mayor,
Members of the City Council, and City Controller
City of Houston, Texas
Page 2

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with (GAAS) will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with (GAAS) and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Houston, Texas' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 4-15) and the Pension System Supplementary Information and Other Post-Employment Benefits Supplementary Information (pages 69-74) be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

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To the Honorable Mayor,
Members of the City Council, and City Controller
City of Houston, Texas
Page 3

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Introductory and Statistical Section and Compliance Section but does not include the basic financial statements and our auditor's report thereon.

The Passenger Facility Charge Revenues and Disbursements Schedule and accompanying notes (pages 104-108) 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.

Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audits of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2023, on our consideration of the Airport System Fund'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 solely 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 the effectiveness of the Airport System Fund's 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 Airport System Fund's internal control over financial reporting and compliance.

McConnell Jones LLP Banks, Finley, White & Co.

November 17, 2023

The Houston Airport System ("HAS") is an independent, financially self-sufficient department of the City of Houston, Texas (the "City") that owns George Bush Intercontinental Airport ("IAH"), William P. Hobby Airport ("HOU"), and Ellington Airport ("EFD"). The Airport System Fund (the "Fund") is an enterprise fund of the City. HAS, under the administrative control of the Mayor, manages and operates the Fund. Management of HAS offers readers of the Fund's financial statements this overview and analysis of the financial activities for the fiscal years ended June 30, 2023 ("FY2023") and June 30, 2022 ("FY2022"). This discussion and analysis should be read in conjunction with the Fund's financial statements that begin on page 16.

Financial Highlights

The Fund's net position increased $170.6 million or 9.5% during FY2023 and increased $164.3 million or 10.1% for FY2022.

Operating revenues for FY2023 increased by $79.1 million or 16.4% compared to $560.2 million prior year operating revenues due to an due to an increase in terminal space rentals of $43.8 million; an increase in parking revenues of $19.0 million; and an increase in concessions revenues of $18.9 million. In FY2022, operating revenues increased by $162.6 million or 51.0% compared to the prior year's operating revenues due to an increase in terminal space rentals of $37.8 million; and an increase in parking revenues of $54.6 million; an increase in concessions revenues of $46.7 million. For both FY2023 and FY2022, the increases were due to an increase in the total number of passengers from 52.0 million in FY2022 to 57.8 million in FY2023 as both business and leisure travel continued to recover since the Pandemic.

In FY2023, operating expenses increased by $89.1 million or 18.5% compared to FY2022, primarily due to an increase in personnel costs of $36.5 million due to contractual increases with Houston Organization of Public Employees ("HOPE") and pension related expenses, which accounted for $7.47 million of the increase, and an increase for professional services of $22.7 million or 10.7% due to ongoing planning efforts related to HAS five-year Capital Improvement Plan ("CIP'), which includes calls for $2.8 billion to expand, update, and maintain the airport system. At IAH, HAS continues with construction activities for the IAH Terminal Redevelopment Program (the "ITRP"). Once complete, the International Central Processor will house ticketing counters, baggage claims, and a 17-lane security checkpoint that will be one of the largest in the country. At HOU, passenger traffic growth will be supported with a seven-gate expansion to the West Concourse. In FY2022, operating expenses decreased by $6.6 million or 1.3%, primarily due to a decrease in personnel costs of $5.1 million.

Investment income increased by $85.8 million or 182.2% in FY2023 and decreased by $48.6 million or 3,193.2% in FY2022.

Key Performance Indicators

The following table highlights changes in some of HAS' operating and financial key performance indicators for the years ended June 30, 2023, 2022, and 2021. Additional details can be found in the Statistical section of this Annual Comprehensive Financial Report in the Operational Information sub-section.

For the Years Ended	June 30, 2023	June 30, 2022	June 30, 2021
Total passengers (in millions)	57.8	52.0	29.7
Aircraft operations (in thousands)	689.8	690.9	511.7
Passenger landed weight* (in million pounds)	33,513.2	31,572.1	21,171.0
Cargo landed weight* (in million pounds)	2,375.1	2,290.9	2,283.3
Cargo metric tons* (in thousands)	519.5	533.9	462.8

* FY2022 was adjusted

Adoption of New Accounting Standards – Accounting for Subscription-Based Information Technology Arrangements

The Fund implemented Government Accounting Standards Board Statement No. 96, Subscription-Based Information Technology Arrangements ("GASBS 96"), for the fiscal year beginning July 1, 2022. Upon adoption of the new standard, the Fund recognized the subscription right-of-use assets and subscription liabilities totaling $3.7 million. See Notes 1, 4, and 12 for disclosures on significant accounting policies, subscription right-to-use assets, and liabilities.

Overview of the Financial Statements

This discussion and analysis is an introduction to the Fund's financial statements, which consist of the following components: management's discussion and analysis ("MD&A"), financial statements, 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 Fund is an enterprise fund of the City; thus, it is included in the City's Annual Comprehensive Financial Report.

The Statements of Net Position present 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 Fund is improving or deteriorating.

The Statements of Revenues, Expenses, and Changes in Net Position present 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.

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

The financial statements also include note disclosures as well as required supplementary information that provide additional explanations and details on significant accounting policies and significant financial statement line items.

NET POSITION
JUNE 30, 2023, JUNE 30, 2022, AND JUNE 30, 2021

(in thousands)

	2023	2022	2021
Assets			
Current assets	$ 597,426	$ 740,025	$ 681,939
Noncurrent assets	1,618,471	1,492,006	1,442,593
Net capital assets	3,197,399	2,866,747	2,745,451
Total assets	5,413,296	5,098,778	4,869,983
Deferred outflows of resources	38,591	34,065	31,340
Liabilities			
Current liabilities	436,754	285,644	228,190
Noncurrent liabilities	2,768,391	2,752,905	2,698,330
Total liabilities	3,205,145	3,038,549	2,926,520
Deferred inflows of resources	278,418	296,569	341,420
Net Position			
Net investment in capital assets	591,494	507,167	495,497
Restricted net position	1,444,873	1,209,671	1,128,325
Unrestricted (deficit) surplus	(68,043)	80,887	9,561
Total net position	$ 1,968,324	$ 1,797,725	$ 1,633,383

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

Total net position at FY2023 was $1,968.3 million, a $170.6 million or 9.5% increase from FY2022. Total net position at June 30, 2022, was $1,797.7 million, a $164.3 million or 10.1% increase from FY2021.

Approximately a third of the Fund's total net position, 30.1% and 28.2% as of FY2023 and FY2022, respectively, reflects net investment in capital assets (e.g., land, buildings, runways, equipment, and infrastructure), net of related outstanding debt used to acquire those assets, offset by bond proceeds remaining in cash and investment accounts at fiscal year-end. 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 net position surplus or deficit. The restricted net position in FY2023 was $1,444.9 million or a 16.4% increase from FY2022. The restricted net position in FY2022 was $1,209.7 million or a 7.2% increase from FY2021. The Restricted net position is 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 the 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 net position deficit was $68.0 million as of FY2023 and the unrestricted net position surplus was $ $80.9 million as of FY2022.

FY2023

Total assets increased by $314.5 million, or 6.2%, from $5,098.8 million in FY2022 to $5,413.3 million in

FY2023. Unrestricted and restricted cash and cash & cash equivalents decreased by $53.2 million, or 13.9%, while investments increased by $74.1 million, or 5.0%, compared to FY2022. Accounts receivable increased by $5.9 million or 122.0% compared to the balance at the end of FY2022. Receivables from customers decreased by 48.0 million due to collection efforts while receivables related to rates and charges increased by $13.0 million compared to FY2022. Restricted receivables for Passenger Facility Charges ("PFC") and Customer Facility Charges ("CFC") increased by $1.7 million or 16.6% due to higher travel demand during FY2023 as both business and leisure travel continued to recover since the Pandemic.

Balance due from other governments decreased by $32.8 million or 36.2% compared to FY2022 as HAS available funds have been fully reimbursed from CARES, CCRSA, and ARPA Acts for eligible expenditures related to the pandemic. Furthermore, construction in progress increased by $312.2 million or 56.1% due to costs capitalized for expansion and renovation projects during FY2023 as HAS continues with its five-year CIP that will continue through FY2028 which calls for $2.8 billion to expand, update, and maintain the airport system. There was also an increase in buildings and improvements of $147.0 million or 2.6%. See the Capital Assets section in this MD&A for further discussion and analysis on current and future capital projects.

Deferred outflows of resources increased by $4.5 million or 13.3% mainly attributable to an increase of $9.5 million or 456.4% in pension related deferred outflows.

Total liabilities increased by $166.6 million or 5.5% compared to June 30, 2022, primarily due to $165.0 million in draws for commercial paper in FY2023 partially offset by principal payments on bonds of $77.7 million and a $8.2 million or 13.5% decrease in special facility bonds for principal payments made during FY2023. Contracts and retainages payable increased by $95.7 million or 106.4% as significant construction work is being performed at all HAS airports. Net pension liability increased by $12.8 million or 7.7% mainly due to an increase in HAS proportionate share based on contributions during the measurement period. There was also a decrease of $16.6 million or 23.7% for OPEB-HB due to valuation assumption changes related to raising the discount rate, updating the valuation for health costs and future trend costs, and an update in the actuarial spread factors.

Total deferred inflows of resources decreased by $18.2 million or 6.1% mainly due to reduced inflows from leases of $18.8 million due to normal lease amortization. In addition, deferred inflows related to the pension plan decreased by $14.4 million or 37.7% compared to FY2022 mainly due to appreciation in fair value of plan investments being less than projected earnings for FY2023. Deferred inflows for OPEB-HB increased by $15.0 million or 130.1% due to FY2023 mainly due to changes in assumptions.

FY2022

Total assets increased by 228.8 million or 4.7% from $4,870.0 million in FY2021 to $5,098.8 million in FY2022. Unrestricted and restricted cash and cash & cash equivalents decreased by $153.8 million or 28.7% and investments increased by $273.7 million or 22.8% compared to FY2021 mainly due to the recovery from the pandemic to more normalized operating activity which increased our investments and subsequent funding of the Terminal Construction activity at IAH which reduced unrestricted and restricted cash. As travel demand recovered during the second half of FY2021 and all of FY2022, accounts receivable decreased by $50.9 million or 91.3% compared to the balance at the end of FY2021. Restricted receivables for PFC and CFC decreased by $5.3 million or 34.6% due to higher travel demand during the fourth quarter of FY2022 and the timing between charges and collections by the airlines and rental car companies. In addition, as described in the Adoption of New Accounting Standards section above, the Fund established a lease receivable as of July 1, 2020, and had an outstanding balance of $260.6 million for FY2022. See Note 4 to the financial statements for additional discussion on the leases. Balance due from other governments increased by $58.6 million or 183.4% compared to FY2021 as HAS requested reimbursements from the FAA for eligible capital expenditures under the Airport Improvement Program ("AIP") as well as eligible expenditures under CARES, CCRSA, and ARPA Acts. Furthermore, construction in progress increased by $147.2 million or 35.9% due to costs capitalized for expansion and renovation projects during FY2022, offset by an increase in buildings and improvements of $132.2 million or 2.4%. See the Capital Assets section in this MD&A for further discussion and analysis on current and future capital projects.

Deferred outflows of resources increased by $2.7 million or 8.7% mainly attributable to an increase of $2.1 million or 100.0% in pension related deferred outflows. In addition, to actuarial changes of assumptions for the other post-employment benefits - health benefit plan ("OPEB-HB"), deferred outflows decreased by $4.6 million or 28.5% due to FY2022 amortization of prior year deferred amounts.

Total liabilities increased by $112.0 million or 3.8% compared to June 30, 2021, primarily due to $165.0 million in draws for commercial paper in FY2022 partially offset by principal payments on bonds of $75.6 million and a $7.5 million or 11.0% decrease in special facility bonds for principal payments made during FY2022. Contracts and retainages payable increased by $22.8 million or 33.9% as significant construction work was being performed at all HAS airports. Notes payable increased by $1.6 million or 10.9% as HAS drew down available funds from the two loans with the Texas State Energy Conservation Office and incurred interest during the construction period. Net pension liability increased by $3.9 million. There was also a decrease of $12.5 million or 15.1% for OPEB-HB due to plan changes.

Total deferred inflows of resources decreased by $44.9 million or 13.1% mainly due to reduced inflows from leases of $22.4 million due to normal lease amortization. In addition, deferred inflows related to the pension plan decreased by $18.0 million or 32.0% compared to FY2021 mainly due to appreciation in fair value of plan investments being less than projected earnings for FY2022. Deferred inflows for OPEB-HB decreased by $4.6 million or 28.5% due to FY2022 amortization of prior year deferred amounts.

Changes in Net Position

For FY2023 and FY2022, net position of the Fund increased by $170.6 million or 9.5% and $164.3 million or 10.1%, respectively.

CHANGES IN NET POSITION

FOR THE YEARS ENDED JUNE 30, 2023, JUNE 30, 2022, and JUNE 30, 2021

(in thousands)

	2023	2022	2021
Operating revenues	$ 560,247	$ 481,174	$ 318,555
Operating expenses	571,878	482,793	489,388
Operating loss	(11,631)	(1,619)	(170,833)
Nonoperating revenues	224,081	257,450	271,280
Nonoperating expenses	78,938	132,536	95,803
Nonoperating income	145,143	124,914	175,477
Income before capital contributions	133,512	123,295	4,644
Capital contributions	37,087	41,047	24,757
Change in net position	170,599	164,342	29,401
Total net position, July 1	1,797,725	1,633,383	1,603,982
Total net position, June 30	$ 1,968,324	$ 1,797,725	$ 1,633,383

TOTAL REVENUES AND CAPITAL CONTRIBUTION
FOR THE YEARS ENDED JUNE 30, 2023, JUNE 30, 2022, and JUNE 30, 2021

(in thousands)

	2023	2022	2021
Operating Revenues			
Landing area fees	$ 92,601	$ 94,253	$ 70,578
Rentals, building and ground areas	234,751	192,029	155,598
Parking and concessions	225,151	187,235	85,908
Other operating revenues	7,744	7,657	6,471
Nonoperating Revenues			
Passenger Facility Charges	108,754	98,446	62,541
Customer Facility Charges	16,075	13,723	8,769
Investment income	38,706	–	1,523
Gain on disposal of assets and incomplete projects	405	–	–
CARES Act/CRRSAA/ARPA grants	50,230	134,621	187,369
Other nonoperating revenues	9,911	10,660	11,078
Total revenues	784,328	738,624	589,835
Capital contributions	37,087	41,047	24,757
Total revenues and capital contributions	$ 821,415	$ 779,671	$ 614,592

FY2023

Operating revenues increased by 79.1 or 16.4% as total enplaned and deplaned passenger volume at IAH and HOU increased by 11.1%. Airline landing fees decreased by $1.7 million or 1.8% compared to FY2022, and rental revenues increased by $42.7 million or 22.2%. In addition, parking revenues by $19.0 million or 19.3% compared to FY2022. Concession revenues also increased by $18.9 million or 21.3%. For FY2023, the increases were due to the total number of passengers increasing from 52.0 million in FY2022 to 57.8 million in FY2023 as both business and leisure travel continued to recover since the pandemic.

Nonoperating revenues decreased by $33.4 million or 13.0% mainly due to a decrease in CARES Act/CRRSAA/ARPA grants of $84.4 million or 62.7% and an increase of $85.8 million or 182.2% in investment income. PFC revenue increased by $10.3 million or 10.5% and CFC charges increased by $2.4 million or 17.1% due to higher numbers of passengers compared to FY2022.

FY2022

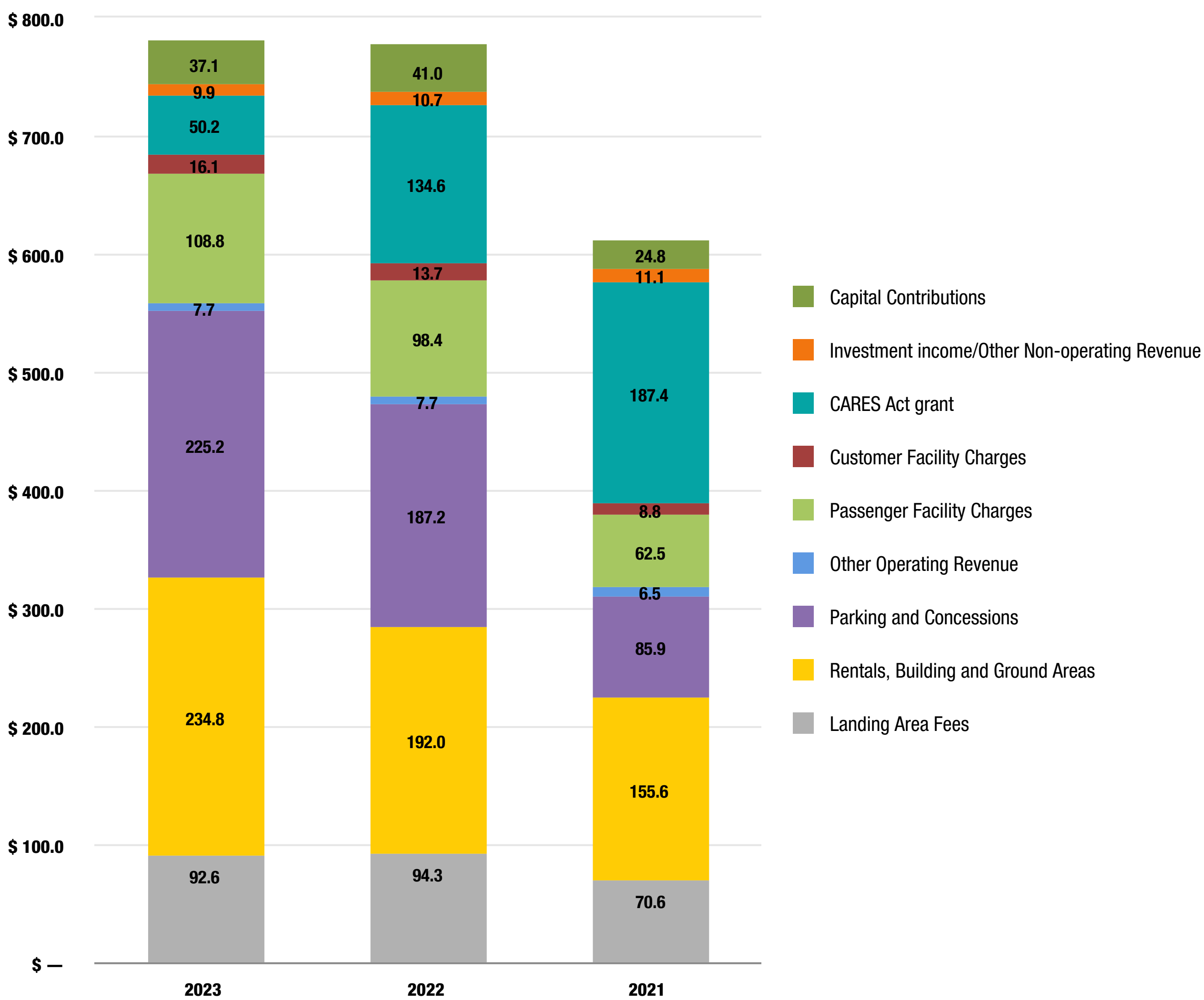
Operating revenues increased by $162.6 million or 51.0% as total enplaned and deplaned passenger volume at IAH and HOU increased by 75.0% due to the COVID-19 pandemic recovery compared to FY2021. Airline landing fees increased by $23.7 million or 33.5% compared to FY2021, and rental revenues increased by $36.4 million or 23.4% mainly due to a significantly higher number of enplaned passengers for FY2022. In addition, garage parking rates were increased throughout FY2022, in conjunction with a higher number of enplaned passengers, which resulted in an increase in parking revenues by $54.6 million or 124.6% compared to FY2021. Concession revenues also increased by $46.7 million or 111.0% due to the pandemic recovery.

Nonoperating revenues decreased by $13.8 million or 5.1% mainly due to a decrease in COVID-19 related grants of $52.7 million or 28.2% and a decrease of $48.6 million or 3193.2% in investment income, due to low-interest rates for investments as well as depreciation in fair value (unrealized loss). In addition, interest expense increased by $14.6 million or 23.5% due to the effect of a full year's interest for the issuances occurring in FY2021. This is partially offset by an increase in PFC revenues of $35.9 million or 57.4% due to a higher number of passengers compared to FY2021. Additionally, losses on disposal of assets decreased by 19.0 or (68.9)%. CFC charges increased by $5.0 million or 56.5% due to higher numbers of passengers compared to FY2021. Cost of Issuance charges of $6.0 million were incurred in FY2021 while none were incurred in FY2023.

Capital contributions from the FAA increased by $16.3 million or 65.8% as HAS continued with various renovation and expansion projects at IAH and HOU.

TOTAL REVENUES and CAPITAL CONTRIBUTIONS

(in millions)



TOTAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2023, JUNE 30, 2022, and JUNE 30, 2021
(in thousands)

	2023	2022	2021
Operating Expenses			
Maintenance and operating	$ 400,956	$ 316,001	$ 318,568
Depreciation and amortization	170,922	166,792	170,820
Interest expense	78,655	76,705	62,107
Investment (income) loss	–	47,109	–
Loss on disposal of assets and incomplete projects	–	8,594	27,601
Other nonoperating expenses	283	128	6,095
Total expenses	$ 650,816	$ 615,329	$ 585,191

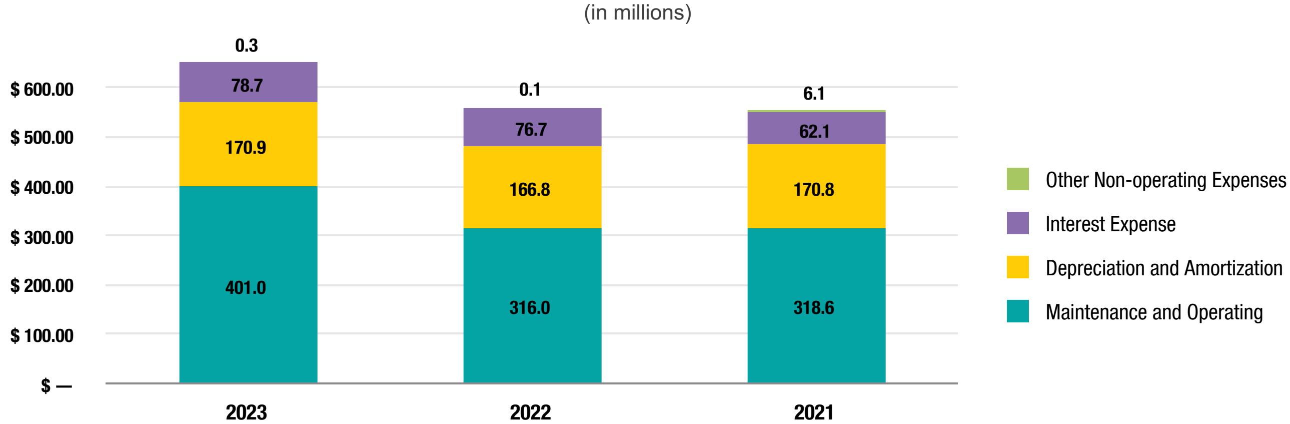
FY2023

In FY2023, operating expenses increased by $89.1 million or 18.5% compared to FY2022, primarily due to an increase in personnel costs of $36.5 million due to contractual increases with HOPE and pension related expenses, which accounted for $7.47 million of the increase, and an increase for professional services of $22.7 million or 10.7% due to ongoing planning efforts related to HAS five-year CIP project. Depreciation expense increased by $4.1 million or 2.5% due to new assets being added in FY2023 as part of the CIP project. Overtime pay increased by $1.0 million or 27.0% due to ongoing construction activity in FY2023. Salaries increased by $2.6 million or 3.9% due to HOPE's increase in FY2023. Expenses for professional services increased by $22.7 million or 10.7% compared to FY2022. Expenses for non-capital outlay increased by $0.2 million or 9.9% compared to FY2022.

FY2022

Total operating expenses decreased by $6.6 million or 1.3%. Depreciation expense decreased by $4.0 million or 2.4% due to assets becoming fully depreciated in FY2022. Personnel costs decreased by $5.1 million or 6.1% due to a significant reduction, $11.2 million or 213.4%, in the OPEB, Other Post-employment Benefits, due to a change in benefit terms which is not deferred and is recognized in the current year. Overtime pay increased by $1.9 million or 114.0% due to ongoing construction activity in FY2022. Salaries increased by $2.6 million or 3.9% due to HOPE's increase in FY2022. Expenses for professional services increased by $20.4 million or 10.6% compared to FY2021. Expenses for non-capital outlay increased by $0.3 million or 16.8% compared to FY2021.

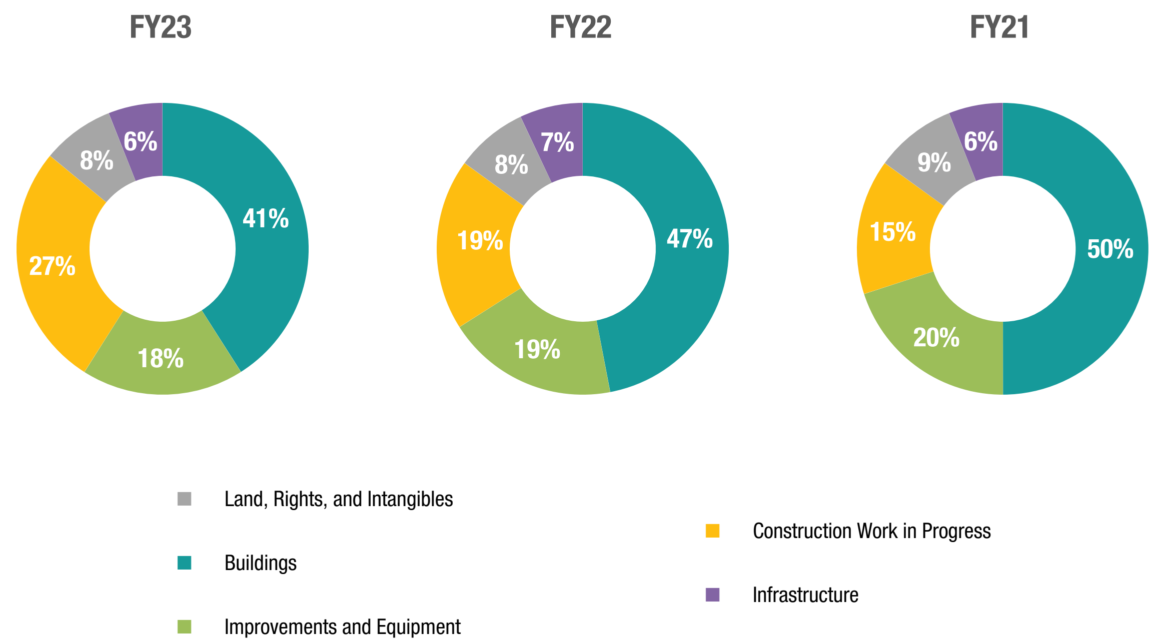
TOTAL EXPENSES
(in millions)



Capital Assets

CAPITAL ASSETS
JUNE 30, 2023, JUNE 30, 2022, AND JUNE 30, 2021
(Net of Depreciation and Amortization)
(in thousands)

	2023	2022	2021
Land	$ 214,457	$ 216,039	$ 216,100
Buildings	1,321,918	1,352,792	1,374,517
Rights and Intangibles	25,556	21,095	18,568
Improvements and Equipment	589,489	537,315	537,881
Infrastructure	176,899	182,592	188,705
Construction work in progress	869,080	556,914	409,680
	$ 3,197,399	$ 2,866,747	$ 2,745,451



FY2023

The Fund's investment in capital assets, net of accumulated depreciation and amortization, amounted to $3.19 billion for FY2023, an increase of $326.9 million or 11.4% compared to FY2022. During FY2023, the Fund added approximately $312.2 million, net of transfers, to its construction work in progress balance. The additions were mainly related to the ITRP with more than $286.0 million in additions and $22.4 million for the Southwest Airlines gate expansion at HOU. FY2023 depreciation expense was approximately $170.9 million.

FY2022

The Fund's investment in capital assets, net of accumulated depreciation and amortization, amounted to $2.87 billion on June 30, 2022, an increase of $121.2 million or 4.4% compared to June 30, 2021. During FY2022, the Fund added approximately $147.2 million, net of transfers, to its construction work-in-progress balance. The additions were mainly related to the ITRP with more than $80 million in additions, $20.0 million for the Southwest Airlines gate expansion at HOU, as well as $40.0 million for the Spaceport expansion at EFD. FY2022 depreciation expense was approximately $166.8 million.

Capital Improvement Program ("CIP")

The City updates and adopts annually a rolling five-year comprehensive plan that determines and prioritizes its capital and infrastructure needs, including HAS. Management of HAS continuously monitors and adjusts the CIP based on financial capacity, air travel demand, and airline industry developments. The HAS five-year Capital Improvement Plan ("CIP") for fiscal years 2024-2028 calls for $2.8 billion to expand, update, and maintain the airport system.

Major projects, greater than $100 million individually, are as follows:

1. IAH – IAH Terminal Redevelopment Program: $1,024 million
2. IAH – IAH Domestic Redevelopment Program: $873 million
3. IAH – IAH Skyway Replacement: $350 million
4. IAH – IAH Central Utility Plant Upgrades: $110 million
5. HOU – Seven gate expansion: $449 million

The remainder of the budget consists of the improvement and rehabilitation of infrastructure for IAH, HOU, and EFD/Spaceport.

In addition, on August 25, 2021 (the fiscal year 2022), the City issued Special Facilities Bonds in the approximate aggregate principal amount of $289.5 million to finance improvements to the baggage handling system at IAH, which will include an early baggage storage system and other terminal facilities. These Special Facilities Bonds will be limited special obligations of the City and not secured by the Fund's Net Revenues. Additional information on conduit debt obligations is disclosed in Note 10 to the financial statements.

Debt

OUTSTANDING DEBT
JUNE 30, 2023, JUNE 30, 2022, AND JUNE 30, 2021
(in thousands)

	2023	2022	2021
Senior Lien Debt			
Commercial paper	$ 350,000	$ 185,000	$ 20,000
Total senior lien debt	350,000	185,000	20,000
Subordinate Lien Debt			
Revenue bonds	2,055,965	2,133,665	2,209,245
Unamortized discount and premium	177,531	197,747 *	212,761
Total subordinate lien debt	2,233,496	2,331,412	2,422,006
Other Debt			
Direct borrowing debt	14,800	15,993	14,421
Pension obligation bonds	2,006	2,006	2,006
Special facility revenue bonds			
Consolidated rental car facility	52,515	60,680	68,185
Lease and subscription liabilities	3,957	111	239
Total other debt	73,278	78,790	84,851
Total outstanding debt	$ 2,656,774	$ 2,595,202	$ 2,526,857
Deferred Outflows of Resources			
Deferred outflows from debt refunding	$ (17,495)	$ (21,823) *	$ (22,218)

* FY2021 was adjusted

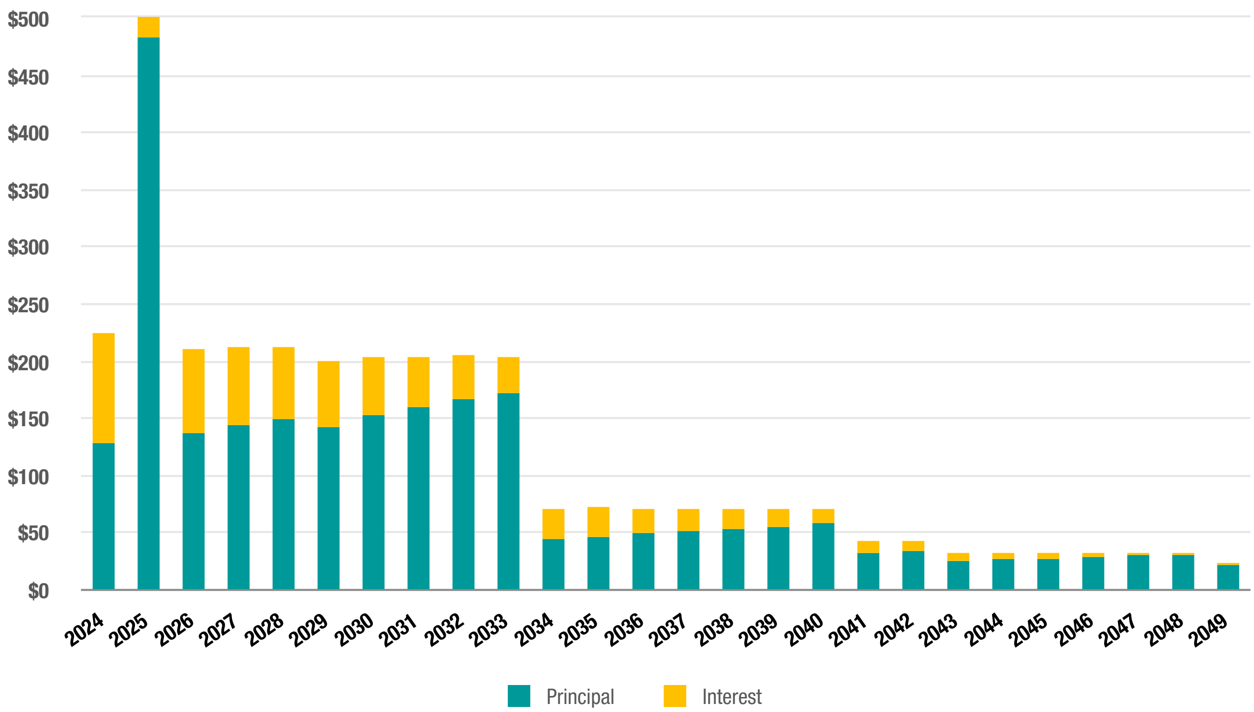
HAS funds major projects like terminal expansion/renovations, runway improvements, and other expansion projects through the issuance of debt, net of available FAA discretionary funding. Minor renewals and replacements are generally funded out of the Fund's "Renewal & Replacement Fund" and "Airports Improvement Fund." HAS continuously monitors the cash flow and contracting requirements for all approved capital projects.

On June 30, 2023, and 2022, the Fund's outstanding senior lien and subordinate lien debt, net of unamortized discount and premium totaled $2.58 billion and $2.52 billion, respectively. In addition, the Fund is responsible for other debt totaling $73.3 million and $78.7 million as summarized in the above table on June 30, 2023 and 2022, respectively.

During FY2022, HAS borrowed an additional $165.0 million of commercial paper.

Debt Service Requirements to Maturity

(in millions)



The underlying ratings of the Fund's obligations at June 30, 2023 are as follows:

	Senior Lien	Subordinate Lien	Consolidated Rental Car SFRB
Fitch's Bond Rating:	No bonds outstanding	A+	A-
Moody's Bond Rating:	No bonds outstanding	A1	A3
Standard & Poor's Bond Rating:	No bonds outstanding	A+	A

Additional information on long-term capital asset activity and debt activity are disclosed in Notes 3 and 5 to the financial statements.

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 Finance Department, Houston Airport System, 16930 JFK Boulevard, Houston, Texas 77032.

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(in thousands) | June 30, 2023 and 2022

	2023	2022
Assets		
Current assets		
Cash and cash equivalents	$ 119,296	$ 206,842
Restricted cash and cash equivalents	209,582	175,229
Investments	71,589	142,190
Restricted investments	93,507	86,238
Accounts receivable (net of allowance for doubtful accounts of $3,827 and $4,925 in 2023 and 2022, respectively)	10,745	4,841
Restricted accounts receivable	11,762	10,089
Lease receivable	12,235	13,859
Due from City of Houston	559	695
Inventory	2,428	2,563
Prepaids	7,997	6,975
Due from other governments - grants receivable	57,726	90,504
Total current assets	597,426	740,025
Noncurrent assets		
Investments	10,532	6,645
Restricted investments	1,372,045	1,238,485
Prepaids	150	160
Lease receivable, non-current	235,744	246,716
Capital assets		
Land	214,457	216,039
Rights and intangibles	21,692	21,010
Buildings, improvements and equipment	5,837,923	5,690,946
Construction in progress	869,080	556,914
Lease right-of-use assets	295	263
Subscription right-of-use assets	5,254	–
Total capital assets	6,948,701	6,485,172
Less accumulated depreciation and amortization	(3,751,302)	(3,618,425)
Net capital assets	3,197,399	2,866,747
Total noncurrent assets	4,815,870	4,358,753
Total assets	5,413,296	5,098,778
Deferred outflows of resources		
Deferred outflows from debt refunding	17,495	21,823
Deferred outflows from pensions	11,588	2,083
Deferred outflows from OPEB health benefits	9,276	9,903
Deferred outflows from OPEB LTD	232	256
Total deferred outflows of resources	$ 38,591	$ 34,065

The accompanying notes are an integral part of these financial statements. **(continued)**

June 30, 2023 and 2022 | (in thousands)

	2023	2022
Liabilities		
Current liabilities		
Accounts payable	$ 18,623	$ 11,728
Accrued payroll liabilities	2,299	4,580
Due to City of Houston	609	1,466
Due to other governments	1,843	1,846
Advances and deposits	2,824	2,790
Unearned revenue	43,389	32,719
Claims for workers' compensation	1,064	1,181
Compensated absences	6,887	6,820
Revenue bonds payable	119,710	77,700
Special facility revenue bonds payable	8,870	8,165
Notes payable	1,217	1,193
Accrued interest payable	42,405	44,118
Contracts and retainages payable	185,666	89,933
Lease liabilities	45	77
Subscription liabilities	1,303	–
Other current liabilities	–	1,328
Total current liabilities	436,754	285,644
Noncurrent liabilities		
Revenue bonds payable, net of current portion	2,113,786	2,253,712
Special facility revenue bonds payable, net of current portion	43,645	52,515
Commercial paper payable	350,000	185,000
Pension obligation bonds payable	2,006	2,006
Lease liabilities, net of current portion	18	34
Subscription liabilities, net of current portion	2,591	–
Notes payable, net of current portion	13,583	14,800
Claims for workers' compensation, net of current portion	1,890	1,043
Compensated absences, net of current portion	8,277	7,460
Net pension liability	178,211	165,413
Other post-employment benefits - health benefits	53,282	69,874
Other post-employment benefits - LTD	1,102	1,048
Total noncurrent liabilities	2,768,391	2,752,905
Total liabilities	3,205,145	3,038,549
Deferred inflows of resources		
Deferred inflows from leases	227,753	246,505
Deferred inflows from pensions	23,861	38,282
Deferred inflows from OPEB - health benefits	26,446	11,495
Deferred inflows from OPEB - LTD	358	287
Total deferred inflows of resources	278,418	296,569
Net Position		
Net investment in capital assets	591,494	507,167
Restricted net position		
Restricted for debt service	472,782	412,293
Restricted for maintenance and operations	55,457	55,332
Restricted for special facility	55,143	50,953
Restricted for renewal and replacement	10,000	10,000
Restricted for capital improvements	851,491	681,093
Unrestricted (deficit) surplus	(68,043)	80,887
Total net position	$ 1,968,324	$ 1,797,725

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

(in thousands) | June 30, 2023 and 2022

	2023	2022
Operating revenues		
Landing area fees	$ 92,601	$ 94,253
Rentals, building, and ground area	234,751	192,029
Parking	117,460	98,418
Concessions	107,691	88,817
Other	7,744	7,657
Total operating revenues	560,247	481,174
Operating expenses		
Maintenance and operating	400,956	316,001
Depreciation and amortization	170,922	166,792
Total operating expenses	571,878	482,793
Operating loss	(11,631)	(1,619)
Nonoperating revenues (expenses)		
Investment income (loss)	38,706	(47,109)
Interest expense	(78,655)	(76,705)
Gain (loss) on disposal of assets and incomplete projects	405	(8,594)
Passenger Facility Charges	108,754	98,446
Customer Facility Charges	16,075	13,723
Special facility cost	(283)	(128)
CARES Act/CRRSAA/ARPA grants	50,230	134,621
Other revenues	9,911	10,660
Total nonoperating revenues, net	145,143	124,914
Income before capital contributions	133,512	123,295
Capital contributions	37,087	41,047
Change in net position	170,599	164,342
Total net position, July 1	1,797,725	1,633,383
Total net position, June 30	$ 1,968,324	$ 1,797,725

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

June 30, 2023 and 2022 | (in thousands)

	2023	2022
Cash Flows from Operating Activities		
Receipts from customers	$ 561,055	$ 552,383
Payments to employees	(280,257)	(113,985)
Payments to suppliers	(128,669)	(165,416)
Interfund activity payments to other funds	(721)	(69,895)
Other receipts	7,744	7,657
Net cash provided by operating activities	159,152	210,744
Cash Flows from Investing Activities		
Sale of investments	2,240,360	2,696,088
Purchase of investments	(2,311,957)	(3,029,491)
Investment income	36,188	12,625
Net cash used for investing activities	(35,409)	(320,778)
Cash Flows from Noncapital Financing Activities		
CARES Act/CRRSAA/ARPA grants	60,625	120,965
Net cash provided by noncapital financing activities	60,625	120,965
Cash Flows from Capital and Related Financing Activities		
Retirement of revenue bonds	(77,700)	(75,580)
Interest expense on debt	(96,255)	(88,539)
Proceeds from issuance of commercial paper	165,000	165,000
Proceeds from SECO loans	–	1,572
Retirement of SECO loans	(1,193)	–
Retirement of special facility bonds	(8,165)	(7,505)
Passenger Facility Charges	107,285	103,851
Customer Facility Charges	15,870	13,645
Grant receipts	59,470	(2,984)
Acquisition of capital assets	(405,436)	(273,909)
Lease liabilities	(48)	(128)
Subscription Liabilities	3,894	–
Special facility cost	(283)	(128)
Net cash used for capital and related financing activities	(237,561)	(164,705)
Net decrease in cash and cash equivalents	(53,193)	(153,774)
Cash and cash equivalents, beginning of year	382,071	535,845
Cash and Cash Equivalents, End of the Year	$ 328,878	$ 382,071
Cash and cash equivalents	$ 119,296	$ 206,842
Restricted cash and cash equivalents	209,582	175,229
Cash and Cash Equivalents, End of the Year	$ 328,878	$ 382,071

The accompanying notes are an integral part of these financial statements. **(continued)**

(in thousands) | June 30, 2023 and 2022

	2023	2022
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	$ (11,631)	$ (1,619)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities		
Depreciation and amortization	170,922	166,792
Changes in assets and liabilities		
Accounts receivable, net of allowance	(5,904)	50,868
Due from City of Houston	136	828
Inventory and prepaids	(877)	(1,745)
Lease receivable	22,507	25,463
Accounts payable	6,895	1,345
Accrued payroll liabilities	(2,281)	419
Other current and non-current liabilities	9,339	23,820
Due to City of Houston and other governments	(857)	1,367
Advances and deposits	34	470
Other post-employment benefits and deferred amounts	(865)	(18,037)
Pension related payables and deferred amounts	(11,128)	(16,261)
Deferred inflows - leases	(18,752)	(22,375)
Claims for workers' compensation	730	(852)
Compensated absences	884	261
Net cash provided by operating activities	$ 159,152	$ 210,744
Noncash Transactions		
Capital additions in payables	$ (185,666)	$ (51,712)
Amortization of premium and discount	$ (20,216)	$ (15,014)
Gain (loss) on disposal of assets	$ 405	$ (8,594)
Unrealized gain (loss) on investments	$ 2,518	$ (59,734)

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

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Reporting Entity

The Airport System Fund (the “Fund”), an enterprise fund of the City of Houston (the “City”), is responsible for the operations, maintenance, and development of the City’s Airport System. The Airport System consists of George Bush Intercontinental Airport (“IAH” or “Intercontinental”), William P. Hobby Airport (“HOU” or “Hobby”), and Ellington Airport (“EFD” or “Ellington”).

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

The Fund is not financially accountable for any other operations of the City, and accordingly, is accounted for as a single major enterprise fund. The Fund is included in the City’s Annual Comprehensive Financial Report (“Financial Report”), which is a matter of public record.

Created on September 15, 2021, Houston Spaceport Development Corporation (“HSDC”) has a seven-member board of directors, including the Director of Aviation of Houston Airport System, appointed by the mayor. This corporation is responsible for managing and promoting the development of Houston Spaceport as well as applying for funds under the Texas Spaceport Trust Fund. In accordance with Governmental Accounting Standards Board (“GASB”): Statement No. 14 and Statement No. 61, the HSDC is considered a blended component of the City, the primary government, because the component unit’s governing body is substantively the same as the primary government. In addition, HSDC provides direct benefits exclusively or almost exclusively to the Houston Airport System. Therefore, HSDC is incorporated into the financial statements of the Fund. As of and for the year ended June 30, 2023, HSDC did not have any financial activities and had no impact on the operating results of the Fund.

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 and noncurrent, as well as deferred outflows and inflows of resources, are included on the statements 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 (“GASBS”) as the required level for governmental entities that present financial statements in accordance with generally accepted accounting principles (“GAAP”). 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.

Recent Accounting Pronouncements

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, 2021. The City and the Fund have implemented GASB Statement No. 91 in this annual report. There was no material effect to the Fund’s financial statements.

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 and the Fund have implemented GASB Statement No. 93 in this annual report. There was no material effect on the Fund’s financial statements.

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 Public-Public Partnerships and Availability Payment Arrangements for governments. The requirements of this statement are effective for reporting periods beginning after June 15, 2022. The City and the Fund have implemented GASB Statement No. 94 in this annual report. There was no material effect on the Fund’s financial statements.

In May 2020, the GASB issued Statement No. 96, “Subscription-Based Information Technology Arrangements”. This Statement provides guidance on accounting and financial reporting for subscription-based information technology arrangements (“SBITA”) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The City and the Fund have implemented GASB Statement No. 96 in this annual report. The adoption of GASB Statement No. 96 resulted in a restatement to the beginning balances of SBITA assets of $3.7 million, and subscription liabilities of $3.7 million. The adoption of GASB Statement No. 96 had no impact on the beginning net position.

In April 2022, the GASB issued Statement No. 99, “Omnibus 2022”. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during the implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements related to an extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023. The City and the Fund has implemented the provisions of Statement No. 99 that are effective upon issuance in the fiscal year ended June 30, 2022, and the Fund have implemented the provisions of GASB Statement No. 99 that are effective as of July 1, 2022, in this annual report. The City and the Fund are evaluating the effect of other provisions of Statement No. 99 not yet effective will have on the financial statements.

In June 2022, the GASB issued Statement No. 100, “Accounting Changes and Error Corrections – Amendment of GASB Statement No. 62”. This Statement prescribes the accounting and financial reporting for (1) each type of accounting change and (2) error corrections. This Statement requires that (a) changes in accounting principles and error corrections be reported retroactively by restating the prior period, (b) changes to or within the financial reporting entity be reported by adjusting the beginning balances of the current period, and (c) changes in accounting estimates be reported prospectively by recognizing the change in the current period. The requirements of this statement are effective for financial statement for the reporting period beginning after June 15, 2023. The City and the Fund are evaluating the impact that adoption of this Statement will have on its financial statements.

In June 2022, the GASB issued Statement No. 101, “Compensated Absences”. This Statement clarifies the recognition and measurement guidance for compensated absences. This Statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means. The requirements of this Statement are effective for financial statements for reporting periods beginning after December 15, 2023. The City and the Fund are evaluating the impact that adoption of this Statement will have on its financial statements.

Operating and Nonoperating Revenues and Expenses

The Fund distinguishes between operating revenues and expenses and nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with HAS' principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. HAS derives its operating revenues primarily from landing fees, terminal space rental, auto parking, and concessions. HAS' major operating expenses include salaries and employee benefits, fees for contractual services including professional services, parking operations and shuttle services, and other expenses including depreciation and amortization, maintenance, insurance, and utilities.

Non-operating revenues, such as interest income, passenger facility charges ("PFC"), and customer facility charges ("CFC"), result from non-exchange transactions or ancillary activities. Non-operating expenses primarily consist of the interest expense on revenue bonds.

Passenger Facility Charges

The Federal Aviation Administration ("FAA") approved a $3.00 PFC per enplaned passenger to be used for the construction of FAA approved airport capital assets at IAH effective December 1, 2008, and at 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 for HOU with the earliest collection date of August 1, 2017. On September 24, 2020, a second PFC application was approved for IAH with the earliest 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 to HAS. See the Compliance Section for further information.

Federal Grants

When a grant agreement is approved and eligible expenditures are incurred, the amount is recorded as a grant receivable and as nonoperating revenue (operating grants) or capital grant contributions in the statements of revenues, expenses, and changes in net position.

Cash, Cash Equivalents, and Investments

The Fund's cash, cash equivalents, investments, and a significant portion of its restricted cash and investments are maintained as part of the City's pool of cash and investments. The Fund's portion of the pool is presented on the statements of net position as 'Cash and Cash Equivalents' and 'Investments.' Interest earned on such pooled investments is allocated to the participating City funds based on each fund's average daily cash balance during the allocation period. The Fund considers its unrestricted and restricted cash and investments held in the City treasury as demand deposits and/or investments. The Fund also has funds that are held by fiscal agents. Investments with maturities of three months or less at the time of purchase are considered cash equivalents. Investments are recorded at fair value. Investment income and expenses, including changes in the fair value of the investments, are recognized in the Statements of Revenues, Expenses, and Changes in Net Position.

Accounts Receivable

Receivables are reported at their gross value when earned. The Fund's collection terms are 30 days. The allowance for uncollectible accounts is based on specific identification of past due accounts and balances. As a customer's balance is deemed uncollectible, the receivable is cleared and the amount is written off. If the balance is subsequently collected, such payments are applied to the allowance account. The allowance for doubtful accounts was approximately $3.8 million and $4.9 million as of June 30, 2023 and 2022, respectively. This allowance is netted against the accounts receivable balance. For the years ended June 30, 2023 and 2022, no accounts receivable balance was written off.

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 the lower of average cost or market.

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 acquisition value. Capital assets received in a service concession arrangement are recorded at acquisition value. 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 on the date it is placed in service.

Depreciation on 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.

Leases

HAS as Lessee

The Fund recognizes a lease liability and an intangible right-of-use lease asset at the beginning of a lease unless the lease is considered a short-term lease or transfers ownership of the underlying assets. Right-of-use lease asset is measured based on the net present value of the payment, using the HAS' weighted average cost of capital ("WACC"), which approximates HAS' incremental borrowing rate, required to the lessor under long-term lease contracts. Remeasurement of lease liability occurs when there is a change in the lease term and/or other changes that are likely to have a significant impact on the lease liability.

HAS calculates the amortization of the discount on the lease liability and reports that amount as an outflow of resources in that period. Payments are allocated first to accrued interest liability and then to the lease liability. Variable lease payments based on the usage of the underlying assets are not included in the lease liability calculations and are recognized as outflows of resources in the periods in which the obligation for the payments is incurred.

HAS as Lessor

The Fund recognizes a lease receivable, measured using a present value of lease payments - based on a discount rate that HAS charges the lessee or HAS' WACC - to be received for the lease term, and a deferred inflow of receivables at the beginning of the lease term. Periodic amortization of the discount on the receivable is reported as interest revenue for that period. Deferred inflows of resources are recognized as inflows on a straight-line basis over the term of the lease. This recognition does not apply to short-term leases, contracts that transfer ownership, leases of assets that are investments, or certain regulated leases. Any initial direct costs are reported as an outflow of resources for that period. Remeasurement of lease receivable occurs when there are modifications, including but not limited to changes in the contract price, lease term, and adding or removing an underlying asset to the lease agreements. In the case of a partial or full lease termination, the Fund will reduce the carrying value of the lease receivable and the related deferred inflow of resources and include a gain or loss for the difference.

For short-term lease contracts, the Fund recognizes short-term lease payments as inflows of resources (revenues) based on the payment provisions of the lease contract. Liabilities are only recognized if payments are received in advance, and receivables are only recognized if payments are received after the reporting period.

Regulated Leases

The leases between HAS and air carriers and other aeronautical users are subject to external laws and regulations. As permitted by GASBS No. 87, paragraph 43, the Fund recognizes inflows of resources based on the payment provisions of the lease contract, and the accounting policies under “HAS as Lessor” do not apply to regulated leases. Additional disclosures regarding regulated leases are in Note 4.

Subscription Based Information Technology Arrangements

Subscription based information technology arrangement (“SBITA”) assets are defined by the general government as the right to use vendor-provided information technology (“IT”) with access to vendors’ IT assets. The Fund recognizes a subscription liability and an intangible SBITA asset at the beginning of the subscription term that has a term exceeding one year and the cumulative future payments on the contract exceed $100,000 unless the contract is considered a short-term SBITA. An SBITA asset is measured based on the net present value of subscription payments expected to be made during the subscription term, using the incremental borrowing rate, and is amortized using the straight-line method over the shorter of the subscription term or the useful life of the underlying IT assets. Re-measurement of a subscription liability occurs when there is a change in the contract term and/or other changes that are likely to have a significant impact on the subscription liability.

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). 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 hour 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 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 Fund's obligation is attributable to employees' services already rendered, and it is probable that the Fund will compensate the employees for the benefits through paid time off or some other means, such as cash payments.

Self-Insurance/Risk Management

The City is self-insured for general liability, workers' compensation, and unemployment compensation. The accrued liability for the various types of claims represents an estimate by management of the eventual loss on the claims. Estimated expenses and recoveries are based on a case-by-case review.

Environmental Remediation Expenses and Recoveries

HAS incurs costs associated with environmental remediation activities, which arise during the normal course of business. These costs are recorded as a liability when HAS is required to perform the remediation and if the costs can be reasonably estimated. HAS records environmental remediation cost recoveries as nonoperating revenues in the financial statements. Additional information regarding environmental remediation's can be found in Note 11.

Bond Premiums, Discounts, and Issuance Costs

Bond premiums, discounts, and prepaid bond insurance 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. Debt issuance costs are recognized as an expense when incurred.

Net Pension Liability

For the purposes of measuring net pension liability, deferred outflows of resources, and deferred inflows of resources related to pension and pension expense, information about the fiduciary net position of the Houston Municipal Employees' Pension System, and additions to/deductions from the pension system's fiduciary net position have been determined on the same basis as they are reported by the pension system. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Additional information regarding net pension liability can be found in Note 6.

Other Post-employment Liability

For purposes of measuring total/net other post-employment liability ("OPEB"), deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Additional information regarding total/net other post-employment liability can be found in Note 7.

Deferred Inflows/Outflows of Resources

Deferred outflows of resources represent a consumption of net assets that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. Deferred inflows of resources represent an acquisition of net assets that applies to future periods. The deferred charge on refunding recorded on the statements of net position results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Deferred inflows and outflows have been recognized for the net difference between the projected and actual investment earnings, this amount is deferred and amortized over a period of five years. In addition, deferred inflows and outflows have been recognized for the differences between the actuarial expectation and the actual economic experience and changes in actuarial assumptions related to the defined benefit pension plan and the other post-retirement benefit plan. These amounts are deferred and amortized over the average of the expected service lives of pension plan members. See Note 6 and Note 7 for additional information on deferred inflows and outflows related to the pension plan and the other post-retirement benefits plans, respectively.

Accounting policies for deferred inflows and outflows related to leases are described under the caption – 'Leases' in Note 1.

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 the City Council as a protection to HAS' bondholders.

Net Position Flow Assumption

Sometimes the Fund will fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position, a flow assumption must be made about the order in which the resources are considered to be applied. The Fund's policy is to consider the restricted net position to have been depleted before the unrestricted net position is applied.

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, commercial paper notes, inferior lien contracts, and special facility revenue bonds. Unexpended PFCs are also included in this category as they are primarily held, through agreements with the FAA, for the repayment of capital financing.

Restricted Net Position – Restricted for Maintenance and Operations

This category primarily consists of a reserve fund dedicated to operating and maintenance expenses, mandated by the various City ordinances which authorize 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 CFC 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 the 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 Fund (the "R&R") was created by the various City ordinances which authorized the issuance of airport revenue and revenue refunding bonds. The R&R is intended to replace depreciable assets and to make major repairs and renovations. Net revenue is transferred to this fund if it is not needed for maintenance and operations, for the debt service reserve funds, or 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 does not have a net position of at least $10 million at the end of each fiscal year, then additional revenue funding must be transferred during the next fiscal year. If the R&R 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 (the "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. If the unappropriated AIF balance is (1) sufficient to cover the capital improvement program for 24 months, or (2) $50 million, whichever is greater, then the AIF may be used by the City for any lawful purpose not inconsistent with the terms of any federal grants or aid or any contracts to which the City is a party. Net position restricted for capital improvements also includes grant or contract funds received from the FAA or Transportation Security Administration ("TSA") for the construction or acquisition of capital assets.

Net Position – Unrestricted Surplus (Deficit)

This category is defined as any portion of the 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 specifically defined purposes be restricted for capital improvement.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the recorded amounts of revenue and expenditures during the period. Actual results could differ from those estimates.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements. This reclassification had no effect on previously reported change in net position.

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Deposits

The City's investment policy (the "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 as of and during the years ended June 30, 2023, and 2022.

Cash and Investments

The City maintains a cash and investment pool (the "Pool") that is available for use by all funds and City departments. Participation in the Pool is limited to normal operating activities of the Fund and other activities that are restricted due to contractual considerations. Petty cash and change funds are included in non-pooled cash. The Fund's balance in pooled and non-pooled accounts at June 30, 2023 and 2022 are as follows:

Fiscal Year	Pooled Cash and Cash Equivalents	Pooled Investments	Total Pooled Cash and Investment	Non-pooled cash	Total Cash and Investments
2023	$ 275,113,471	$ 1,547,673,296	$ 1,822,786,767	$ 53,763,944	$ 1,876,550,711
2022	$ 332,287,053	$ 1,473,557,446	$ 1,805,844,499	$ 49,783,685	$ 1,855,628,184

Investments and Risk Disclosures

The following describes the investment positions of the City's operating funds as of June 30, 2023, and June 30, 2022. On these dates, the City had $5.7 billion and $5.3 billion, respectively, in high-grade, fixed-income investments. All investments are governed by state law and 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. The investments listed below do not include the City's pension funds, which are described separately in Note 6 as well as the City's ACFR. The Pool consists of all working capital, construction, and debt service funds that are not subject to yield restriction under Internal Revenue Service arbitrage regulations. The funds of the City's enterprise systems, which include the Fund, as well as the general fund, are commingled in this pool gain operational efficiency. Approximately 98.7% of the City's total investable funds are contained in this portfolio on June 30, 2023, and June 30, 2022.

City of Houston Investment	(1)(2) FY2023 & FY2022 Credit Quality Ratings	June 30, 2023 Fair Value ($ in millions)	June 30, 2023 WAM* (years)	June 30, 2022 Fair Value ($ in millions)	June 30, 2022 WAM* (years)
U.S. Treasury Securities	AAA	$ 2,824.41	1.515	$ 2,595.39	1.490
Agency Discount Notes	AAA	247.28	0.205	—	—
Govt. Agency Securities (3)	AAA	1,034.99	1.422	1,028.52	1.790
Govt. Agency Securities (State of Israel Bond)	AA	9.98	0.088	9.75	1.088
Govt. Agency Securities (3) (4)	Not Rated	237.89	0.905	288.28	1.684
Govt. Mortgaged Backed Securities (3) (4)	Not Rated	0.16	0.597	0.65	.743
MMF - TexSTAR Cash Reserves	AAA Short Term	268.85	0.003	293.08	.003
Commercial Paper	A-1/P-1 Short Term	621.22	0.205	705.36	.276
Municipal Securities	AAA Long Term	221.36	1.373	174.72	1.695
Municipal Securities	AA Long Term	203.71	1.633	199.86	2.093
Total Investments		$ 5,669.85		$ 5,295.61	

* 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.

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 Policy limits this investment portfolio’s dollar-weighted average maturity to 2.5 years maximum. As of June 30, 2023 and 2022, this investment portfolio’s dollar-weighted average maturity was 1.343 years and 1.65 years, respectively. Modified duration was 1.305 and 1.63 years at June 30, 2023 and 2022, respectively. 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 1.305 years would experience approximately a 1.305% 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 are issued by government-sponsored enterprises but are not direct obligations of the U.S. Government. The money market mutual funds are rated AAA. Municipal securities are rated at least AA. The Policy limits investments in the Pool to high-quality securities with a maximum maturity of five years for all U.S. treasuries, government agencies, and municipal securities except government mortgaged-backed securities which can have a maximum maturity of 15 years. Certificates of deposit maximum maturity is two years, and commercial paper maximum maturity is 365 days. The Pool's maximum sector exposure is as follows: 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 20%.

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. On June 30, 2023, and 2022, 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, the counterparty's trust department, or an agent. As of June 30, 2023, and 2022, none of the City's investments in the Pool 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 the time of purchase and reporting or sale. The investments in the Pool are limited by the Policy to US dollar-denominated investments and are not subject to this risk.

Fair Value Measurements

To the extent available, the City's investments are recorded at fair value as of December 31, 2023, and 2022. GASBS No. 72 — "Fair Value Measurement and Application," defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis.

The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the City has the ability to access at the measurement date.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

TexSTAR uses the fair value method to determine the Net Asset Value ("NAV") per unit of the Cash Reserve Fund. 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 to estimate the relevant cash flows, which are then discounted to calculate the fair values.

TexSTAR Cash Reserve Fund has not been classified in the fair value hierarchy table. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of net position. For additional disclosures and program information, visit texstar.org/ProgramInformation.aspx.

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

FAIR VALUE MEASUREMENTS USING ($ in millions)

Investments by Fair Value Level	Total June 30, 2023	Level 1	Level 2	Level 3	Total June 30, 2022	Level 1	Level 2	Level 3
U.S. Treasury Securities	$ 2,824.41	$2,824.41	$ –	$ –	$ 2,595.39	$2,595.39	$ –	$ –
Agency Discount Notes	247.28	247.28	–	–	–	–	–	–
Govt. Agency Securities	1,272.88	–	1,272.88	–	1,316.80	–	1,316.80	–
Govt. Agency Securities (State of Israel Bd)	9.98	–	–	9.98	9.75	–	–	9.75
Govt. Mortgage Backed Securities	0.16	–	0.16	–	0.65	–	0.65	–
Municipal Securities	425.07	–	425.07	–	374.58	–	374.58	–
Commercial Paper	621.22	–	621.22	–	705.36	–	705.36	–
Total Investment by Fair Value Level	$ 5,401.00	$3,071.69	$2,319.33	$ 9.98	$ 5,002.53	$2,595.39	$2,397.39	$ 9.75
Investments measured at net asset value (NAV)								
MMF - TexSTAR Cash Reserves	268.85				293.08			
Total investments measured at the net asset value (NAV)	268.85				293.08			
Total investments measured at fair value and NAV	$ 5,669.85				$ 5,295.61			

Restricted Cash and Cash Equivalents - Miscellaneous Money Market Accounts

In addition to the Pool, 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, 2023 ($ in millions)	Credit Quality Ratings	Fair Value June 30, 2022 ($ in millions)	Credit Quality Ratings	FY2023 & FY2022 Weighted Average Maturity
BlackRock Federal Institutional Fund: Balances held for Consolidated Rental Car Facility operations, improvements, debt service	$ 53.749	AAA	$ 49.769	AAA	< 60 days
First American US Treasury Money Market Fund: Balance held for commercial paper debt service	0.010	AAA	0.010	AAA	< 60 days
TOTAL FAIR VALUE - MONEY MARKET ACCOUNTS	$ 53.759		$ 49.779		

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, 2023, 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.

Fair Value Measurements – Money Market Accounts

The money market accounts have not been classified in the fair value hierarchy table. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of net position.

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

FAIR VALUE MEASUREMENTS USING ($ in millions)

Investments Measured at NAV	Total June 30, 2023	Total June 30, 2022
BlackRock FedFund-Institutional	$ 53.749	$ 49.769
First American US Treasury MMF	0.010	0.010
Total Investments Measured at NAV	$ 53.759	$ 49.779

Summaries of changes in capital assets for the years ended June 30, 2023 and June 30, 2022 are as follows (in thousands):

	Balance July 1, 2022 (Restated)	Additions	Retirements	Transfers	Balance June 30, 2023
Capital assets not being depreciated:					
Land	$ 216,039	–	(1,582)	–	$ 214,457
Rights & Intangibles - Non-Amortizable	20,988	–	–	682	21,670
Construction work in progress	556,914	488,116	–	(175,950)	869,080
Total capital assets not being depreciated	793,941	488,116	(1,582)	(175,268)	1,105,207
Depreciable capital assets:					
Buildings	3,109,559	3,721	(1,594)	61,699	3,173,385
Rights & Intangibles - Amortizable	22	–	–	–	22
Improvements and Equipment	2,023,101	7,853	(38,663)	108,987	2,101,278
Infrastructure	558,286	392		4,582	563,260
Total depreciable capital asset	5,690,968	11,966	(40,257)	175,268	5,837,945
Less accumulated depreciation for:					
Buildings	(1,756,767)	(94,902)	202	–	(1,851,467)
Rights & Intangibles	(22)	–	–	–	(22)
Improvements and Equipment	(1,485,786)	(63,845)	37,842	–	(1,511,789)
Infrastructure	(375,694)	(10,667)	–	–	(386,361)
Total accumulated depreciation	(3,618,269)	(169,414)	38,044	–	(3,749,639)
Depreciable capital assets, net	2,072,699	(157,448)	(2,213)	175,268	2,088,306
Lease right-of-use assets:					
Buildings	192	–	–	–	192
Equipment	71	32	–	–	103
Total lease right-of-use assets	263	32	–	–	295
Less accumulated amortization for:					
Buildings	(110)	(55)	–	–	(165)
Equipment	(46)	(23)	–	–	(69)
Total accumulated amortization	(156)	(78)	–	–	(234)
Lease right-of-use assets, net	107	(46)	–	–	61
Subscription right-of-use assets	3,739	1,515	–	–	5,254
Less accumulated amortization for:					
Subscription right-of-use assets	–	(1,429)	–	–	(1,429)
Subscription right-of-use assets, net	3,739	86	–	–	3,825
Total capital assets, net	$ 2,870,486	$ 330,708	$ (3,795)	$ –	$ 3,197,399

Capital Assets

	Balance June 30, 2021	Additions	Retirements	Transfers	Balance June 30, 2022
Capital assets not being depreciated:					
Land	$ 216,100	–	(61)	–	$ 216,039
Rights & Intangibles - Non-Amortizable	18,333	–	–	2,655	20,988
Construction work in progress	409,680	287,838	–	(140,604)	556,914
Total capital assets not being depreciated	644,113	287,838	(61)	(137,949)	793,941
Depreciable capital assets:					
Buildings	3,036,287	823	(921)	73,370	3,109,559
Rights & Intangibles - Amortizable	4,697	–	(4,675)	–	22
Improvements and Equipment	1,968,479	2,975	(8,692)	60,339	2,023,101
Infrastructure	553,970	76	–	4,240	558,286
Total depreciable capital assets	5,563,433	3,874	(14,288)	137,949	5,690,968
Less accumulated depreciation for:					
Buildings	(1,661,770)	(95,919)	922	–	(1,756,767)
Rights & Intangibles	(4,697)	–	4,675	–	(22)
Improvements and Equipment	(1,430,598)	(60,316)	5,128	–	(1,485,786)
Infrastructure	(365,265)	(10,429)	–	–	(375,694)
Total accumulated depreciation	(3,462,330)	(166,664)	10,725	–	(3,618,269)
Depreciable capital assets, net	2,101,103	(162,790)	(3,563)	137,949	2,072,699
Lease right-of-use assets:					
Buildings	192	–	–	–	192
Equipment	239	–	(168)	–	71
Total lease right-of-use assets	431	–	(168)	–	263
Less accumulated amortization for:					
Buildings	(55)	(55)	–	–	(110)
Equipment	(141)	(73)	168	–	(46)
Total accumulated amortization	(196)	(128)	168	–	(156)
Lease right-of-use assets, net	235	(128)	–	–	107
Total capital assets, net	$ 2,745,451	124,920	(3,624)	–	$ 2,866,747

HAS as Lessee

HAS' operating leases are primarily for equipment. The terms and conditions for these leases vary by the type of underlying asset. All leases have fixed, periodic, payments over the lease term, which ranges between 36 and 72 months, and do not contain variable payments or guaranteed residual values in the lease agreements. These operating leases are cancellable by the lessors or HAS with an advance notice or non-cancellable.

For the year ended June 30, 2023, and 2022, no variable or other payments were made by HAS other than the periodic rental payments in accordance with the lease agreements. In addition, there were no commitments under leases prior to the commencement of the lease term, and no impairment-related losses were recognized by the Fund.

Principal and interest requirements to maturity for the lease liability on June 30, 2023, are as follows (in thousands):

Year Ending June 30	Principal	Interest	Total
2024	$ 45	$ 1	$ 46
2025	10	–	$ 10
2026	4	–	$ 4
2027	4	–	$ 4
Total	$ 63	$ 1	$ 64

HAS as Lessor

HAS leases terminal space (except for regulated leases), aircraft maintenance and overhaul facilities, cargo facilities, hangars, and other structures to air carriers and other tenants under various operating leases, a majority of which is non-cancellable and terminate no later than July 2058. Certain provisions of the leases provide for fixed and variable rental payments, and all are generally designed to allow HAS to meet its debt service requirements and recover certain operating and maintenance costs. Additionally, certain of the agreements under which HAS receives revenue from the operation of concessions at IAH and HOU provides for the payment of a fee based on the greater of an aggregated percentage of gross receipts or a guaranteed minimum.

For the years ended June 30, 2023, and 2022, the Fund recognized the following balances related to the leases (in thousands):

June 30, 2023	Fixed Payments	Variable Payments
Rentals, Building, and Ground Area	$ 18,643	$ –
Concessions (Hotel and Auto Rental)	$ 1,608	$ 30,429
Interest Revenue	$ 9,253	$ –

June 30, 2022	Fixed Payments	Variable Payments
Rentals, Building, and Ground Area	$ 20,767	$ –
Concessions (Hotel and Auto Rental)	$ 1,608	$ 28,617
Interest Revenue	$ 9,776	$ –

Expected future payments, which are included in the measurement of the lease receivable, at June 30, 2023, are as follows (in thousands):

Year Ending June 30	Principal	Interest	Total
2024	$ 12,235	$ 8,807	$ 21,042
2025	11,548	8,371	19,919
2026	11,062	7,968	19,030
2027	11,447	7,556	19,003
2028	8,584	7,175	15,759
2029 - 2033	35,988	31,840	67,828
2034 - 2038	34,317	25,618	59,935
2039 - 2043	41,194	18,613	59,807
2044 - 2048	35,821	11,754	47,575
2049 - 2053	37,042	4,628	41,670
2054 - 2058	8,690	478	9,168
2059 - 2063	51	–	51
Total	$ 247,979	$ 132,808	$ 380,787

Regulated Leases

The City and United Airlines (“United”), Southwest Airlines (“Southwest”), Delta Air Lines, American Airlines, Spirit Airlines, and Air Canada (collectively, the “Signatory Airlines”) entered into Airport Use and Lease agreements (“Regulated Leases”), for the usage of IAH and HOU facilities to conduct business as air transportation businesses. These agreements are non-cancellable and terminate no later than 2042, with options to extend, or month-to-month and cancellable with 30 days’ notice. Under the terms of these agreements, Signatory Airlines pays HAS monthly based on the annual rental rate/fee schedule. Rate calculations are based on total estimates of costs and expenses, estimates of passengers and total landed weight and other factors. Final settlements are made each year after the audit of the Fund’s Financial Report. Other airlines operating at IAH and HOU are billed at rates established by the City ordinances.

Under the agreements with United, United has exclusive and preferential use of certain spaces and facilities of terminals A, B, C, and E at IAH and preferential use of certain apron areas. Under these agreements, all or part of the concession revenues and related costs generated from terminals B, C, and E of IAH are excluded from the Fund’s concession revenues and operating expenses on the statements of revenues, expenses, and changes in net position, as United operates, retains revenues, and pay related costs of operations for those concessions in accordance with the agreements. In addition, one of the agreements with Southwest grants Southwest preferential use of West Terminal/West Concourse, boarding gates, and other areas at HOU. Another agreement grants Southwest exclusive and preferential use of certain terminal areas of terminal A at IAH. No other airlines have exclusive or preferential use of more than ten (10) percent of terminal space or other areas of HAS as of June 30, 2023, and 2022. See Note 9 for major customers of HAS. Exclusive and preferential use of space is summarized as follows:

IAH

	United	Southwest	Total IAH
Terminal areas - leasable airline space (in thousands)	2,380 sq. ft.	10 sq. ft.	3,824 sq. ft.
Apron - leasable airline space (in thousands)	2,728 sq. ft.	95 sq. ft.	3,878 sq. ft.
Number of gates and remote stands	96	3	134

HOU

	Southwest	Total HOU
Terminal areas - leasable airline space (in thousands)	381 sq. ft.	468 sq. ft.
Apron - leasable airline space (in thousands)	516 sq. ft.	815 sq. ft.
Number of gates and remote stands	24	30

For the year ended June 30, 2023 and 2022, the Fund recognized the following balances related to Regulated Leases (in thousands):

June 30, 2023	Fixed Payments	Variable Payments
United	$ 110,514	$ 42,582
Southwest	$ 38,472	$ 22,039
Other Signatory Airlines	$ 15,441	$ 8,528

June 30, 2022	Fixed Payments	Variable Payments
United	$ 106,618	$ 37,161
Southwest	$ 35,542	$ 18,750
Other Signatory Airlines	$ 20,100	$ 8,556

Expected future minimum lease payments from Regulated Leases at June 30, 2023, are as follows (in thousands), projected by management of HAS using the following assumptions: 1) revenues earned from the Signatory Airlines during the year ended June 30, 2023, 2) through the expiration of the agreements with the Signatory Airlines or the next five (5) years, whichever is longer, 3) compounded at three (3) percent per annum, and 4) without considering future expansion and changes in operations by HAS or the Signatory Airlines:

Year Ending Year Ending June 30	Total
2024	$ 242,469
2025	249,743
2026	257,235
2027	235,621
2028	242,689
2029 - 2033	1,327,125
2034 - 2038	1,538,501
2039 - 2043	1,211,046
Total	$ 5,304,429

HAS' senior lien and subordinate lien revenue refunding bonds are secured by net revenues earned from the airlines. See additional disclosures in Note 5, Security for Airport Debt.

Subscription-Based Information Technology Arrangements

The Fund has entered into subscription-based information technology arrangements ("SBITA") involving data centers, various desktop and server software, electronic workflows and document management software, public safety radio communication system, public safety detection software, public safety case and records management, airport operations management systems, airport passenger information and public Wi-Fi systems, and airport parking management system. As of June 30, 2023, all SBITA have fixed, periodic, payments over the subscription periods, which range from 1 to 15 years and expire no later than fiscal year 2038. In addition, certain of these agreements are cancellable with a 30 or 60-day notice. There are no commitments or outflows of resources related to SBITA that are not yet effective. See Note 3 for changes in subscription right-of-use assets for the year ended June 30, 2023.

Future subscription payments as of June 30, 2023, are as follows (in thousands):

Year Ending June 30	Principal	Interest	Total
2024	$ 1,303	$ 94	$ 1,397
2025	1,325	54	1,379
2026	88	38	126
2027	90	35	125
2028	93	33	126
2029 - 2033	516	114	630
2034 - 2038	479	25	504
Total	$ 3,894	$ 393	$ 4,287

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Changes in long-term liabilities for the years ended June 30, 2023 and 2022 are summarized as follows (in thousands):

	Balance July 1, 2022 (Restated)	Additions	Reduction	Balance June 30, 2023	Due within One Year
Revenue bonds payable	$ 2,133,665	$ –	$ (77,700)	$ 2,055,965	$ 119,710
Plus: unamortized premium	198,181	–	(20,419)	177,762	–
Less: unamortized discount	(434)	–	203	(231)	–
Revenue Bonds Payable, Net	2,331,412	–	(97,916)	2,233,496	119,710
Special facility bonds payable	60,680	–	(8,165)	52,515	8,870
Commercial paper payable	185,000	165,000	–	350,000	–
Pension obligation bonds	2,006	–	–	2,006	–
Notes payable	15,993	–	(1,193)	14,800	1,217
Claims for workers compensation	2,224	847	(117)	2,954	1,064
Compensated absences	14,280	7,562	(6,678)	15,164	6,887
Lease Liabilities	111	–	(48)	63	45
Subscriptions liabilities	3,739	1,515	(1,360)	3,894	1,303
Net pension liability	165,413	12,798	–	178,211	–
Other post-employment benefits - health	69,874	–	(16,592)	53,282	–
Other post-employment benefits - LTD	1,048	54	–	1,102	–
Total Long Term Liabilities	$ 2,851,780	$ 187,776	$ (132,069)	$ 2,907,487	$ 139,096

	Balance June 30, 2021	Additions	Reduction	Balance June 30, 2022	Due within One Year
Revenue bonds payable	$ 2,209,245	$ –	$ (75,580)	$ 2,133,665	$ 77,700
Plus: unamortized premium	213,263	–	(15,082)	198,181	–
Less: unamortized discount	(502)	–	68	(434)	–
Revenue Bonds Payable, Net	2,422,006	–	(90,594)	2,331,412	77,700
Special facility bonds payable	68,185	–	(7,505)	60,680	8,165
Commercial paper payable	20,000	165,000	–	185,000	–
Pension obligation bonds	2,006	–	–	2,006	–
Notes payable	14,421	1,572	–	15,993	1,193
Claims for workers compensation	3,077	278	(1,131)	2,224	1,181
Compensated absences	14,018	262	–	14,280	6,820
Lease Liabilities	239	–	(128)	111	77
Net pension liability	161,545	3,868	–	165,413	–
Other post-employment benefits - health	82,344	–	(12,470)	69,874	–
Other post-employment benefits - LTD	1,150	–	(102)	1,048	–
Total Long Term Liabilities	$ 2,788,991	$ 170,980	$ (111,930)	$ 2,848,041	$ 95,136

Revenue Bonds

A summary of revenue bonds outstanding as of June 30, 2023 and 2022 are as follows (in thousands):

	Maturity Year	Original Interest Rate Range	Face Value Outstanding June 30, 2023	Face Value Outstanding June 30, 2022
Airport System Subordinate Revenue Bonds				
Series 2000B, $269,240,000 original principal	2024	5.45%-5.7%	$ 31,625	$ 38,315
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 2012A, $286,585,000 original principal	2032	5 %	–	5,035
Series 2012B, $217,135,000 original principal	2032	5 %	–	4,845
Series 2018A, $130,550,000 original principal	2041	5 %	116,970	120,615
Series 2018B, $285,220,000 original principal	2048	5 %	253,830	262,740
Series 2018C, $212,820,000 original principal	2032	5 %	170,235	182,980
Series 2018D, $356,290,000 original principal	2039	5 %	312,065	321,995
Series 2020A, $131,620,000 original principal	2047	4%-5%	131,620	131,620
Series 2020B, $71,565,000 original principal	2030	5 %	71,565	71,565
Series 2020C, $660,490,000 original principal	2032	0.883%-2.485%	634,590	660,490
Series 2021A, $286,010,000 original principal	2048	4%-5%	286,010	286,010
Total Principal			2,055,965	2,133,665
Less: Total current maturities			(119,710)	(77,700)
Unamortized discount			(231)	(434)
Unamortized premium			177,762	198,181
Total Revenue Bonds Payable - Long Term			$ 2,113,786	$ 2,253,712

Senior Lien Revenue Bonds

At June 30, 2023 and 2022, there were no senior lien revenue bonds issued and outstanding.

Subordinate Lien Revenue Bonds

On October 20, 2020, HAS issued $837,775,000 in Airport System Subordinate Lien Revenue Refunding Bonds in three series: Series 2020A (AMT) in the amount of $131,620,000, 2020B (NON-AMT) in the amount of $71,565,000, and 2020C (Taxable) in the amount of $660,490,000, with interest rates at 0.883% to 5.0%. The proceeds were used to generate resources for debt service payments of the refunded and defeased portions of Series: 2010 (AMT), 2000B (NON-AMT), 2011A (AMT), 2011B (AMT), 2012A (AMT), 2012B (NON-AMT); to refund $150,973,000 of Airport System Commercial Paper Notes; and to pay costs of issuance of the bonds. A deferred refunding loss of $20,123,091 was recognized for this refunding transaction. The bonds mature in varying amounts from the year 2022 to 2047. Net present value savings related to the bond refunding totaled $94,799,712 and reduced future debt service by $98,213,180.

On June 22, 2021, HAS issued Series 2021A (AMT) Airport System Subordinate Lien Revenue Refunding Bonds in the amount of $286,010,000 with interest rates of 4.0% to 5.0%. The proceeds were used for the purpose of refunding $345,800,000 of Houston Airport System Commercial Paper Notes and to pay the costs of issuance of the bonds. No deferred gain or loss was recognized for this refunding transaction. The bonds mature in varying amounts from the year 2023 to 2048.

Arbitrage Rebate

Arbitrage rebate rules, under the Internal Revenue Code Section 148 and related Treasury Regulations, 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. On June 30, 2023, and 2022, a yield restriction/arbitrage rebate of $0 and $0, respectively, was accrued.

Commercial Paper

During the year ended June 30, 2013, the City authorized up to $150 million in Airport System Commercial Paper Notes (“Commercial Paper”). On November 20, 2013, the City re-authorized and amended the Series A and B Commercial Paper. A new direct pay letter of credit was issued on December 18, 2013, covering $150 million in face value of Series A and B Commercial Paper, 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 (“SMBC”), which expires on December 15, 2025. 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 SMBC was expanded to $350 million, plus interest.

On June 30, 2023, the outstanding balance of Commercial Paper was $350.0 million, with an interest rate of 3.679%, and had no available limit for additional borrowings. At June 30, 2022, the outstanding balance of Commercial Paper was $185.0 million, with an interest rate of 1.24%, and the available limit for additional borrowings was approximately $165.0 million.

Pension Obligation Bonds

In 2005, the Fund was assigned the responsibility to pay principal and interest on a portion of the City’s Pension Obligation Bonds, 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 interest payment for the Pension Obligation Bonds is $106,500.

Security for Airport Debt

To the extent it legally may do so, as described in the Master Bond Ordinance, HAS may charge rates for the use of the airports in order that, for each fiscal year, the net revenues will be not less than 125% of the debt service requirements for Senior Lien Revenue Bonds and 110% of the debt service requirements for Subordinate Lien Revenue Bonds. 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 Revenue Bonds and Commercial Paper. These policies have an aggregate maximum amount of $12,374,996 and terminate on October 25, 2023, and July 1, 2030.

The Fund has also purchased Subordinate Lien Debt Service Reserve Fund Surety Policies that unconditionally guarantee the payment of the current principal and interest on all outstanding 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 Fund also has a cash reserve of $83,960,003 and $83,960,003 in the Subordinate Lien Bond Reserve Fund as of June 30, 2023 and June 30, 2022, respectively.

Pledged Revenues

The Fund has pledged its revenues, net of operation and maintenance expenses, (“Net Revenue”) to pay principal and interest on outstanding Commercial Paper, Senior Lien Revenue Bonds, Subordinate Lien Revenue Bonds, and Inferior Lien Revenue Bonds.

Pledged revenues exclude any bond proceeds, replacement proceeds, investment income earned by bond proceeds, fair value adjustments, PFC, 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 properties.

For the years ended June 30, 2023, and 2022, Net Revenues totaled $266.7 million and $233.4 million, respectively. In addition to PFC and grants totaling $208.2 million and $163.5 million for the years ended June 30, 2023 and 2022, respectively, were available to pay debt service. For the years ended June 30, 2023, and 2022, the debt service coverage ratio was not calculated as the debt service was entirely funded by PFC and grants.

Special Facility Bonds

The Airport System Special Facilities Taxable Revenue Bonds, (CRCF Project), Series 2001, original par value $130,250,000, financed the design and construction 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 at Intercontinental. The City holds legal title to the completed 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 CFC 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, 2023, and 2022, 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 CFC. There is no pledge of car rental company revenues, or any general revenue of the City.

On June 30, 2023 and 2022, special facilities revenue and refunding bonds (CRCF) outstanding totaled $52.5 million and $60.7 million, respectively.

Forward Delivery Bond Purchase Agreement

On October 21, 2015, the City authorized up to $450 million in Airport System Inferior Lien Revenue Bonds, in one or more series. On November 5, 2015, the City authorized the execution of a forward delivery purchase agreement with the Royal Bank of Canada, to expire on February 5, 2027, for the issuance of $450 million in Inferior Lien Revenue Bonds. The City Council must reauthorize this liquidity arrangement annually. For the years ended June 30, 2023, and 2022, no Inferior Lien Revenue Bonds have been issued or outstanding.

Direct Borrowing Loans

During the year ended June 30, 2020, HAS 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. The SECO program affords low-rate 2% loans for borrowers approved to build or acquire energy-efficient equipment or other assets.

HAS 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 the initial repayment to commence shortly thereafter. After HAS 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 No. 1 has a maximum amount of $8.0 million to be repaid over approximately ten years, with repayment to commence once all projects are completed. Loan #2 has a maximum amount of $7.5 million, and similar terms to Loan No. 1. At June 30, 2023, and 2022, HAS has a total of $14.8 million and $16.0 million, respectively, loan balance outstanding including interest accrued during the construction period of $0.5 million. The replacement projects continued throughout the year ended June 30, 2021, and have been completed as of June 30, 2022.

There are no unique default provisions, payment provisions, or collateral pledged to either of these loans. In the event of default, such as failing to make timely payments in accordance with the agreements, the outstanding balances, including accrued interest, may become due immediately. As of June 30, 2023, and 2022, HAS is in compliance with the terms and conditions of these loan agreements.

Debt Service Requirements to Maturity

Aggregate future debt service payments to maturity as of June 30, 2023 are as follows (in thousands):

Year Ending June 30	Airport System Total Future Requirements			SECO Direct Borrowing	
	Principal	Interest	Total	Principal	Interest
2024	$ 129,797	$ 96,267	$ 226,064	$ 1,217	$ 287
2025	483,796	88,738	572,534	1,241	262
2026	138,062	73,902	211,964	1,267	237
2027	144,242	69,037	213,279	1,292	212
2028	149,833	63,473	213,306	1,318	186
2029 - 2033	799,798	222,203	1,022,001	6,136	526
2034 - 2038	249,523	112,237	361,760	2,329	94
2039 - 2043	209,090	54,255	263,345	–	–
2044 - 2048	147,685	20,527	168,212	–	–
2049 - 2053	23,460	487	23,947	–	–
Total	$ 2,475,286	$ 801,126	$ 3,276,412	$ 14,800	$ 1,804

Year Ending June 30	Airport System Subordinate Lien Revenue Bonds		Airport System Commercial Paper	
	Principal	Interest	Principal	Interest
2024	$ 119,710	$ 78,193	$ –	$ 14,067
2025	122,925	74,809	350,000	10,557
2026	126,350	71,218	—	—
2027	131,635	67,096	–	–
2028	136,260	62,337	–	–
2029 - 2033	792,035	221,308	–	–
2034 - 2038	246,815	112,103	–	–
2039 - 2043	209,090	54,255	–	–
2044 - 2048	147,685	20,527	–	–
2049 - 2053	23,460	487	–	–
Total	$ 2,055,965	$ 762,333	$ 350,000	$ 24,624

Year Ending June 30	Airport System Special Facility Bonds - Rental Car Facility		Airport System Pension Obligations	
	Principal	Interest	Principal	Interest
2024	$ 8,870	$ 3,613	$ –	$ 107
2025	9,630	3,003	–	107
2026	10,445	2,340	–	107
2027	11,315	1,622	–	107
2028	12,255	843	–	107
2029 - 2033	–	–	1,627	369
2034 - 2038	–	–	379	40
2039 - 2043	–	–	–	–
2044 - 2048	–	–	–	–
2049 - 2053	–	–	–	–
Total	$ 52,515	$ 11,421	$ 2,006	$ 944

As a department of the City, HAS participates in the Houston Municipal Employees' Pension System ("HMEPS" or the "Plan"), which publishes its separate financial statements and is a blended component unit of the City. A complete copy of the summary plan description and the stand-alone financial reports can be obtained from HMEPS at 1201 Louisiana St., Suite 900, Houston, Texas 77002-5608 or via http://www.hmeps.org.

General Information

Plan Description

HMEPS is a single employer, defined benefit pension plan, which covers all eligible municipal employees of the City, including all employees of HAS. HMEPS was created under Chapter 358, Acts of the 48th Texas Legislature, Regular Session, 1943 (Article 6243g, Vernon's Texas Civil Statutes) and reenacted and continued under HB1573, 77th Texas Legislature, Article 6243h, Vernon's Texas Civil Statutes, (the "Pension Statute") as amended. An independent Board of Trustees administers the Plan. The fiscal year of HMEPS ends June 30. In this Financial Report, the Fund reports separately from the City and is required to report as a cost-sharing plan since the Fund is allocated a proportionate share of the net pension liability ("NPL"). The schedules of Net Pension Liability, Pension Expense, Deferred Outflows, and Deferred Inflows of Resources show the Fund's proportionate share of the Plan.

Benefits Provided

HMEPS includes three contributory groups, groups A, B, and D, and provides for service-connected disability and death benefits to eligible members and surviving spouses and/or dependents, with no age or service eligibility requirements. Pension benefits are based on a participant's average monthly salary and years of credited 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 HMEPS, employer and employee obligations to contribute, as well as employee contribution rates, are included in the Pension Statute, 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 amounts agreed to in meet and confer agreements.

All active participants are required to contribute to the Plan. Effective July 2017, group A participants contribute 7% of salary, group B participants contribute 2% of salary, and group D participants contribute 2% of salary. Effective July 2018, group A and group B participants contributed 8% and 4%, respectively. Beginning in January 2018, group D participants contributed an additional 1% of their salary.

As a result of Senate Bill 2190 of the 85th Texas Legislature ("SB 2190"), beginning in fiscal year 2018, the City is required to contribute the "Total City Contribution" to the Plan, which consists of the sum of (a) an actuarially determined percentage of payroll ("City Contribution Rate") multiplied by actual payroll and a fixed dollar amount ("City Contribution Amount") which is based on the Unfunded Actuarial Accrued Liability as of July 1, 2016 ("Legacy Liability"). The Legacy Liability payment is amortized over 30 years, beginning on July 1, 2017, and grows at 2.75% per year regardless of the actual payroll growth rate.

The City as a whole and for the years ended June 30, 2023, and 2022, the City Contribution Rate was 8.44% and 8.41% of payroll, respectively, and the City Contribution Amount was $142.0 million and $138.2 million, respectively.

Also, SB 2190 required a one-time payment of $250 million to the Plan in Pension Obligation Bond proceeds during the year ended June 30, 2018.

Defined Benefit Pension Plan

As of the most recent measurement date, June 30, 2023, of the net pension liability, membership data for the Plan are as follows:

Retirees and beneficiaries currently receiving benefits	11,776
Former members entitled to benefits but not yet receiving them	8,301
Active members	11,402
Total participants	31,479

Net Pension Liability

The Fund's proportionate share of NPL in the Plan was allocated and reported on the accompanying statements of net position.

NPL is the difference between the "Total Pension Liability" ("TPL") and the Plan's "Fiduciary Net Position" ("FNP"). 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. TPL includes benefits related to projected salary and service, and automatic cost of living adjustments ("COLA"). In addition, ad hoc COLAs are also included in TPL to the extent they are substantively automatic. FNP is determined on the same basis used by the Plan. NPL and certain sensitivity information are based on an actuarial valuation performed as of July 1, 2022, and 2021. TPL was rolled forward from that valuation date to the measurement date of June 30, 2023, and 2022 using generally accepted actuarial principles. A Schedule of Net Pension Liability, including multi-year trend information (beginning with the year ended June 30, 2015), is presented in the Required Supplementary Information section of this ACFR.

The City's and the Fund's net pension liability as of June 30, 2023, and 2022 are summarized as follows (in thousands):

	June 30, 2023		June 30, 2022	
	Municipal Employees' Pension	The Fund's proportionate share of NPL	Municipal Employees' Pension	The Fund's proportionate share of NPL
Total pension liability	$ 5,698,777	$ 624,425	$ 5,562,146	$ 571,532
Less: Fiduciary net position	(4,072,345)	(446,214)	(3,952,351)	(406,119)
Net pension liability	$ 1,626,432	$ 178,211	$ 1,609,795	$ 165,413

The Fund's proportionate percentage of NPL is 10.96% and 10.28% for the years ended June 30, 2023 and 2022, respectively.

Schedule of Changes in Net Pension Liability (in thousands)

	June 30, 2023			June 30, 2022		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Service cost	$ 85,184	$ –	$ 85,184	$ 82,080	$ –	$ 82,080
Interest on the total pension liability	381,016	–	381,016	371,952	–	371,952
Difference between expected and actual experience	6,279	–	6,279	26,473	–	26,473
Assumption Changes	–	–	–	(29,516)	–	(29,516)
Employer contributions	–	204,895	(204,895)	–	197,341	(197,341)
Employees contributions	–	34,600	(34,600)	–	32,655	(32,655)
Pension plan net investment income	–	221,364	(221,364)	–	189,388	(189,388)
Benefit payments	(334,859)	(334,859)	–	(327,773)	(327,773)	–
Refunds	(989)	(989)	–	(1,132)	(1,132)	–
Administrative expense	–	(5,636)	5,636	–	(5,681)	5,681
Other	–	619	(619)	–	466	(466)
Net change	136,631	119,994	16,637	122,084	85,264	36,820
Net pension liability beginning	5,562,146	3,952,351	1,609,795	5,440,062	3,867,087	1,572,975
Net pension liability ending	$ 5,698,777	$ 4,072,345	$1,626,432	$ 5,562,146	$ 3,952,351	$1,609,795

Schedule of Assumptions

Inflation	2.25%
Salary changes	3.25% to 5.50%
Investment rate of return	7.00%
Valuation date	2022-07-01
Actuarial cost method	Entry Age Normal Cost
Amortization method	Level Percent of Payroll, Open
Remaining amortization period	25 Years
Asset valuation method	5 Year smoothed market, direct offset of deferred gains and losses
Mortality assumption	PUB-2010 table, amount weighted, below-median income, with a 2-year set forward. The rates are then projected on a fully generational basis by the long-term rates of improvement of scale MP-2020.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. The actuary utilized the forward-looking return expectations developed by twelve investment consulting firms that work with pension systems similar to HMEPS. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Defined Benefit Pension Plan

The Plan's target asset allocation and actual allocation as of June 30, 2023 and 2022 are summarized as follows:

	June 30, 2023		June 30, 2022	
Asset Class	**Target Allocation**	**Actual Allocation**	**Target Allocation**	**Actual Allocation**
Global equity	28.0 %	29.4 %	32.5 %	26.4 %
Private equity	17.0 %	27.9 %	17.0 %	31.4 %
Fixed income	10.0 %	5.2 %	10.0 %	6.5 %
Real estate	12.5 %	9.9 %	12.5 %	10.7 %
Absolute return	— %	3.2 %	8.0 %	3.3 %
Inflation linked	20.0 %	17.2 %	15.0 %	15.1 %
Private debt	12.5 %	3.7 %	5.0 %	2.5 %
Cash/liquidation	— %	3.5 %	— %	4.1 %
	100.0 %	100.0 %	100.0 %	100.0 %

Pension Expense

For the years ended June 30, 2023 and June 30, 2022, the City recognized pension expense as follows (in thousands):

	June 30, 2023	June 30, 2022
Service cost	$ 85,184	$ 82,080
Interest	381,016	371,952
Difference between expected and actual experience	(1,966)	(9,242)
Assumption changes	(7,828)	(7,828)
Differences between projected and actual earnings on plan investments	(84,487)	(103,681)
Member contributions	(34,600)	(32,655)
Project earnings on plan investments	(273,117)	(267,052)
Administrative expense	5,636	5,681
Other	(619)	(466)
Total pension expense	$ 69,219	$ 38,789

The Fund's proportionate shares of pension expense are $7.6 million and $4.0 million for the years ended June 30, 2023, and June 30, 2022, respectively.

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, 2023, and June 30, 2022 (in thousands):

	June 30, 2023			June 30, 2022		
	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	$ 1,860	$ (347)	$ 1,513	$ 1,999	$ (1,428)	$ 571
Change of assumptions	–	(1,519)	(1,519)	–	(2,229)	(2,229)
Net difference between projected and actual earnings on pension plan investments	–	(21,995)	(21,995)	–	(34,625)	(34,625)
Change in proportion	9,728	–	9,728	84	–	84
Total	$ 11,588	$ (23,861)	$ (12,273)	$ 2,083	$ (38,282)	$ (36,199)

Amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2023, will be recognized in pension expense as follows (in thousands):

Year Ending Year Ending June 30		
2024	$	(5,889)
2025		(12,729)
2026		5,211
2027		1,134
Total	$	(12,273)

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

The following presents TPL and NPL, calculated using the current discount rate, as well as what the Fund's TPL and NPL 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):

June 30, 2023		1% Decrease		Current Discount Rate		1% Increase
		6.00 %		7.00 %		8.00 %
Municipal Employees' Pension	$	2,202,979	$	1,626,432	$	1,141,455
The Fund's proportionate share of NPL	$	241,384	$	178,211	$	125,071

June 30, 2022		1% Decrease		Current Discount Rate		1% Increase
		6.00 %		7.00 %		8.00 %
Municipal Employees' Pension	$	2,180,572	$	1,609,795	$	1,129,984
The Fund's proportionate share of NPL	$	224,062	$	165,413	$	116,110

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Retiree Health Insurance Benefits

Pursuant to a City Ordinance, the City provides certain Other Post-employment Benefits ("OPEB") for retired employees. Substantially all employees become eligible for these benefits if they reach normal retirement age while working for the City. The City is not required by law or contractual agreement to provide funding for OPEB other than the pay-as-you-go amounts necessary to provide current benefits to retirees, eligible dependents, and beneficiaries. The cost of retiree health care premiums incurred by the City (employer and subscriber) amounted to approximately $56.5 million and $61.5 million for the years ended June 30, 2023 and 2022, respectively. Retiree health care is accounted for in the Health Benefits Fund, an Internal Service Fund for the City. On June 30, 2023, and 2022, there were 10,175 and 10,726, respectively, 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's 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, HAS participates in the OPEB plan of the City. A separate accounting is not done for the Fund's portion. It is allocated its share of expenses on an annual basis. For the years ended June 30, 2023, and 2022, the Fund made "pay-as-you-go" payments totaling approximately $1.7 million and $1.8 million, respectively, for the OPEB plan.

Membership

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

	City
Retirees and beneficiaries currently receiving benefits	10,175
Active members:	20,954
Total participants	31,129

Schedule of Assumptions

The total OPEB liability is based on an actuarial valuation as of June 30, 2022 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 job classification, service, and age
Discount Rate	3.54% at June 30, 2023 and 2.16% at June 30, 2022
Measurement Date	June 30, 2022
Healthcare Costs Trend Rates:	
Medicare	7.00% trending down to 4.50%
Prescription Drug	8.00% trending down to 4.50%
Medicare Advantage	1.80% trending down to 4.50%
Administrative Costs	2.00%
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.

Net OPEB Liability

The total OPEB liability was measured as of June 30, 2022 and 2021. The total OPEB liability was determined from an actuarial valuation as of June 30, 2022. 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, healthcare trends, and other actuarial assumptions.

The Fund's Net OPEB Liability (in thousands)

Measurement Date: **June 30, 2022 and 2021**

Reporting Date: **June 30, 2023 and 2022**

	2023	2022
Total OPEB liability	$ 53,282	$ 69,874
Less: Fiduciary net position	–	–
Net OPEB liability	$ 53,282	$ 69,874

The Fund's proportionate share of the net OPEB liability at June 30, 2023, and 2022 was 3.03% and 2.99%, respectively. A schedule of net OPEB liability, in addition to the information above, includes multi- year trend information (beginning with fiscal year 2018) and is presented in the Required Supplementary Information section.

Schedule of Change in Net OPEB Liability (in thousands)	2023	2022
Service cost	$ 124,690	$ 140,185
Interest	52,553	60,194
Change of benefit terms	–	(461,192)
Difference between expected and actual experience	23,213	(2,523)
Assumptions changes	(720,476)	47,150
Benefit payments	(56,511)	(61,487)
Net change	(576,531)	(277,673)
Net OPEB liability beginning	2,336,426	2,614,099
Net OPEB liability ending	$ 1,759,895	$ 2,336,426

OPEB Expense

For the years ended June 30, 2023 and 2022, the City recognized OPEB expense of $2.6 million and $(335.8) million, respectively. The Fund recognized OPEB expense of $0.1 million and $(10.0) million for the years ended June 30, 2023 and 2022, respectively. Components of OPEB expense are as follows (in thousands):

	2023	2022
Service Cost	$ 124,690	$ 140,185
Interest	52,553	60,194
Expensed portion of current-period benefit changes	–	(461,192)
Expensed portion of current difference in experience	3,316	(360)
Expensed Portion of current period changes of assumptions	(102,925)	6,736
Amortization of beginning of year deferred amounts	(75,008)	(81,383)
OPEB expense	$ 2,626	$ (335,820)

Schedule of Deferred Outflows and Inflows of Resources

Deferred inflows and outflows of resources related to the OPEB plan reported by the Fund at June 30, 2023 and 2022 are as follows (in thousands):

	2023			2022		
	Deferred Outflows of Resources	Deferred Inflows of Resources	Total Fund	Deferred Outflows of Resources	Deferred Inflows of Resources	Total Fund
Changes of assumptions	$ 6,676	$ (24,116)	$ (17,440)	$ 8,193	$ (8,341)	$ (148)
Difference between expected and actual experience	602	(2,330)	(1,728)	–	(3,154)	(3,154)
Contributions made subsequent to measurement date and prior to reporting date	1,998	–	1,998	1,710	–	1,710
Total	$ 9,276	$ (26,446)	$ (17,170)	$ 9,903	$ (11,495)	$ (1,592)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to net OPEB liability at June 30, 2023 will be recognized in OPEB expense as follows (in thousands):

Year Ending Year Ending June 30	HAS
2024	$ (5,287)
2025	(3,875)
2026	(2,478)
2027	(1,689)
2028	(2,823)
Thereafter	(3,016)
Total	$ (19,168)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Trend

The following presents the net OPEB liability, calculated using the discount rate, as well as what the Fund'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):

June 30, 2023	1% Decrease 2.54%	Current Discount Rate 3.54%	1% Increase 4.54%
Net OPEB liability	$ 62,285	$ 53,282	$ 46,161

June 30, 2022	1% Decrease 1.16%	Current Discount Rate 2.16%	1% Increase 3.16%
Net OPEB liability	$ 82,707	$ 69,874	$ 59,911

The following presents the net OPEB liability calculated using the current healthcare cost trend rate as of June 30, 2022 and 2021, as well as what the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1 percentage point lower and 1 percentage point higher than the current rate (in thousands):

June 30, 2023	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Net OPEB liability	$ 45,129	$ 53,282	$ 63,920

June 30, 2022	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Net OPEB liability	$ 57,823	$ 69,874	$ 85,992

Long-Term Disability Plan (LTD)

The long-term disability plan (the “LTD”), accounted for as an internal service fund of the City, is a part of the Income Protection Plan implemented on September 1, 1985 (renamed to 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 pay plus longevity when combined with income benefits available from other sources. The LTD 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 LTD is administered by Reed Group, which is reimbursed by the internal service fund as claims are paid, plus an administrative services fee. As a department of the City, HAS participates in the LTD.

Actuarially Determined Contribution and Total Claim Liability

For the years ended June 30, 2023 and 2022, there were an increase of $74 thousand and a decrease of $1,259 thousand, respectively, in the amount of disabled life reserves.

	June 30, 2023	June 30, 2022
Total claim liability at beginning of period	$ 5,842	$ 7,101
Changes for the year:		
Changes due to assumption changes	(137)	(338)
Increase attributable to additions	707	963
Decrease attributable to terminations	(160)	(82)
Change attributable to passage of time and adjustments	(336)	(1,802)
Net change	$ 74	$ (1,259)
Total Claim Liability at End of Period	$ 5,916	$ 5,842

Changes in Total OPEB Liability

	June 30, 2023	June 30, 2022
Beginning balance	$ 14,170	$ 15,546
Changes for the year:		
Service cost	1,571	1,705
Interest	541	363
Experience	(965)	(1,800)
Benefit payments	(920)	(901)
Assumption changes	(326)	(743)
Net changes	(99)	(1,376)
Ending Balance	$ 14,071	$ 14,170

The Fund's proportionate share of the total OPEB liability for the LTD at June 30, 2023 and 2022 was $1,102 thousand and $1,048 thousand, respectively.

OPEB LTD Expense Components

	June 30, 2023	June 30, 2022
Service cost	$ 1,571	$ 1,705
Interest on total OPEB liability	541	363
Differences between expected and actual experience	(340)	(243)
Changes in assumptions	247	280
Total OPEB Expense	$ 2,019	$ 2,105

For the years ended June 30, 2023 and 2022, the Fund recognized expense of $158 thousand and $156 thousand, respectively, related to the LTD.

Deferred Outflows of Resources and Deferred Inflows of Resources

At June 30, 2023 and 2022, the Fund reports deferred outflows of resources and deferred inflows of resources related to the LTD from the following sources:

	June 30, 2023			June 30, 2022		
	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	$ 54	$ (283)	$ (229)	$ 61	$ (231)	$ (170)
Changes in assumptions	178	(75)	103	195	(56)	139
Total	$ 232	$ (358)	$ (126)	$ 256	$ (287)	$ (31)

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

Deferred Outflows and Inflows of Resources

Year Ending Year Ending June 30		
2024	$	(7)
2025		(7)
2026		(7)
2027		(7)
2028		(7)
Thereafter		(91)
Total	$	(126)

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

The following presents the total OPEB liability - LTD, calculated using the discount rate of 4.13% and 3.54%, at June 30, 2023 and 2022, respectively, as well as what the total 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):

June 30, 2023	1% Decrease 3.13%	Current Discount Rate 4.13%	1% Increase 5.13%
Net OPEB liability	$ 1,145	$ 1,102	$ 1,058

June 30, 2022	1% Decrease 2.54%	Current Discount Rate 3.54%	1% Increase 4.54%
Net OPEB liability	$ 1,089	$ 1,048	$ 1,007

Deferred Compensation Plan

The City offers its employees a deferred compensation plan (the "DCP"), created in accordance with Internal Revenue Code Section 457 as a separately administered trust. The DCP, available to all City employees, permits employees to defer a portion of their salary until future years. The City does not make any matching or discretionary contributions to the DCP. The DCP is considered as an other employee benefit plan in accordance with paragraph 6 of GASBS No. 97. And the DCP is not considered a fiduciary activity of the City under the provisions of GASBS No. 84. 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. The DCP's assets are not subject to the City's general creditors and are not included in the accompanying financial statements.

Workers' Compensation Self-Insurance Plan

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

On June 30, 2023,and 2022, the City has an accumulated liability of approximately $146.2 million and $148.7 million, respectively, covering estimates for approved but unpaid claims and incurred but not reported claims recorded in the City's government-wide statements of net position. The amount of liability is based on an actuarial study each year. The Fund's share of the liability totaled approximately $3.0 million and $2.2 million on June 30, 2023 and 2022, respectively.

Schedule of Changes in Liability
(in thousands)

	June 30, 2023	June 30, 2022
Beginning actuarial estimate of claims liability, July 1	$ 148,698	$ 135,520
Incurred claims for fiscal year	24,704	45,743
Payments on claims	(19,200)	(32,400)
Actuarial adjustment	(8,000)	(165)
Ending actuarial estimate of claims liability, June 30	$ 146,202	$ 148,698

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Due to and Due from the City of Houston

Amounts due to and due from other funds of the City at June 30, 2023 and 2022 are as follows (in thousands):

	June 30, 2023		June 30, 2022	
	Due to	Due from	Due to	Due from
General Fund	$ 608	$ 245	$ 1,466	$ 561
Nonmajor Governmental Funds	1	314	–	134
Total	$ 609	$ 559	$ 1,466	$ 695

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Major Customers

For the years ended June 30, 2023, and 2022, the Fund earned 39.2% and 42.2%, respectively, of its operating revenues from two major customers, United and Southwest. No other companies or customers individually represent more than 1.8% of total operating revenues. The two major companies and their respective percentage of outstanding receivable (billed receivable) and revenue as of and for the years ended June 30, 2023 and 2022 are as follows:

	Percentage of Operating Revenue	
	2023	2022
United	28.7 %	31.5 %
Southwest	10.5 %	10.7 %

	Percentage of Accounts Receivable	
	2023	2022
United	0.4 %	42.0 %
Southwest	6.8 %	0.0 %

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The City has authorized various issues of Special Facilities Bonds to enable United (formerly known as Continental Airlines, Inc.), a publicly traded company, to construct facilities at the Intercontinental Airport ("Special Facilities") that were deemed to be in the public interest. 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. Collected pledged revenues are remitted directly to a trustee by United. In addition, no commitments beyond the payments from United and maintenance of the tax-exempt status of the conduit debt obligation were extended by the City. On June 30, 2023, the bonds had an aggregate outstanding principal amount payable of approximately $1.1 billion.

Under the terms of the related lease agreements, United operates, maintains, and insures the terminals, and manages and retains revenues from all concessions operated in the Terminal B and E Special Facilities. The City operates, maintains, insures, 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 United through long-term leases, and the Airport System will enjoy no direct financial benefit from these facilities for the term of the lease agreements. Accordingly, the Airport System accounts for the 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 of the Fund.

Conduit Debt Outstanding at June 30, 2023 and 2022 (in thousands)	**June 30, 2023**	**June 30, 2022**
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	227,370	238,890
Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Terminal Improvement Projects), Series 2015B-1 (AMT), $176,650,000 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	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	47,470
Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2020C (AMT), $66,890,000 principal, matures in 2027	66,890	66,890
Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2021A (AMT), $70,175,000 original principal, matures in 2041	70,175	70,175
Airport System Special Facilities Revenue Refunding Bonds (United Airlines, Inc. Airport Improvement Projects), Series 2021B-1 (AMT), $219,320,000 original principal, matures in 2041	219,320	219,320
Total Conduit Debt Outstanding	$ 1,092,420	$ 1,103,940

Conduit Debt Obligations

On August 25, 2021, the City issued $70,175,000 and $219,320,000 in Airport System Special Facilities Revenue Bonds (United Airlines, Inc. Terminal E Project and Terminal Improvement Projects), Series 2021A and 2021B-1, respectively, on behalf of United, for the purpose of 1) financing the costs of development, construction, and acquisition of a new multi-terminal baggage handling system and other infrastructure improvements at IAH and 2) paying related costs of issuance. Interest rate for both series is 4% per annum. Maturity dates are July 1, 2041 and July 15, 2041 for Series 2021A and 2021B-1, respectively.

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, 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, 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, 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, to finance the construction of a technical operations center and related facilities at IAH. 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, to finance the improvement, renovation, expansion and repair of certain special facilities at IAH, 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, 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.

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, 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.

On November 17, 2011, the City issued $113,305,000 in Airport System Special Facilities Revenue Bonds (Continental Airlines, Inc. Terminal Improvement Projects), Series 2011 (AMT), at coupon rates ranging from 6.50% to 6.625%, to finance the replacement of two flight stations at Terminal B, with a new South Concourse building to serve United Airlines' regional jet operations.

Environmental Liabilities

The Fund recorded a $2.2 million environmental liability for the year ended June 30, 2020, for pollution remediation at IAH. The scope of work includes the disposal of contaminated soils at the Mickey Leland International Terminal. On June 30, 2022, the outstanding balance was $1.3 million and was recorded as other current liabilities in the accompanying financial statements. In the year ended June 30, 2023, $1.3 million of this liability was realized.

In addition, HAS has received results for supplemental site testing from an independent study that will result in additional environmental remediation costs associated with a hangar addition project at IAH. Additional cost of approximately $5.0 million has been estimated. No additional pollution remediation liability has been recorded in these financial statements in accordance with GASBS No. 49 as the Fund is expected to recover the full $5.0 million from United.

Management of HAS 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 GASBS No. 49. Management has determined the costs of this additional remediation for which the Fund is ultimately liable would not be material in these financial statements.

Federal Grants

HAS has received federal grants for specific purposes under Airport Improvement Program that are subject to review and audit by the grantor agency. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. In the opinion of management of HAS, disallowed costs, if any, would not be material.

Commitments for Capital Facilities

At June 30, 2023 and 2022, the Fund had contracted for, but not spent, approximately $790.8 million and $904.9 million, respectively, for capital projects.

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 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 HAS 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.

Risk Management

The City purchases fidelity coverage to comply with City ordinance, boiler and machinery insurance with a per occurrence loss limit of $125 million and commercial property insurance with a per occurrence loss limit of $200 million. The commercial property insurance sub-limit for flood is $200 million. The commercial property insurance provides deductibles as follows: $2 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 $20 million maximum deductible; and 3% of the damaged insured value for flood, subject to a $2.5 million minimum and a $20 million maximum deductible. Should a named storm event occur that involves both perils of windstorm and flood, the maximum deductible is $20 million. The City’s property insurance retention is 10% of the $50 million primary limits, not to exceed the $5 million retention limit.

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.

Electricity Futures Contracts

On July 1, 2020, the City entered into an electricity supply agreement with Reliant Energy Retail Services, Inc. for a 5-year term with two 1-year options, with locked rates for the duration of the contract terms. The total committed price is approximately $634 million for expected usage of the potentially 7-year contract. As of June 30, 2023, the remaining commitment is $322 million.

On November 13, 2015, the City entered into a solar energy supply agreement with ENGIE to supply solar power to the City from a facility located in Alpine, Texas, for a 20-year term starting in April 2017. The contract value is approximately $124.7 million. As of June 30, 2023, the remaining commitment is $86 million.

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Change in Accounting Principle

Effective July 1, 2022, the City and the Fund adopted GASBS No.96, "Subscription-Based Information Technology Arrangements.". As an enterprise fund of the City, the Fund adopted the new standards with the same effective date as other funds of the City, which do not present comparative financial statements. There was no impact to the Fund's beginning net position upon adoption of the new accounting standard.

At July 1, 2022, the Fund recognized the following balances related to subscription right-to-use assets (in thousands):

HAS as lessee		July 1, 2022
Subscription right-of-use assets	$	3,739
Subscription Liabilities	$	3,739

For the year ended June 30, 2023, the Fund recognized the following balances related to subscription right-to-use assets (in thousands):

HAS as lessee		June 30, 2023
Amortization of subscription right-of-use assets	$	1,429
Interest expense	$	144

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Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, November 17, 2023, and determined that the following items require disclosure. No events occurring after this date have been evaluated for inclusion in these financial statements.

Subordinate Lien Revenue Bonds

On July 19, 2023, the City issued $647.9 million and $108.2 million of Airport System Subordinate Lien Revenue and Refunding Bonds Series 2023A and 2023B ("Series 2023 Bonds"), respectively, with interest rate of the bonds ranges from 4.25% to 5.25%. The Series 2023A Bonds mature on July 1, 2053, and the Series 2023B Bonds mature on July 1, 2053. The Series 2023 Bonds were issued for the purpose of providing funds to among other: (a) refund and redeem all the outstanding principal amount of the Refunded Notes and Bonds; and (b) pay certain costs of issuance with respect to the Series 2023 Bonds. By issuing the Series 2023 Bonds, the City obtained an estimated economic gain of approximately $19.0 million and obtained a net present value of savings of approximately $12.9 million.

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Houston Municipal Pension System

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

	The Fund's proportionate percentage	Total pension liability (TPL)	Plan fiduciary net position	Net pension liability (NPL)	Covered Payroll	The Fund's proportionate share of NPL as a percentage of covered payroll	Plan fiduciary net position as a percentage of TPL
2015	10.76%	$512,642	(264,294)	$248,348	65,542	378.91%	51.56%
2016	10.74%	$540,464	(257,653)	$282,811	67,704	417.72%	47.67%
2017	10.79%	$535,376	(280,956)	$254,420	61,881	411.14%	52.48%
2018	10.87%	$555,982	(324,983)	$230,999	61,638	374.77%	58.45%
2019	10.76%	$563,449	(333,692)	$229,757	61,076	376.18%	59.22%
2020	10.54%	$561,822	(303,599)	$258,223	65,881	391.95%	54.04%
2021	10.27%	$558,694	(397,149)	$161,545	66,028	244.66%	71.09%
2022	10.28%	$571,532	(406,119)	$165,413	69,703	237.31%	71.06%
2023	10.96%	$624,425	(446,214)	$178,211	77,847	228.92%	71.46%

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

	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
2015	$16,306	15,226	$1,080	65,542	25.0%
2016	$17,148	16,908	$240	67,704	25.0%
2017	$18,898	18,676	$222	61,881	30.2%
2018	$42,738	42,493	$245	61,638	68.9%
2019	$17,719	17,520	$199	61,076	28.7%
2020	$19,283	18,596	$687	65,881	28.2%
2021	$19,338	18,975	$363	66,028	28.7%
2022	$20,067	20,278	($211)	69,703	29.1%
2023	$22,141	22,456	($315)	77,847	28.8%

Schedule of the Fund's Investment Returns
For Fiscal Years Ended June 30
(in thousands)

	2023	2022	2021	2020	2019	2018	2017	2016
Annual Return	6.1%	5.0%	38.6%	(3.7)%	6.2%	8.7%	12.2%	0.9%

Schedules are intended to show information for 10 years. Additional years will be included as they become available.

Notes to Required Pension Supplementary Information

Valuation Date: July 1, 2022 and 2021

Notes: Actuarially determined contribution rates are calculated as of July 1, which is 12 months prior to the beginning of the fiscal year in which they are contributed. The assumptions shown below apply to the Actuarially Determined Employer Contribution for fiscal year 2023 and 2022 which was determined by the July 1, 2022 and 2021 actuarial valuation. These assumptions are the same as those used to determine the Net Pension Liability as of June 30, 2023 and 2022.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method: Entry Age Normal

Amortization method: Level Percentage of Payroll, Open

Remaining amortization period: 25 years

Assets valuation method: 5 year smoothed market, direct offset of deferred gains and losses

Inflation: 2.25%

Salary increases: 3.25% to 5.50% including inflation

Investment rate of return: 7.00%

Retirement age: Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2021 valuation pursuant to an experience study of the period 2015– 2020.

Mortality: PUB-2010 Mortality Table, amount weighted, Below-Median Income, with a 2-year set forward. The rates are then projected on a fully generational basis by the long-term rates of improvement of MP-2020.

Other information:

1. The actuarially determined contribution includes the Legacy Liability payment as specified by the January 1, 2016 Risk Sharing Valuation Study and a calculated employer rate equal to the normal cost and the amortization of any new unfunded liabilities over a closed 30 year period from the valuation date the liability base was created.

2. Investment rate of return was lowered from 8.50% to 8.00% as of July 1, 2015 and subsequently lowered to 7.00% as of July 1, 2017.

3. Salary increases were changed as of July 1, 2016 from 3.25% - 6.00%, including inflation, to 3.25% - 5.50%, including inflation.

Other Post Employment

Schedule of the Fund’s Proportionate Share of OPEB Liability and Related Ratios

(in thousands)

Health Benefits

	2023	2022	2021	2020	2019	2018
Total OPEB liability	$ 53,282	$ 69,874	$ 82,344	$ 70,738	$ 73,286	$ 89,450
Plan fiduciary net position	–	–	–	–	–	–
Net OPEB liability	$ 53,282	$ 69,874	$ 82,344	$ 70,738	$ 73,286	$ 89,450
Fund’s proportion of TOPEBL	3.03 %	2.99 %	3.15 %	3.19 %	3.25 %	3.67 %
Fund’s covered-employee payroll	$ 69,703	$ 66,028	$ 65,881	$ 61,076	$ 61,638	$ 61,881
Total OPEB liability as a percentage of the Fund’s covered-employee payroll	76.44 %	105.82 %	124.99 %	115.82 %	118.90 %	144.55 %

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Schedule of the Fund's Proportionate Share of OPEB Liability and Related Ratios

(in thousands)

Long Term Disability

	2023	2022	2021	2020	2019	2018
Total OPEB liability	$ 1,102	$ 1,048	$ 1,150	$ 774	$ 586	$ 457
Plan fiduciary net position	–	–	–	–	–	–
Net OPEB liability	$ 1,102	$ 1,048	$ 1,150	$ 774	$ 586	$ 457
Fund's proportion of TOPEBL	7.83 %	7.40 %	8.12 %	4.97 %	6.94 %	4.14 %
Fund's covered-employee payroll	$ 74,706	$ 66,275	$ 58,830	$ 54,880	$ 41,439	$ 35,841
Total OPEB liability as a percentage of the Fund's covered-employee payroll	1.48 %	1.58 %	1.95 %	1.41 %	1.41 %	1.28 %

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Notes to Required Other Post-Employment Benefits Supplementary Information

Retiree Health Insurance Benefits

Note: There are no assets in a trust compliant with GASB codification P22.101 or P52.101 to pay related benefits.

Measurement Date: June 30, 2022 for reporting date as of June 30, 2023.

Benefit Changes:

Reflected June 30, 2022

- Effective July 1, 2022, the OOP maximum for all non-Medicare Advantage plans increased from $8,150 to $8,700. for the purposes of this valuation, the impact of this change was considered negligible.

Reflected June 30, 2021

- Texas Plus, Cigna Health Spring, and UHC Plan F plans have all been terminated as of 12/31/2020 and a new plan, Aetna PO1 PPO Basic, was added as of 1/1/2021.

Reflected June 30, 2020

No changes.

Reflected June 30, 2019

Effective May 1, 2019:
For Cigna Limited Network Plan:
- Deductible increased from $150 / $450 (individual / family) to $200 / $600.
- OOP maximum increased from $4,500 / $9,000 to $7,900 / $15,800.
- Prescription Drug deductible increased from $100 /$300 to $150 /$450.

For Cigna Open Access Plan:
- Deductible increased from $750 / $1,500 (individual / family) to $850 / $1,700
- OOP maximum increased from $6,840 / $13,700 to $7,900 / $15,800.

For Consumer Driven Plan:
- OOP maximum increased from $6,840 / $13,700 to $7,900 / $15,800.

Retirees of Texas plan has been discontinued.

Effective May 1, 2020:
For Cigna Limited Network Plan:
- OOP Maximum increased from $7,900 to $15,800 to $8,150/$16,300.

For Cigna Open Access Plan:
- OOP Maximum increased from $7,900 to $15,800 to $8,150/$16,300.

For Consumer Driven Health Plan:
- OOP Maximum increased from $7,900 to $15,800 to $8,150/$16,300 in network and $12,000/$24,000 to $16,000/$32,000 out of network.
- Prescription coinsurance increased from 40% to 60%.

For Kelsey Care Advantage:
- Specialist copay increased from $15 to $20.

For Cigna Health Spring
- Emergency Room Copay increased from $100 to $120.
- Non-preferred generic pharmacy copay increased from $10 to $45.
- Mail order prescription drugs moved to two times retail for all tiers.

Aetna PPO:
- Inpatient copay increased from $80 to $250 for in network and from $80 to 20% per stay for out of network.
- Non-preferred generic pharmacy copay increased from $20 to $40 for out of network.
- Preferred brand name pharmacy copay increased from $40 to $80 for out of network.

Reflected June 30, 2018

- KelseyCare Advantage HMO – Specialty Drug copay increased to $75
- Texas Plus – Inpatient copay increased to $325, emergency room copay rates to $100, prescription drug copays increased to $10/$15/$40/$55/$75.
- Cigna HealthSpring – Emergency room copay increased to $100, mail order prescription drugs move to two times retail for all tiers.

Notes to Required Other Post-Employment Benefits Supplementary Information, continued:

Changes of Assumptions:

Effective June 30, 2022

• The basis for the discount rate remained the same (20-year, general obligation, municipal bond index), resulting in a change in discount rate to 3.54% compared to 2.16% in prior year.
• Medicare and prescription drug claims costs and trend rates were updated to reflect recent experience.
• The actuarial factors used to estimate individual retiree and spouse costs by age and by gender were updated. The new factors are based on a review of historical claims experience by age, gender, and status (active vs retired) from Segal's claims data warehouse.

Effective June 30, 2021

• The basis for the discount rate remained the same (20-year, general obligation, municipal bond index), resulting in a change in discount rate to 2.16% compared to 2.21% in prior year.
• The demographic assumptions (mortality, turnover, disability and retirement) for the Fire department were updated to be consistent with the Houston Firefighter's Relief and Retirement Fund Actuarial Certification as of July 1, 2020, dated September 16, 2021, completed by Buck Consulting.

Effective June 30, 2020

• Medical and prescription drug claims costs and trend rates were updated to reflect recent experience.
• The basis for the discount rate remained the same (20-year, general obligation, municipal bond index), resulting in a change in discount rate to 2.21 compared to 3.50% in prior year.
• Active participation rates upon retirement were updated to reflect recent experience.
• Life insurance to be fully retiree paid and is no longer being valued.

Effective June 30, 2019

• The excise tax regulation was repealed by Congress in December 2019.
• The basis for the discount rate remained the same (20-year, general obligation, municipal bond index), resulting in a change in the discount rate to 3.50% compared to 3.87% in the prior year.
• Post-Medicare starting costs were adjusted for the actual premiums charged. Similar adjustments were made for contribution rates.
• Prescription drug trend rates were changed to reflect future expectations by extending the number of years until the ultimate trend is reached.

Reflected June 30, 2018

• Medical, prescription drug, Medicare Plan, and administrative expected claims and payments were changed, based on experience through June 30, 2018.
• Medical, prescription drug, Medicare Plan, and administrative trend rates were changed to reflect future expectations.
• Demographic changes included mortality changes for all participants, changes to the salary scale for
• Municipal and Police participants, and changes to the retirement rates for Police and Fire participants.
• The basis for the discount rate remained the same (20-year, general obligation, municipal bond index), resulting in a change in the discount rate to 3.87% compared to 3.58% in the prior year.

Long Term Disability

Note: There are no assets in a trust compliant with GASB codification P22.101 or P52.101 to pay related benefits.

Measurement Date: June 30, 2023 for reporting date as of June 30, 2023.

Changes of Assumptions: Discount rate - FY2023: 4.13%; FY2022: 3.54%; FY2021: 2.16%; FY2020: 3.50%; FY2019: 3.50%; FY2018: 3.87%.

Employees Covered: Houston Fire Department is covered by this LTD Plan in addition to all municipal employees. Houston Police Department is not covered by this LTD Plan.

STATISTICS

UNAUDITED

CITY OF HOUSTON
TEXAS

STATISTICAL SECTION

This section contains statistical information and differs from the financial statements because it usually covers more than one fiscal year and may present non-accounting data.

This information is presented in five categories:

FINANCIAL TREND – intended to assist users in understanding and assessing how the Houston Airport System's financial position has changed over time.

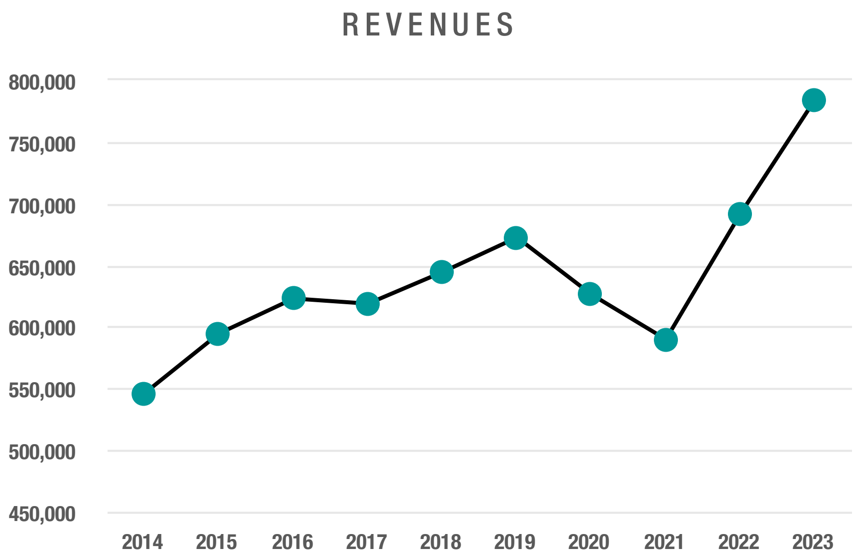
REVENUE CAPACITY – intended to assist users in understanding and assessing the factors affecting the Houston Airport System's ability to generate its own sources of revenues.

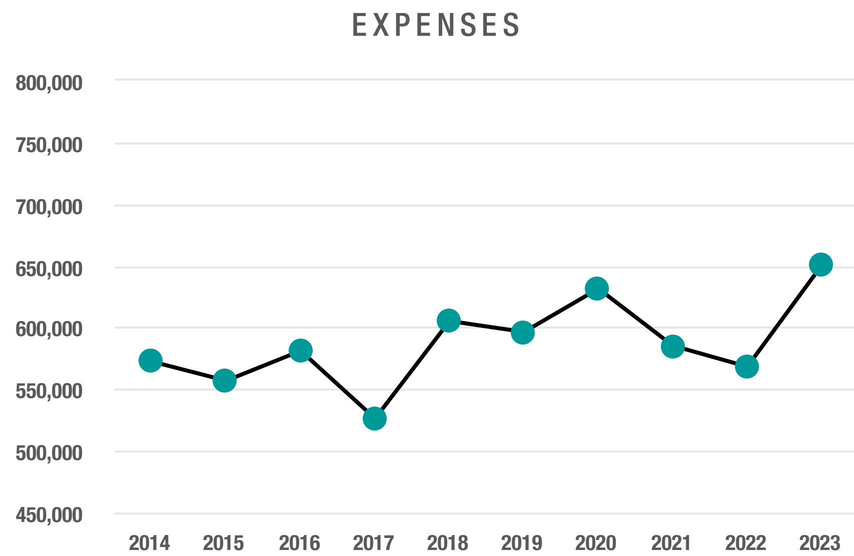
DEBT CAPACITY – intended to assist users in understanding and assessing the Houston Airport System's debt burden and its ability to cover and issue additional debt.

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

DEMOGRAPHIC AND ECONOMIC – intended to assist users in understanding the socioeconomic environment within which the Houston Airport System operates and to provide information that facilitates comparisons of financial statement information over time and among similar entities.

TOTAL ANNUAL REVENUES AND EXPENSES (in thousands)





SOURCE: Houston Airport System

TOTAL ANNUAL REVENUES AND EXPENSES (in thousands)

CHANGE IN NET POSITION	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Operating Revenues										
Landing area fees	$ 92,601	$ 94,253	$ 70,578	$ 95,862	$ 87,767	$ 95,779	$ 88,046	$ 86,870	$ 93,575	$ 88,342
Building and ground area fees	234,751	192,029	155,598	223,301	211,323	220,214	221,181	216,018	197,039	186,505
Concession, parking, and other revenues	232,895	194,892	92,379	152,749	199,374	194,871	184,814	186,009	185,668	177,260
Total Operating Revenues	560,247	481,174	318,555	471,912	498,464	510,864	494,041	488,897	476,282	452,107
Nonoperating Revenues										
Investment income (loss)	38,706	(47,109)	1,523	43,701	45,067	8,591	3,403	13,260	7,496	11,170
Passenger Facility Charges	108,754	98,446	62,541	78,418	111,155	109,021	101,539	104,230	85,392	62,602
Customer Facility Charges	16,075	13,723	8,769	13,320	17,439	17,374	14,200	16,417	17,535	17,152
Other nonoperating revenues	60,141	145,281	198,447	18,877	340	(1,420)	5,596	124	7,969	3,225
Total Nonoperating Revenues	223,676	210,341	271,280	154,316	174,001	133,566	124,738	134,031	118,392	94,149
TOTAL REVENUES	783,923	691,515	589,835	626,228	672,465	644,430	618,779	622,928	594,674	546,256
Operating Expenses										
Maintenance and operating										
Personnel costs	116,009	79,515	84,652	119,481	119,841	133,253	56,721	123,872	114,947	108,520
Supplies	8,236	7,089	7,020	8,223	8,390	8,219	7,794	8,140	7,933	8,823
Services	274,798	227,656	225,405	204,811	196,608	184,826	184,032	177,677	159,577	149,957
Non-capital outlay	1,913	1,741	1,491	37,915	12,638	8,806	5,912	5,730	4,072	10,202
Impairment to capital assets	–	–	–	–	–	–	–	–	–	7,710
Total M & O expenses	400,956	316,001	318,568	370,430	337,477	335,104	254,459	315,419	286,529	285,212
Depreciation expense	170,922	166,792	170,820	175,573	174,266	176,053	184,203	179,398	177,512	174,825
Total Operating Expenses	571,878	482,793	489,388	546,003	511,743	511,157	438,662	494,817	464,041	460,037
Nonoperating Expenses										
Interest expense and others	78,533	85,427	95,803	85,426	84,578	94,061	87,574	86,259	92,803	112,350
Total Nonoperating Expenses	78,533	85,427	95,803	85,426	84,578	94,061	87,574	86,259	92,803	112,350
TOTAL EXPENSES	650,411	568,220	585,191	631,429	596,321	605,218	526,236	581,076	556,844	572,387
Contributions	37,087	41,047	24,757	10,927	16,599	13,784	35,513	22,542	36,432	44,614
TOTAL CHANGE IN NET POSITION	$ 170,599	$ 164,342	$ 29,401	$ 5,726	$ 92,743	$ 52,996	$ 128,056	$ 64,394	$ 74,262	$ 18,483

SOURCE: Houston Airport System

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

NET POSITION AT YEAR END	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Net investment in capital assets	$ 591,494	$ 507,167	$ 495,497	$ 514,164	$ 542,125	$ 531,232	$ 542,363	$ 537,172	$ 466,196	$ 469,971
Restricted net position										
Restricted for debt service	472,782	412,293	384,267	464,280	428,856	357,588	287,858	333,635	303,371	242,558
Restricted for maintenance and operations	55,457	55,332	54,232	54,807	60,525	56,891	54,805	54,942	53,912	49,736
Restricted for special facility	55,143	50,953	52,362	55,105	43,442	36,049	29,369	26,944	25,732	30,986
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	851,491	681,093	627,464	619,884	651,664	657,050	676,360	561,071	600,159	581,857
Unrestricted surplus (deficit)	(68,043)	80,887	9,561	(114,258)	(138,356)	(143,297)	(126,938)	(178,003)	(178,003)	–
TOTAL NET POSITION	$ 1,968,324	$ 1,797,725	$ 1,633,383	$ 1,603,982	$ 1,598,256	$ 1,505,513	$ 1,473,817	$ 1,345,761	$ 1,281,367	$ 1,385,108

PASSENGER FACILITY CHARGE COLLECTIONS (in thousands)

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Intercontinental	$ 84,629	$ 76,422	$ 46,994	$ 61,120	$ 85,167	$ 83,220	$ 77,351	$ 80,574	$ 66,491	$ 48,181
Hobby	24,125	22,024	15,547	17,298	25,988	25,801	24,188	23,656	18,901	14,421
Total	$ 108,754	$ 98,446	$ 62,541	$ 78,418	$ 111,155	$ 109,021	$ 101,539	$ 104,230	$ 85,392	$ 62,602
Year-over-Year Change	**10.47%**	**57.41%**	**(20.25)%**	**(29.45)%**	**1.96%**	**7.37%**	**(2.58)%**	**22.06%**	**36.40%**	**2.30%**

SOURCE: Houston Airport System

PLEDGED REVENUES (in thousands)

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
OPERATING REVENUES										
Landing area fees										
Landing fees	$ 87,329	$ 88,757	$ 65,550	$ 91,271	$ 83,318	$ 91,258	$ 84,036	$ 82,703	$ 89,426	$ 84,098
Aviation fuel	1,593	1,705	1,302	1,249	1,554	1,679	1,350	1,527	1,521	1,529
Aircraft parking	3,679	3,791	3,726	3,343	2,895	2,842	2,660	2,640	2,628	2,715
Subtotal	92,601	94,253	70,578	95,863	87,767	95,779	88,046	86,870	93,575	88,342
Building and ground area revenues										
Terminal space rentals	208,854	166,444	129,527	196,844	185,943	195,198	196,162	191,321	173,392	163,297
Cargo building rentals	2,009	2,078	2,164	2,378	2,391	2,390	2,448	2,484	2,506	2,432
Other rentals	5,901	6,332	6,256	6,574	6,454	6,460	6,453	6,808	6,252	6,174
Hangar rental	5,879	5,921	6,339	6,821	6,530	6,691	6,813	6,577	6,355	6,605
Ground rental	12,108	11,254	11,312	10,684	10,005	9,475	9,305	8,828	8,534	7,997
Subtotal	234,751	192,029	155,598	223,301	211,323	220,214	221,181	216,018	197,039	186,505
Parking, concession, and other										
Retail concessions	48,962	39,570	14,584	32,265	41,521	41,245	39,999	35,215	41,855	41,444
Auto parking	117,460	98,418	43,815	81,172	110,136	103,961	99,752	101,650	97,515	90,173
Auto rental concession	37,301	34,055	20,596	23,400	28,949	28,767	28,735	30,737	31,991	32,783
Ground transportation	21,428	15,192	6,913	10,072	12,645	11,062	10,402	10,083	9,323	8,301
Other operating revenues	7,744	7,657	6,471	5,839	6,123	9,836	5,926	8,324	4,984	4,559
Subtotal	232,895	194,892	92,379	152,748	199,374	194,871	184,814	186,009	185,668	177,260
TOTAL OPERATING REVENUES	$ 560,247	$ 481,174	$ 318,555	$ 471,912	$ 498,464	$ 510,864	$ 494,041	$ 488,897	$ 476,282	$ 452,107

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.

SOURCE: Houston Airport System

PLEDGED REVENUES (in thousands)

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
NET REVENUE										
Operating revenue	$ 560,247	$ 481,174	$ 318,555	$ 471,912	$ 498,464	$ 510,864	$ 494,041	$ 488,897	$ 476,282	$ 452,107
Interest on investments - revenue fund	21,820	7,556	10,403	19,503	19,681	13,348	9,306	6,986	6,014	5,499
Other nonoperating revenues	165	77	152	122	47	(1,805)	7,177	(52)	7,526	3,162
Gross revenues	582,232	488,807	329,110	491,537	518,192	522,407	510,524	495,831	489,822	460,768
Less: Maintenance and operating expenses	(315,487)	(255,377)	(251,830)	(314,034)	(315,153)	(326,889)	(254,506)	(314,715)	(283,557)	(268,745)
Net pledged revenue	$ 266,745	$ 233,430	$ 77,280	$ 177,503	$ 203,039	$ 195,518	$ 256,018	$ 181,116	$ 206,265	$ 192,023
DEBT SERVICE										
Principal	$ 119,710	$ 77,700	$ 75,580	$ 89,090	$ 80,110	$ 81,137	$ 82,707	$ 79,093	$ 71,999	$ 60,419
Interest	88,441	85,803	69,769	91,641	96,202	93,319	92,316	84,811	91,320	96,005
	208,151	163,503	145,349	180,731	176,312	174,456	175,023	163,904	163,319	156,424
Less PFC revenue available for debt service	(68,744)	(59,819)	(56,365)	(55,040)	(60,646)	(50,642)	(54,673)	(42,320)	(38,054)	(35,614)
Less grant revenue available for debt service	(50,000)	(103,684)	(88,984)	(14,169)	–	–	–	(13,888)	(16,399)	(22,942)
Total debt service	$ 89,407	$ –	$ –	$ 111,522	$ 115,666	$ 123,814	$ 120,350	$ 107,696	$ 108,866	$ 97,868
COVERAGE OF DEBT SERVICE	2.98	(1)	(1)	1.59	1.76	1.58	2.13	1.68	1.89	1.96
Net Required revenue per bond rate covenant	$ 99,688	$ –	$ –	$ 122,935	$ 127,430	$ 137,474	$ 134,348	$ 120,125	$ 122,822	$ 108,369
RATIO OF REQUIRED REVENUE	2.68	(1)	(1)	1.44	1.59	1.42	1.91	1.51	1.68	1.77

(1) Calculations not performed for the year ended 6/30/21 and 6/30/22 as HAS paid all debt service in fiscal year 2021 and 2022 from PFC's along with CARES, CCRSA, and ARPA Act proceeds.

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.

SOURCE: Houston Airport System

RECONCILIATION OF HISTORICAL FINANCIAL RESULTS (in thousands)

	2023	2022	2021	2020	2019
Net Revenues under Bond Resolution					
Revenues	$ 582,232	$ 488,807	$ 329,110	$ 491,537	$ 518,192
Operation and Maintenance Expenses	(315,487)	(255,377)	(251,830)	(314,034)	(315,153)
Net Revenues under Bond Resolution	$ 266,745	$ 233,430	$ 77,280	$ 177,503	$ 203,039
Reconciliation of Change in Net Assets to Bond Resolution Net Revenues					
Change in Net Assets	$ 170,599	$ 164,342	$ 29,401	$ 5,726	$ 92,743
Exclusion:					
Passenger Facility Charge Revenues Collected	108,754	98,446	62,541	78,418	111,155
Interest Income - Total	38,706	(47,109)	1,523	43,701	45,067
Interest Expenses	(78,655)	(76,705)	(62,107)	(74,533)	(81,575)
Gain/(Loss) on Disposal of Assets	405	(8,594)	(27,601)	(10,856)	119
Customer Facility Charges	16,075	13,723	8,769	13,320	17,439
Specialist Facility Cost	(283)	(128)	(75)	(37)	(43)
Cost of Issuance for Debt	–	–	(6,020)	–	(2,960)
Other Revenue (Expenses)	9,911	10,660	11,078	10,820	221
CARES Act/CRRSAA/ARPA	50,230	134,621	187,369	–	–
Capital Contributions	37,087	41,047	24,757	18,984	16,599
Total Exclusion	182,230	165,961	200,234	79,817	106,022
Inclusion:					
Net Expense Adjustment under Bond Resolution					
Operating Expenses Exc. Depreciation & Amortization in other funds					
Fund 8000 HAS Grants	(89)	–	12	–	994
Fund 8010 Renewal & Replacement Fund	27,962	18,877	31,697	19,310	10,189
Fund 8011 Airport Improvement Fund	53,869	9,940	5,044	56	9,437
Fund 8012 HAS-AIF Capital Outlay	(73)	(39)	(58)	–	–
Fund 8037 HAS - O&M Grants	–	–	–	425	636
Fund 8044 HAS Disaster Recovery O&M	–	–	–	–	15
Fund 8045 CARES Act	(49)	–	29,981	–	–
Fund 8051 HAS State Energy Conservation Loan CL311	–	–	–	214	–
Fund 8052 HAS State Energy Conservation Loan CL312	–	–	–	110	–
Fund 8059 CRRSAA grant fund	57	–	–	–	–
Fund 8062 ARPA grant fund	173	30,671	–	–	–
Fund 8206 HAS-Consolidated2011 Construction	4,034	1,585	–	–	–
Fund 8207 HAS Consolidated ITRP AMT Construction	–	–	250	36,500	1,165
SECO loan interest and Pension bond interest expense	(415)	(410)	(297)	(110)	(107)
Miscellaneous	–	–	109	(109)	(5)
Total Inclusion	85,469	60,624	66,738	56,396	22,324
Changes in Net Assets less Exclusion plus Inclusion	73,838	59,005	(104,095)	(17,695)	9,045
Depreciation & Amortization	170,922	166,792	170,820	175,573	174,266
Interest on investments - Eligible per Bond Resolution	21,820	7,556	10,403	19,503	19,681
Other revenues - Eligible per Bond Resolution	165	77	152	122	47
Net Revenues Per Bond Resolution	$ 266,745	$ 233,430	$ 77,280	$ 177,503	$ 203,039

Schedule is intended to show information for 10 years. Additional years will be included as they become available.

SOURCE: Houston Airport System

RECONCILIATION OF HISTORICAL FINANCIAL RESULTS (in thousands)

	2023	2022	2021	2020	2019
Operations and Maintenance Expense Reconciliation					
Operations and Maintenance Expense per Financial Statement	$ 571,878	$ 482,793	$ 489,388	$ 546,003	$ 511,743
Exclusion:					
Depreciation & Amortization	(170,922)	(166,792)	(170,820)	(175,573)	(174,266)
Allowable Exclusions per Bond Resolution					
Fund 8000 HAS Grants	89	–	(12)	–	(994)
Fund 8010 Renewal & Replacement Fund	(27,962)	(18,877)	(31,697)	(19,310)	(10,189)
Fund 8011 Airport Improvement Fund	(53,869)	(9,940)	(5,044)	(56)	(9,437)
Fund 8037 HAS - O&M Grants	–	39	58	(425)	(636)
Fund 8012 AIF Capital Outlay	73	–	–	–	–
Fund 8044 HAS Disaster Recovery O&M	–	–	–	–	(15)
Fund 8045 CARES Act	49	–	(29,981)	–	–
Fund 8051 HAS State Energy Conservation Loan CL311	–	–	–	(214)	–
Fund 8052 HAS State Energy Conservation Loan CL312	–	–	–	(110)	–
Fund 8059 CRRSAA grant fund	(57)	–	–	–	–
Fund 8062 ARPA grant fund	(173)	(30,671)	–	–	–
Fund 8206 HAS-Consolidated2011 Construction	(4,034)	(1,585)	–	–	–
Fund 8207 HAS Consolidated ITRP AMT Construction	–	–	(250)	(36,500)	(1,165)
Miscellaneous (SECO Int, POB Interest, and Arbitrage Rebate)	415	410	188	219	112
Total Operation and Maintenance Expense per Bond Resolution	$ 315,487	$ 255,377	$ 251,830	$ 314,034	$ 315,153

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.

Schedule is intended to show information for 10 years. Additional years will be included as they become available.

SOURCE: Houston Airport System

PLEDGED REVENUES FOR CONSOLIDATED RENTAL CAR FACILITY

(not rounded to the nearest thousand)

For Years Ended December 31:

Resources Available for Debt Service	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Customer facility charge collections	$ 14,634,186	$ 11,360,307	$ 8,761,929	$ 17,615,108	$ 17,311,972	$ 15,669,757	$ 14,822,377	$ 17,359,920	$ 17,451,368	$ 17,317,058
Interest income	127,345	2,139	36,807	167,666	131,162	56,976	29,003	3,840	785	$ 731
Transfers from Facility Improvement Fund	6,000,000	8,500,000	11,250,000	–	–	–	–	–	–	–
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	$ 23,930,674	$ 23,031,589	$ 23,217,879	$ 20,951,917	$ 20,612,277	$ 18,895,876	$ 18,020,523	$ 20,532,903	$ 20,621,296	$ 20,486,932
Annual Debt Service										
Special Facility Revenue Bonds, Series 2001:										
Principal	$ 8,165,000	$ 7,505,000	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ 3,590,000
Interest	4,174,784	4,691,128	4,691,128	4,691,128	4,691,128	4,691,128	4,691,128	4,691,128	6,006,288	7,552,645
Subtotal Series 2001	12,339,784	12,196,128	4,691,128	4,691,128	4,691,128	4,691,128	4,691,128	4,691,128	6,006,288	11,142,645
Special Facility Refunding Bonds, Series 2014:										
Principal	–	–	6,240,000	5,960,000	5,715,000	5,490,000	5,305,000	5,160,000	4,355,000	–
Interest	–	–	186,389	346,534	478,893	584,082	652,835	691,019	230,243	–
Subtotal Series 2014	–	–	6,426,389	6,306,534	6,193,893	6,074,082	5,957,835	5,851,019	4,585,243	–
Total Annual Debt Service	$ 12,339,784	$ 12,196,128	$ 11,117,517	$ 10,997,662	$ 10,885,021	$ 10,765,210	$ 10,648,963	$ 10,542,147	$ 10,591,531	$ 11,142,645
DEBT SERVICE COVERAGE RATIO	1.94	1.89	2.09	1.91	1.89	1.76	1.69	1.95	1.95	1.84

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 BNY Mellon 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.

SOURCE: Houston Airport System

OUTSTANDING DEBT (in thousands)

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
OUTSTANDING DEBT BY TYPE (1)										
Senior lien revenue bonds, fixed rate	$ –	$ –	$ –	$ –	$ –	$ 420,420	$ 430,645	$ 440,385	$ 449,660	$ 449,660
Subordinate lien revenue bonds, fixed rate	2,055,965	2,133,665	2,209,245	1,763,235	1,843,145	1,331,795	1,232,585	1,284,860	1,331,765	1,376,505
Subordinate lien revenue bonds, periodic auction rate	–	–	–	–	–	242,275	254,475	266,925	276,275	286,300
Subordinate lien revenue bonds, variable rate	–	–	–	92,105	92,305	92,505	92,705	92,905	93,105	93,305
Subtotal, revenue bonds payable	2,055,965	2,133,665	2,209,245	1,855,340	1,935,450	2,086,995	2,010,410	2,085,075	2,150,805	2,205,770
Unamortized discount	(231)	(434)	(502)	(599)	(675)	(2,422)	(2,717)	(3,016)	(3,317)	(3,619)
Unamortized premium	177,762	198,181	213,263	162,949	179,927	112,362	61,302	68,118	75,141	82,318
Revenue bonds payable, net	2,233,496	2,331,412	2,422,006	2,017,690	2,114,702	2,196,935	2,068,995	2,150,177	2,222,629	2,284,469
Senior lien commercial paper payable	350,000	185,000	20,000	132,973	48,473	21,473	87,000	87,000	49,500	1,200
Inferior lien contract payable	–	–	–	–	–	–	6,240	12,155	17,760	23,075
Pension obligation bonds payable **(2)**	2,006	2,006	2,006	2,006	2,006	29,616	2,006	2,006	2,006	2,006
Note payable **(3)**	–	–	–	–	–	–	115,421	120,439	–	–
Direct borrowing loans **(4)**	14,800	15,993	14,421	324	–	–	–	–	–	–
Special facilities revenue bonds, rental car **(5)**	52,515	60,680	68,185	74,425	80,385	86,100	91,590	96,895	102,055	105,430
TOTAL OUTSTANDING DEBT PAYABLE	$ 2,652,817	$ 2,595,091	$ 2,526,618	$ 2,227,418	$ 2,245,566	$ 2,334,124	$ 2,371,252	$ 2,468,672	$ 2,393,950	$ 2,416,180
Total enplaned passengers	28,944,589	26,080,016	14,969,109	21,828,780	29,807,599	27,712,789	27,390,397	27,815,031	26,903,968	25,941,181
Outstanding debt per enplaned passenger	$ 91.65	$ 99.50	$ 168.79	$ 102.04	$ 75.34	$ 84.23	$ 86.57	$ 88.75	$ 88.98	$ 93.14
OUTSTANDING CONDUIT DEBT										
Special facilities revenue bonds **(6)**	$ 1,092,420	$ 1,103,940	$ 850,035	$ 850,035	$ 848,865	$ 848,865	$ 711,790	$ 711,790	$ 711,790	$ 561,470

(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 $8.2 and $7.8 million including interest during the construction period, payable over 14.6 and 10 years with the first payments to be made on August 31, 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 Note 5).

(6) These Special Facilities Revenue Bonds are conduit debt secured solely by lease payments from United Airlines. No revenues of the Airport System Fund are pledged to pay these bonds.

SOURCE: Houston Airport System

SUMMARY OF CERTAIN FEES AND CHARGES

IAH	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Landing Rates **(1) (3)**	2.523	2.437	2.821	3.108	2.561	2.763	2.571	2.635	2.803	2.844
Terminal Space Rentals **(2) (3)**	21.43 - 73.03	18.19 - 64.53	20.37 - 41.67	24.63 - 68.98	24.02 - 69.27	24.26-72.69	22.95-72.46	22.88-76.08	21.75-75.45	20.77-72.51
Apron Rentals **(2) (3)**	2.168 - 2.326	1.885 - 2.047	2.280 - 2.438	2.447 - 2.675	2.697 - 2.984	2.453-2.780	2.236-2.649	2.155-2.703	2.114-2.597	2.051-2.576
Aircraft Parking (per day)	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	100.00-400.00
Cargo (per day)	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	200.00-600.00
Parking Rates **(4)**										
Economy (Ecopark) Uncovered **(5)**	7.00	7.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Economy (Ecopark) Covered **(5)**	9.00	9.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Economy (Ecopark2) Covered **(5)**	8.00	8.00	7.00	7.00	7.00	6.00	6.00	5.00	–	–
Structured **(6)**	25.00	24.00	15.00	10.00	24.00	22.00	22.00	20.00	19.00	19.00
Sure Park **(7)**	–	–	26.00	26.00	26.00	24.00	24.00	24.00	23.00	23.00
Valet **(8) (11)**	30.00	28.00 - 30.00	28.00	28.00	28.00	26.00	26.00	26.00	25.00	25.00

HOU	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Landing Rates **(1) (3)**	2.618	3.025	2.914	2.722	2.000	2.013	1.982	1.835	2.113	1.768
Terminal Space Rentals **(2) (3)**	71.67 - 89.59	59.04 - 77.31	40.94 - 48.15	55.04 - 66.46	54.33 - 73.42	48.10-68.15	64.79-67.29	87.62-90.12	92.77-95.27	87.73-90.23
Apron Rentals **(2) (3)**	2.618	2.655	2.067 - 2.108	2.139 - 2.149	1.874 - 1.924	1.791-1.848	1.652-1.853	1.765	2.209	1.891
Aircraft Parking (per day)	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	100.00-400.00
Cargo (per day)	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	200.00-600.00
Parking Rates **(4)**										
Economy (Ecopark) **(9)**	–	–	–	–	–	–	–	–	–	12.00
Economy (Ecopark2) **(10)**	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Structured **(6)**	24.00	24.00	15.00	10.00	24.00	22.00	22.00	20.00	19.00	19.00
Valet **(8)**	28.00	28.00	28.00	28.00	28.00	26.00	26.00	26.00	25.00	25.00

(1) Per 1,000 pounds of landing weight
(2) Range per square foot
(3) 2014-2022 actual rates provided; 2023 budgeted rates provided.
(4) Maximum per day
(5) New rates effective January 15, 2022
(6) New rates of $20.00/Day and $24.00/Day effective on July 29, 2021 and October 1, 2021, respectively
(7) Sure Park ceased as an offered product in March 2021
(8) New rates effective February 4, 2019
(9) Ecopark 1 at Hobby closed March 18, 2014
(10) New rates effective May 5, 2014
(11) New rates for Terminal C effective May 1, 2022
(12) New rates for IAH Garages & Valet effective February 1, 2023

SOURCE: Houston Airport System

PASSENGER STATISTICS (in thousands)

LAST TEN YEARS

DOMESTIC PASSENGERS

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
IAH										
Enplanements & Deplanements	33,449	31,046	17,645	25,068	33,972	31,102	30,809	31,959	31,967	30,832
Percentage Change	7.7 %	75.9 %	(29.6)%	(26.2)%	9.2 %	1.0 %	(3.6)%	0.0 %	3.7 %	– %
HOU										
Enplanements & Deplanements	12,656	11,656	7,738	9,998	13,629	12,864	12,423	12,209	11,837	11,609
Percentage Change	8.6 %	50.6 %	(22.6)%	(26.6)%	5.9 %	3.5 %	1.8 %	3.1 %	2.0 %	8.6 %
DOMESTIC TOTAL										
Enplanements & Deplanements	46,105	42,702	25,383	35,066	47,601	43,966	43,232	44,168	43,804	42,441
Percentage Change	8.0 %	68.2 %	(27.6)%	(26.3)%	8.3 %	1.7 %	(2.1)%	0.8 %	3.2 %	2.2 %

INTERNATIONAL PASSENGERS

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
IAH										
Enplanements & Deplanements	10,687	8,436	3,892	7,969	10,939	10,404	10,662	10,904	10,018	9,470
Percentage Change	26.7 %	116.8 %	(51.2)%	(27.2)%	5.1 %	(2.4)%	(2.2)%	8.8 %	5.8 %	7.7 %
HOU										
Enplanements & Deplanements	976	843	421	591	965	957	860	519	4	–
Percentage Change	15.8 %	100.2 %	(28.8)%	(38.8)%	0.8 %	11.3 %	65.7 %	12875.0 %	0.0 %	0.0 %
INTERNATIONAL TOTAL										
Enplanements & Deplanements	11,663	9,279	4,313	8,560	11,904	11,361	11,522	11,423	10,022	9,470
Percentage Change	25.7 %	115.1 %	(49.6)%	(28.1)%	4.8 %	(1.4)%	0.9 %	14.0 %	5.8 %	7.7 %

TOTAL PASSENGERS

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
HAS PASSENGERS GRAND TOTAL										
Enplanements & Deplanements	57,768	51,981	29,696	43,626	59,505	55,327	54,754	55,591	53,826	51,911
Percentage Change	11.1 %	75.0 %	(31.9)%	(26.7)%	7.6 %	1.0 %	(1.5)%	3.3 %	3.7 %	3.2 %

Information presented is based on the most current statistical data available; numbers from prior years are subject to change.

SOURCE: Houston Airport System

PASSENGER STATISTICS BY CARRIER

LAST TEN YEARS

MAJOR AIRLINE MARKET SHARE

CARRIER	FY2023	%	FY2022	%	FY2021	%	FY2020	%	FY2019	%
United Airlines	31,959,131	55.3 %	29,357,278	56.5 %	15,894,776	53.5 %	25,081,324	57.5 %	34,793,301	58.5 %
Southwest	13,915,118	24.1 %	12,787,950	24.6 %	7,829,259	26.4 %	9,994,165	22.9 %	13,674,536	23.0 %
American Airlines	2,388,344	4.1 %	2,392,419	4.6 %	1,511,037	5.1 %	2,090,353	4.8 %	2,774,961	4.7 %
Spirit Airlines	2,948,481	5.1 %	2,477,109	4.8 %	1,869,558	6.3 %	1,948,341	4.5 %	2,426,727	4.1 %
Delta Air Lines	2,196,412	3.8 %	1,993,556	3.8 %	1,050,260	3.5 %	1,567,170	3.6 %	2,024,867	3.4 %
Frontier Airlines	654,869	1.1 %	347,903	0.7 %	314,269	1.1 %	297,303	0.7 %	192,057	0.3 %
Air Canada	250,713	0.4 %	134,785	0.3 %	12,833	0.0 %	231,407	0.5 %	329,540	0.6 %
Lufthansa	198,582	0.3 %	150,884	0.3 %	52,200	0.2 %	186,610	0.4 %	290,560	0.5 %
AeroMéxico	233,693	0.4 %	285,925	0.6 %	160,195	0.5 %	116,243	0.3 %	142,906	0.2 %
British Airways	189,010	0.3 %	84,184	0.2 %	12,858	0.0 %	160,264	0.4 %	239,024	0.4 %
Other Airlines	2,833,968	5.1 %	1,968,740	3.6 %	988,348	3.4 %	1,953,160	4.4 %	2,616,615	4.3 %
	57,768,321	**100.0 %**	**51,980,733**	**100.0 %**	**29,695,593**	**100.0 %**	**43,626,340**	**100.0 %**	**59,505,094**	**100.0 %**

*FY2022 was adjusted

CARRIER	FY2018	%	FY2017	%	FY2016	%	FY2015	%	FY2014	%
United Airlines	32,094,388	58.0 %	32,130,930	58.7 %	33,251,479	59.8 %	33,603,263	62.4 %	32,963,901	63.5 %
Southwest	12,893,987	23.3 %	12,344,834	22.5 %	11,791,308	21.2 %	10,886,616	20.2 %	10,720,872	20.7 %
American Airlines	2,592,345	4.7 %	2,542,485	4.6 %	2,951,244	5.3 %	3,057,991	5.7 %	2,898,507	5.6 %
Spirit Airlines	2,144,740	3.9 %	1,889,818	3.5 %	1,896,577	3.4 %	1,192,125	2.2 %	675,458	1.3 %
Delta Air Lines	1,963,878	3.5 %	1,922,778	3.5 %	1,889,715	3.4 %	1,897,776	3.5 %	1,772,122	3.4 %
Frontier Airlines	285,337	0.5 %	421,754	0.8 %	494,804	0.9 %	307,506	0.6 %	236,060	0.5 %
Air Canada	349,571	0.6 %	353,721	0.6 %	293,193	0.5 %	278,194	0.5 %	251,713	0.5 %
Lufthansa	279,421	0.5 %	291,713	0.5 %	278,409	0.5 %	281,261	0.5 %	300,824	0.6 %
AeroMéxico	155,258	0.3 %	255,782	0.5 %	255,215	0.5 %	274,145	0.5 %	219,483	0.4 %
British Airways	226,636	0.4 %	240,874	0.4 %	243,464	0.4 %	264,830	0.5 %	281,057	0.5 %
Other Airlines	2,341,769	4.3 %	2,359,309	4.4 %	2,245,588	4.1 %	1,782,746	3.4 %	1,591,348	3.0 %
	55,327,330	**100.0 %**	**54,753,998**	**100.0 %**	**55,590,996**	**100.0 %**	**53,826,453**	**100.0 %**	**51,911,345**	**100.0 %**

Information presented is based on the most current statistical data available; numbers from prior years are subject to change.

SOURCE: Houston Airport System

CARRIERS BY AIRPORT
AS OF JUNE 30, 2023

IAH Mainline Carriers	IAH Regional Carriers	IAH Cargo Carriers	HOU Mainline Carriers	HOU Regional Carriers	HOU Cargo Carriers
AeroMéxico	Commute Air	Air Transport International	Allegiant Air	Envoy Air	
Air Canada	Envoy Air	Atlas Air	American Airlines	Mesa Airlines	
Air France	Jazz Air	C.A.L Cargo/ Challenge Airlines	Delta Airlines	SkyWest Airlines	
Air New Zealand	Mesa Airlines	Cargolux	Frontier Airlines		
Alaska Airlines	Republic Airlines	Cathay Pacific Cargo	Southwest Airlines		
All Nippon Airways	SkyWest Airlines	DHL			
American Airlines		Emirates Sky Cargo			
Avianca S.A.		Federal Express			
British Airways		Lufthansa Cargo			
Delta Airlines		National Airlines			
Emirates		Qatar Airways Cargo			
EVA Air		Silk Way West Airlines			
Frontier Airlines		Turkish Cargo			
JetBlue Airways		UPS			
KLM Royal Dutch Airlines					
Lufthansa					
Qatar Airways					
Singapore Airlines					
Southwest Airlines					
Spirit Airlines					
Sun Country					
Turkish Airlines					
United Airlines					
VivaAerobus					
Volaris					
Volaris El Salvador					
WestJet					

Information presented is based on the most current statistical data available; numbers from prior years are subject to change.

SOURCE: Houston Airport System

ORIGINATING PASSENGER ENPLANEMENTS

IAH	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Originating Enplanements	13,595,367	11,510,410	6,416,622	9,274,821	12,410,801	11,332,305	11,127,432	11,130,370	10,453,670	9,653,120
Connecting Enplanements	8,525,013	8,301,901	4,444,726	7,252,407	10,067,653	9,443,423	9,602,708	10,301,326	10,504,885	10,452,170
Total Enplaned Passengers	22,120,380	19,812,311	10,861,348	16,527,228	22,478,454	20,775,728	20,730,140	21,431,696	20,958,555	20,105,290
Originating Enplanement Percentage	61.5%	58.1%	59.1%	56.1%	55.2%	54.5%	53.7%	51.9%	49.9%	48.0%
HOU										
Originating Enplanements	4,576,558	4,112,069	2,710,793	3,656,831	4,996,510	4,829,823	4,852,811	4,695,633	4,271,166	4,134,726
Connecting Enplanements	2,247,651	2,155,636	1,396,968	1,644,721	2,332,635	2,107,238	1,807,446	1,687,702	1,674,247	1,701,165
Total Enplaned Passengers	6,824,209	6,267,705	4,107,761	5,301,552	7,329,145	6,937,061	6,660,257	6,383,335	5,945,413	5,835,891
Originating Enplanement Percentage	67.1%	65.6%	66.0%	69.0%	68.2%	69.6%	72.9%	73.6%	71.8%	70.8%
HOUSTON AIRPORT SYSTEM										
Originating Enplanements	18,171,925	15,622,479	9,127,415	12,931,652	17,407,311	16,162,128	15,980,243	15,826,003	14,724,836	13,787,846
Connecting Enplanements	10,772,664	10,457,537	5,841,694	8,897,128	12,400,288	11,550,661	11,410,154	11,989,028	12,179,132	12,153,335
Total Enplaned Passengers	28,944,589	26,080,016	14,969,109	21,828,780	29,807,599	27,712,789	27,390,397	27,815,031	26,903,968	25,941,181
Originating Enplanement Percentage	62.8%	59.9%	61.0%	59.2%	58.4%	58.3%	58.3%	56.9%	54.7%	53.2%

Information presented is based on the most current statistical data available; numbers from prior years are subject to change.

SOURCE: Houston Airport System

AIRCRAFT OPERATIONS, LANDING WEIGHT AND CARGO ACTIVITY

AIRCRAFT OPERATIONS
(in thousands)

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total	690	691	512	624	752	735	760	787	816	811
Increase (Decrease)	(1)	179	(112)	(128)	17	(25)	(27)	(29)	5	12
Percentage Change	(0.14)%	34.96 %	(17.95)%	(17.02)%	2.31 %	(3.29)%	(3.43)%	(3.55)%	0.62 %	1.50 %

AIRCRAFT LANDED WEIGHT
(in million pounds)

	2023	1905	2021	2020	2019	2018	2017	2016	2015	2014
Total	35,888	33,863	23,454	30,345	37,256	34,828	34,648	35,519	34,969	33,881
Increase (Decrease)	2,025	10,409	(6,891)	(6,911)	2,428	180	(871)	550	1,088	837
Percentage Change	5.98 %	44.38 %	(22.71)%	(18.55)%	6.97 %	0.52 %	(2.45)%	1.57 %	3.21 %	2.53 %

CARGO ACTIVITY
(in metric tons)

	2023	1905	2021	2020	2019	2018	2017	2016	2015	2014
Domestic Freight	322,816	321,056	309,270	285,122	267,631	231,670	209,343	195,644	192,331	193,776
International Freight	196,701	212,883	153,552	199,241	243,594	234,384	224,226	205,361	252,876	225,400
Mail	19,446	26,760	21,197	19,857	23,413	23,790	24,983	25,713	30,026	27,333
Total Cargo	538,963	560,699	484,019	504,220	534,638	489,844	458,552	426,718	475,233	446,509
Year-over-Year Change	(3.9)%	15.8 %	(4.0)%	(5.7)%	9.1 %	6.8 %	7.5 %	(10.2)%	6.4 %	(0.1)%

*FY2021 was adjusted

Information presented is based on the most current statistical data available; numbers from prior years are subject to change.

SOURCE: Houston Airport System

PERFORMANCE MEASURES

PERFORMANCE MEASURES	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Revenue per Enplaned Passenger	$ 27.08	$ 28.32	$ 39.40	$ 28.69	$ 22.56	$ 23.25	$ 22.59	$ 22.40	$ 22.10	$ 21.06
Maintenance and Operations Expenses per Enplaned Passenger	$ 13.85	$ 12.12	$ 21.28	$ 16.97	$ 11.32	$ 12.09	$ 9.29	$ 11.34	$ 10.65	$ 10.99
Debt Service per Enplaned Passenger	$ 6.17	$ 6.75	$ 11.31	$ 8.83	$ 6.33	$ 6.77	$ 7.06	$ 6.69	$ 6.54	$ 6.47
Outstanding Debt per Enplaned Passenger (1)	$ 85.52	$ 91.92	$ 154.58	$ 94.60	$ 69.32	$ 80.26	$ 84.43	$ 86.41	$ 86.31	$ 90.11
Intercontinental Budgeted Airline Cost per Est. Enplaned Passenger (2)	$ 10.06	$ 15.70	$ 19.28	$ 10.48	$ 11.57	$ 11.38	$ 11.31	$ 10.94	$ 11.28	$ 11.21
Intercontinental Actual Airline Cost per Enplaned Passenger (2)	$ 10.71	$ 10.47	$ 14.50	$ 14.19	$ 10.48	$ 11.39	$ 11.08	$ 10.62	$ 10.56	$ 10.61
Hobby Budgeted Airline Cost per Est. Enplaned Passenger (2)	$ 8.39	$ 10.16	$ 13.92	$ 6.44	$ 6.52	$ 6.22	$ 6.48	$ 6.76	$ 6.99	$ 7.37
Hobby Actual Airline Cost per Enplaned Passenger (2)	$ 8.09	$ 8.72	$ 9.58	$ 9.21	$ 6.64	$ 6.40	$ 6.15	$ 7.15	$ 6.43	$ 6.19

(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.

SOURCE: Houston Airport System

CASH AVAILABLE BY DAYS FUNDED (in thousands)

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Airport System Revenue Fund (1) (2)	$ 107,903	$ 105,775	$ 20,070	$ –	$ –	$ –	$ –	$ –	$ –	$ –
CARES Act/CRRSAA/ARPA Grants	5,592	17,257	54,314	–	–	–	–	–	–	–
Operating & Maintenance Reserve	58,821	58,820	55,845	55,845	55,845	52,686	51,807	51,615	50,754	49,633
Renewal & Replacement Fund (3)	14,765	(601)	15,628	(15,378)	18,770	11,483	10,514	10,001	10,011	11,822
Airport Improvement Fund (3)	271,805	304,805	330,419	384,169	410,795	444,464	417,930	449,768	396,631	487,974
Total cash available for operations	$ 458,886	$ 486,056	$ 476,276	$ 424,636	$ 485,410	$ 508,633	$ 480,251	$ 511,384	$ 457,396	$ 549,429
Maintenance and operating expense (4) (5)	$ 315,487	$ 255,377	$ 251,830	$ 314,034	$ 315,153	$ 326,889	$ 326,889	$ 314,715	$ 283,557	$ 268,745
Days in fiscal year	365	365	365	366	365	365	365	365	365	365
Daily cash requirement	$ 864	$ 700	$ 690	$ 858	$ 863	$ 896	$ 896	$ 862	$ 777	$ 736
Days funded	531	694	690	495	562	568	536	593	589	747
TOTAL AIRPORT SYSTEM CASH AND INVESTMENTS	$ 1,925,547	$ 1,907,143	$ 1,727,514	$ 1,454,903	$ 1,456,679	$ 1,362,459	$ 1,259,622	$ 1,248,346	$ 1,222,307	$ 1,139,956

(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) Available funding in the Airport System Revenue Fund on June 30th is transferred to the Airports Improvement Fund to comply with airport bond ordinances.

(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.

SOURCE: Houston Airport System

AIRPORT INFORMATION

	IAH		HOU		EFD (1)	
LOCATION	15 miles N of downtown Houston		8 miles SE of downtown Houston		15 miles SE of downtown Houston	
AREA	10,111 acres		1,502 acres		1,938 acres	
ELEVATION	96 MSL		46 MSL		33 MSL	
AIRPORT CODE	IAH		HOU		EFD	
RUNWAYS	8R-26L	9,402x150 ft	13L-31R	5,148x100 ft	17L-35R	4,609x80 ft
	45196	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	9,999x150 ft				
	8L-26R	9,000x150 ft				
TERMINAL SPACE	Airlines	3,219,284 sf	Airlines	530,043 sf	n/a	
	Tenants	201,134 sf	Tenants	63,672 sf		
	Public/Common	676,806 sf	Public/Common	152,648 sf		
	Mechanical	305,960 sf	Mechanical	115,815 sf		
	Other	218,959 sf	Other	47,615 sf		
	Total	4,622,143 sf	Total	909,793 sf		
NUMBER OF GATES/HARDSTAND POSITIONS	127/7		30/n/a		n/a	
COMMERCIAL AIRLINES APRON	3,878,137 sf		815,239 sf		n/a	
RENTAL CAR FACILITY	11 Rental Car Agencies		12 Rental Car Agencies		1 Rental Car Agency	
PARKING SPACES	S-T Hourly	10,532	S-T Hourly	4,609		
	L-T ECO	8,612	L-T ECO	958		
	Employee	3,872	Employee	1,769	Employee	27
	Total	23,016	Total	7,336	Total	27

(1) No scheduled commercial flights

SOURCE: Houston Airport System

PRINCIPAL EMPLOYERS
Last Ten Years (1)
(Listed alphabetically)

2023	2022	2021	2020	2019
Amazon	CHI St. Luke's Health	ExxonMobil	ExxonMobil	HEB
CHI St. Luke's Health	ExxonMobil	HCA Houston Healthcare	HCA Houston Healthcare	Houston Methodist
ExxonMobil	HCA Houston Healthcare	HEB	HEB	Kroger
HCA Houston Healthcare	HEB	Houston Methodist	Houston Methodist	McDonald's Corp
HEB	Houston Methodist	Kroger	Kroger	Memorial Hermann Health System
Houston Methodist	Kroger	Memorial Hermann Health System	Memorial Hermann Health System	Schlumberger
Kroger	Memorial Hermann Health System	Schlumberger	Shell Oil Company	Shell Oil Company
Memorial Hermann Health System	Schlumberger	United Airlines	United Airlines	United Airlines
Schlumberger	UT MD Anderson Cancer Center	UT MD Anderson Cancer Center	UT MD Anderson Cancer Center	UT MD Anderson Cancer Center
Walmart	Walmart	Walmart	Walmart	Walmart

2018	2017	2016	2015	2014
Exxon Mobil	HEB	ExxonMobil	Cameron International	B.P. America, Inc.
HEB	Houston Methodist	Houston Methodist Hospital System	ExxonMobil	ExxonMobil
Houston Methodist	Kroger Company	Kroger Company	HEB	Houston Methodist
Kroger Company	McDonald's Corp	Memorial Hermann Health System	Houston Methodist	Kroger
McDonald's Corp	Memorial Hermann Health System	National Oilwell Varco	Kroger	Memorial Hermann Health System
Memorial Hermann Health System	Schlumberger Limited	Schlumberger Limited	Memorial Hermann Health System	National Oilwell Varco
Texas Children Hospital	Shell Oil Company	Shell Oil Company	National Oilwell Varco	Schlumberger Limited
United Airlines	United Airlines	United Airlines	Shell Oil Company	Shell Oil Company
UT MD Anderson Cancer Center	UT MD Anderson Cancer Center	UT MD Anderson Cancer Center	United Airlines	United Airlines
Walmart	Walmart	UTMB Health	UT MD Anderson Cancer Center	UT MD Anderson Cancer Center

SOURCE: Greater Houston Partnership

(1) Starting fiscal year 2022, information such as the number of employees or the employers' percentage of total employment is not available for disclosure. Prior year information has been modified to the format consistent with current fiscal year for presentation purposes.

SERVICE AREA AND SERVICE AREA POPULATION/CAREER SERVICE EMPLOYEES

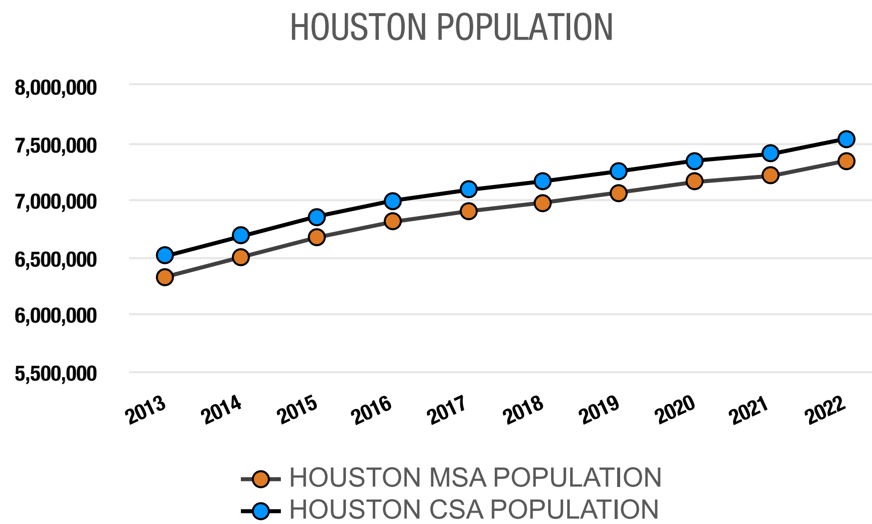
The primary service region for the Houston Airport System, the 9-county Houston-The Woodlands-Sugar Land Metropolitan Statistical Area (MSA), has a diverse economic base and is recognized as a major national and international energy, financial, medical, transportation, retail, and distribution center. The MSA extends out to five additional counties of Matagorda, Trinity, Walker, Washington, and Wharton for the broader Houston-The Woodlands Combined Statistical Area (CSA). According to the U.S. Bureau of the Census, the population estimate was 7.3 million for the MSA and 7.5 million for the CSA as of July 1, 2022.

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

SERVICE AREA POPULATION

As of July 1,	Houston MSA Population	Houston CSA Population
2013	6,327,622	6,508,809
2014	6,499,375	6,681,368
2015	6,670,803	6,854,564
2016	6,806,315	6,991,576
2017	6,898,912	7,085,197
2018	6,974,948	7,161,568
2019	7,063,400	7,249,052
2020	7,154,478	7,340,823
2021	7,206,841	7,398,774
2022	7,340,118	7,533,095

SOURCE: Greater Houston Partnership and U.S. Census Bureau



Career Service Employees
Last Ten Years

Fiscal Year	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total Employees	1,197	1,127	1,147	1,110	1,091	1,113	1,141	1,191	1,234	1,294

SOURCE: Houston Airport System

DEMOGRAPHIC AND ECONOMIC

Fiscal Year	Population (1)(2)	Personal Income (in thousands) (3)	Per Capita Income (3)	Median Age (4)	Education Level in Years of Formal Schooling (4)	School Enrollment (4)	Average Unemployment Rate (percentage) (5)
2014	2,196,367	$360,298	$55,436	32.3	13.0	1,790,150	10.0
2015	2,238,653	$366,978	$55,013	32.4	13.0	1,829,867	—
2016	2,283,616	$351,012	$51,572	32.6	13.0	1,849,065	10.0
2017	2,306,360	$377,978	$54,788	32.6	13.1	1,874,344	10.0
2018	2,313,079	$403,674	$57,875	32.7	13.2	1,893,312	—
2019	2,314,478	$415,920	$58,884	32.9	13.2	1,932,292	—
2020	2,315,720	$428,501	$59,893	32.9	13.4	1,915,864	10.0
2021	2,300,027	$467,267	$64,837	33.4	13.4	1,920,741	10.0
2022	2,288,250	Not available	Not available	35.3	13.4	1,911,456	—
2023	2,302,878	Not available	Not available	35.4	Not available	1,943,808	—

(1) SOURCE: U.S. Census Bureau - City and Town Populations, Subcounty Resident Population Estimates: April 1, 2013 to July 1, 2019.

(2) SOURCE: U.S. Census Bureau - Annual Estimates of the Resident Population for Incorporated Places of 50,000 or More: estimate as of July 1, 2021, and July 1, 2022, for fiscal year 2022, and 2023, respectively.

(3) SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis. Amounts as of year ended December 31 for the nine-county Metropolitan Statistical Area (MSA). Information for the years ended December 31, 202

(4) SOURCE: U.S. Census Bureau - ACS Demographic and Housing Estimates for or the nine-county Metropolitan Statistical Area.

(5) SOURCE: U.S. Bureau of Labor Statistics. Information as of June each year for the nine-county Metropolitan Statistical Area.

Information presented is based on the most current statistical data available; numbers from prior years are subject to change.

COMPLIANCE

CITY OF HOUSTON
TEXAS

McConnell Jones

BANKS, FINLEY, WHITE & CO.
CERTIFIED PUBLIC ACCOUNTANTS

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 for Passenger Facility Charge Program

Opinion

We have audited the City of Houston, Texas' ("the City") compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit PFC Guide for Public Agencies* (PFC Guide), issued by the Federal Aviation Administration (FAA), applicable to the Houston Airport System (HAS) Passenger Facility Charge (PFC) Program for the year ended June 30, 2023.

In our opinion, HAS complied, in all material respects, with the compliance requirements referred to above that are applicable to the HAS PFC Program for the year ended June 30, 2023.

Basis for Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the PFC Guide issued by the FAA. Our responsibilities under those standards and the PFC Guide are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the HAS and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit does not provide a legal determination of the HAS's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

The HAS's management is responsible for compliance with the requirements referred to above, and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the HAS's PFC Program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the HAS's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the PFC Guide will always detect material noncompliance when it exists.

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

McConnell Jones BANKS, FINLEY, WHITE & CO. CERTIFIED PUBLIC ACCOUNTANTS

To the Honorable Mayor, Members of City Council
and City Controller of the City of Houston, Texas
Page 2

The risk of not detecting material noncompliance resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the HAS's compliance with the requirements of the government program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the PFC Guide, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the HAS's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the HAS's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the PFC Guide, but not for the purpose of expressing an opinion on the effectiveness of the HAS's internal. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 detect and correct, noncompliance 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 compliance requirement 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 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

McConnell Jones

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CERTIFIED PUBLIC ACCOUNTANTS

To the Honorable Mayor, Members of City Council
and City Controller of the City of Houston, Texas
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Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 PFC Guide issued by the FAA. Accordingly, this report is not suitable for any other purpose.

Report on Passenger Facility Charge Revenues and Disbursements Schedules Required by the PFC Guide

We have audited the basic financial statements of the City, as of and for the year ended June 30, 2023, and have issued our report thereon dated November 17, 2023, 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 PFC Guide and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the passenger facility charge revenues and disbursements schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.

McConnell Jones LLP Banks, Finley, White & Co.

November 17, 2023

FOR THE YEAR ENDED JUNE 30, 2023

	FY 2022 Program Total	Quarter 1 Jul-Sept	Quarter 2 Oct-Dec	Quarter 3 Jan-Mar	Quarter 4 Apr-Jun	FY 2023 Total	FY 2023 Program Total
REVENUES							
Collections (Note 3)	$ 843,142,474	13,701,868	21,713,998	19,693,980	28,332,135	83,441,981	$ 926,584,455
Other revenue-insurance (Note 3)	2,059,629	–	–	–	–	–	2,059,629
Interest	22,569,879	655,171	925,984	1,309,198	1,655,905	4,546,258	27,116,137
Total Revenues	867,771,982	14,357,039	22,639,982	21,003,178	29,988,040	87,988,239	955,760,221
DISBURSEMENTS							
1.01 Automated People Mover System	$ 245,809,112	–	2,620,543	–	13,400,332	16,020,875	$ 261,829,987
1.02 Terminal B Expansion & Improvements	126,869,619	–	584,516	–	1,432,664	2,017,180	128,886,799
1.03 Central FIS Facility	126,104,858	–	1,862,679	–	10,823,240	12,685,919	138,790,777
1.04 North Parallel Runway 8L/26R	39,633,721	–	527,468	–	3,467,806	3,995,274	43,628,995
1.05 Administrative Costs	112,917	–	–	–	–	–	112,917
1.06 Central Plant HVAC Upgrades	18,964,867	–	329,137	–	678,001	1,007,138	19,972,005
1.07 Terminal A/B South Taxiways	19,197,839	–	351,147	–	380,108	731,255	19,929,094
Total Disbursements	576,692,933	–	6,275,490	–	30,182,151	36,457,641	613,150,574
2.01 Mickey Leland International Terminal (MLIT), Rehabilitation and Expansion	44,633,605	72,683	1,744,892	8,456,786	20,524,532	30,798,893	$ 75,432,498
2.02 Federal Inspection Services (FIS) Rehabilitation and Expansion	14,428,155	–	3,398,747	–	4,783,555	8,182,302	22,610,457
2.03 Terminal Facilities Utilities (Enabling Utilities Landside)	421,398	–	35,464	–	48,361	83,825	505,223
2.04 IAH Terminal Roadway Reconstruction	–	–	–	–	–	–	–
2.05 Terminal A Baggage Handling System	288,358	–	116,331	–	162,257	278,588	566,946
2.06 IAH Roadway Signage Replacement	14,744,430	–	1,855	–	2,517	4,372	14,748,802
2.07 Terminal A Restroom Rehabilitation	–	–	–	–	–	–	–
2.08 Terminal D Restroom Rehabilitation	–	–	–	–	–	–	–
Total Disbursements	74,515,946	72,683	5,297,289	8,456,786	25,521,222	39,347,980	113,863,926
Net PFC Revenues	$ 216,563,103	14,284,356	11,067,203	12,546,392	(25,715,333)	12,182,618	$ 228,745,721
PFC Account Balance	$ 216,563,103	230,847,459	241,914,662	254,461,054	228,745,721	228,745,721	$ 228,745,721

FOR THE YEAR ENDED JUNE 30, 2023

	FY 2022 Program Total	Quarter 1 Jul-Sept	Quarter 2 Oct-Dec	Quarter 3 Jan-Mar	Quarter 4 Apr-Jun	FY 2023 Total	FY 2023 Program Total
REVENUES							
Collections (Note 3)	$ 263,287,629	6,438,727	6,069,598	5,262,338	6,073,722	23,844,385	$ 287,132,014
Other revenue-insurance (Note 3)	755,196	–	–	–	–	–	755,196
Interest	5,642,531	97,030	148,419	207,009	286,209	738,667	6,381,198
Total Revenues	269,685,356	6,535,757	6,218,017	5,469,347	6,359,931	24,583,052	294,268,408
DISBURSEMENTS							
1.01 Rehab Runways	3,897,802	–	4,844	–	63,771	68,615	3,966,417
1.02 Rehab & Modification to Taxiways	15,687,670	–	14,318	–	188,521	202,839	15,890,509
1.03 Expand Taxiway Electrical System	3,220,026	–	–	–	–	–	3,220,026
1.04 Arpt Drainage & Stormwater Improvs	5,525,814	–	58,143	–	369,628	427,771	5,953,585
1.05 Acquire Runway 17 Protection Zone	684,728	–	4,649	–	21,765	26,414	711,142
1.06 Airfield Lighting & Control	7,539,233	–	18,515	–	104,441	122,956	7,662,189
1.07 Central Terminal Expansion	32,741,989	–	109,638	–	677,151	786,789	33,528,778
1.08 Conduct Master Plan	393,948	–	–	–	–	–	393,948
1.09 Central Concourse Equipment	14,104,046	–	76,050	–	153,361	229,411	14,333,457
1.10 Apron Reconstruction	4,273,489	–	97,753	–	177,061	274,814	4,548,303
1.11 Taxiway & Taxilane Reconstruction	8,946,068	–	204,635	–	370,657	575,292	9,521,360
1.12 Overlay Runway 12R/30L	5,469,864	–	25,565	–	42,115	67,680	5,537,544
1.13 Perimeter Fencing & Obstruction	1,525,400	–	978	–	1,612	2,590	1,527,990
1.14 Access Controls & Telecom	955,994	–	28,807	–	47,455	76,262	1,032,256
1.15 Environmental Impact Statement	309,718	–	2,324	–	20,969	23,293	333,011
1.16 Land Acquisition RW4 RPZ	625,542	–	–	–	–	–	625,542
1.17 Drainage/Stormwater Plan	1,373,231	–	371	–	4,884	5,255	1,378,486
1.18 PFC Consulting, Admin, Audit	97,621	–	–	–	–	–	97,621
Subtotal HOU 1.00 Projects	107,372,183	–	646,590	–	2,243,391	2,889,981	110,262,164
2.01 International Terminal Expansion	27,016,359	–	1,948,344	–	4,500,451	6,448,795	33,465,154
2.02 International Terminal - Apron	4,359,731	–	314,411	–	726,254	1,040,665	5,400,396
2.03 International Terminal - Roadways	6,321,218	–	257,933	–	461,029	718,962	7,040,180
2.04 Elevated passenger walkway	1,439,566	–	84,450	–	150,397	234,847	1,674,413
2.05 Satellite utilities plant - Phase I	5,296,799	–	277,039	–	639,663	916,702	6,213,501
2.06 Passenger walkway canopy	–	–	–	–	–	–	–
2.07 Central concourse expansion	79,649,673	–	1,967,157	–	5,082,366	7,049,523	86,699,196
2.08 Explosive detection baggage equip.	5,295,282	–	–	–	–	–	5,295,282
2.09 Partial reconstruction R/W 4-22	2,241,034	–	39,890	–	197,111	237,001	2,478,035
2.10 Partial reconstruction Taxiway C	568,150	–	10,113	–	49,972	60,085	628,235
2.11 Partial reconstruct NE perimeter rd	347,204	–	6,180	–	30,539	36,719	383,923
2.12 Air units - central concourse	–	–	–	–	–	–	–
Subtotal HOU 2.00 Projects	132,535,016	–	4,905,517	–	11,837,782	16,743,299	149,278,315
Total Disbursements	239,907,199	–	5,552,107	–	14,081,173	19,633,280	259,540,479
Net PFC Revenues	$ 29,778,157	6,535,757	665,910	5,469,347	(7,721,242)	4,949,772	$ 34,727,929
PFC Account Balance	$ 29,778,157	36,313,914	36,979,824	42,449,171	34,727,929	34,727,929	$ 34,727,929

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 Annual Comprehensive 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:

FOR THE YEAR ENDED JUNE 30, 2023

Passenger Facility Charges	HOU	IAH	HAS Total
Amounts per Statement of Revenues, Expenses and Changes in Net Position - accrual basis	$ 24,125,091	$ 84,628,749	$ 108,753,840
Add: prior year accrual	2,431,690	6,468,523	8,900,213
Less: current year accrual	(2,712,396)	(7,655,291)	(10,367,687)
Collection amounts per Passenger Facility Charge Revenue and Disbursement Schedule - cash basis	$ 23,844,385	$ 83,441,981	$ 107,286,366

FOR THE YEAR ENDED JUNE 30, 2023

1.	Type of report issued on PFC financial statements.	Unmodified	
2.	Type of report on PFC compliance.	Unmodified	
3.	Quarterly Revenues and Disbursements reconcile with submitted quarterly reports and reported un-liquidated revenue matches actual amounts.	X Yes	___ No
4.	PFC Revenues and Interest are accurately reported.	X Yes	___ No
5.	The Public Agency maintains a separate financial accounting record for each application.	X Yes	___ No
6.	Funds disbursed were for PFC-eligible items as identified in the FAA Decision to pay only for the allowable costs of the projects.	X Yes	___ No
7.	Monthly carrier receipts were reconciled with quarterly carrier reports.	X Yes	___ No
8.	PFC revenues were maintained in a separate interest-bearing capital account or commingled only with other interest-bearing airport capital funds.	X Yes	___ No
9.	Serving carriers were notified of PFC program actions/changes approved by the FAA.	X Yes	___ No
10.	Quarterly Reports were transmitted (or available via website) to remitting carriers.	X Yes	___ No
11.	The Public Agency is in compliance with Assurances 5, 6, 7 and 8.	X Yes	___ No
12.	Project design and implementation are carried out in accordance with Assurance 9.	X Yes	___ No
13.	Program administration is carried out in accordance with Assurance 10.	X Yes	___ No
14.	For those public agencies with excess revenue, a plan for the use of this revenue has been submitted to the FAA for review and concurrence.	X Yes	___ No

FOR THE YEAR ENDED JUNE 30, 2023

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

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