OFFICIAL STATEMENT DATED AS OF JULY 30, 2009

NEW ISSUE — BOOK-ENTRY ONLY **RATINGS: Moody's Aa3**
S&P AA-

The delivery of the Series 2009A Bonds (as defined below) is subject to the opinion of Co-Bond Counsel to the effect that, assuming compliance with certain covenants and based on certain representations, (i) interest on the Series 2009A Bonds is excludable from gross income for federal income tax purposes under existing law and (ii) the Series 2009A Bonds are "private activity bonds," the interest on which is not, pursuant to the American Recovery and Reinvestment Act of 2009, a specific preference item or included in a corporation's adjusted current earnings for purposes of the alternative minimum tax. See "TAX MATTERS– Series 2009A Bonds" herein for a discussion of the opinion of Co-Bond Counsel.

$449,660,000
CITY OF HOUSTON, TEXAS
Airport System
Senior Lien Revenue and Refunding Bonds, Series 2009A

Interest Accrual Date: Date of Delivery **CUSIP Prefix**: 442348 **Due**: See Inside Cover

This Official Statement is provided to furnish information in connection with the offering by the City of Houston, Texas (the "City") of its Airport System Senior Lien Revenue and Refunding Bonds, Series 2009A (the "Series 2009A Bonds"). The Series 2009A Bonds are special obligations of the City that, together with the Outstanding Senior Lien Notes, and any Additional Senior Lien Obligations hereafter issued, are payable from and equally and ratably secured by a lien on the Net Revenues of the Houston Airport System, all as defined and provided in the ordinances authorizing the issuance of such obligations, and certain funds established pursuant to such ordinances. See "APPENDIX C–THE ORDINANCE."

Proceeds of the sale of the Series 2009A Bonds will be used to (i) refund and defease a portion of certain outstanding airport system senior lien commercial paper notes of the City, (ii) reimburse the City for previously expended Houston Airport System project costs, (iii) finance various projects for authorized Houston Airport System purposes, (iv) fund the debt service Reserve Fund Requirement relating to the Series 2009A Bonds, (v) fund capitalized interest for the Series 2009A Bonds, and (vi) pay costs of issuance relating to the Series 2009A Bonds.

Interest on the Series 2009A Bonds will accrue from their date of delivery until maturity or prior redemption and is payable semi-annually on each January 1 and July 1 commencing January 1, 2010. Wells Fargo Bank, N.A. (the "Paying Agent/Registrar") is the initial Paying Agent/Registrar.

The Series 2009A Bonds, when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2009A Bonds, until DTC resigns or is discharged. The Series 2009A Bonds will be available to purchasers only in book-entry form. For as long as Cede & Co. is the exclusive registered owner of the Series 2009A Bonds, the principal of and interest on the Series 2009A Bonds will be payable by the Paying Agent/Registrar to DTC, which will be responsible for making such payments to DTC Participants for subsequent remittance to the owners of beneficial interests in the Series 2009A Bonds. The purchasers of the Series 2009A Bonds will not receive certificates representing their beneficial ownership interests therein.

THE SERIES 2009A BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OR GENERAL OBLIGATION OF THE CITY. OWNERS OF THE SERIES 2009A BONDS SHALL NEVER HAVE THE RIGHT TO DEMAND PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2009A BONDS FROM ANY FUNDS RAISED OR TO BE RAISED BY TAXATION.

The Series 2009A Bonds are subject to mandatory and optional redemption prior to maturity, as described herein. See "THE BONDS–Optional Redemption" and "THE BONDS–Mandatory Redemption."

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

This cover page is not intended to be a summary of the terms of, or the security for, the Series 2009A Bonds. Investors are advised to read the Official Statement in its entirety to obtain information essential to the making of an informed investment decision.

The Series 2009A Bonds are offered by the Underwriters listed below when, as and if issued by the City and accepted by the Underwriters, subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Vinson & Elkins L.L.P., Houston, Texas, and Bates & Coleman, P.C., Houston, Texas, Co-Bond Counsel for the City, as to the validity of the issuance of the Series 2009A Bonds under the Constitution and the laws of the State of Texas. Certain matters will be passed upon for the City by its Special Disclosure Co-Counsel, Fulbright & Jaworski L.L.P., Houston, Texas and Escamilla & Poneck, Inc., Houston, Texas. Certain other legal matters will be passed upon for the Underwriters by their co-counsel, Andrews Kurth LLP, Houston, Texas and Winstead PC, Houston, Texas. The Series 2009A Bonds are expected to be available for delivery through the facilities of DTC on or about August 20, 2009 ("Date of Delivery").

J.P. Morgan

Citi **Merrill Lynch & Co.** **Ramirez & Co., Inc.**

Jefferies & Company **Loop Capital Markets, LLC** **Southwest Securities, Inc.** **Stifel Nicolaus**

MATURITY AND PRICING SCHEDULE

$449,660,000
CITY OF HOUSTON, TEXAS
AIRPORT SYSTEM SENIOR LIEN REVENUE AND REFUNDING BONDS,
SERIES 2009A
CUSIP Prefix: 442348[(1)]

$200,205,000 Serial Bonds

Maturity (July 1)[(2)]	Principal Amount	Interest Rate	Initial Yield[(3)]	CUSIP Suffix[(1)]
2015	$ 9,275,000	5.000%	3.280%	3E6
2016	9,740,000	5.000%	3.550%	3F3
2017	10,225,000	5.000%	3.810%	3G1
2018	10,735,000	5.000%	4.060%	3H9
2019	11,275,000	5.000%	4.280%	3J5
2020	11,835,000	5.000%	4.470%	3K2
2021	12,430,000	5.000%	4.650%	3L0
2022	13,050,000	5.000%	4.790%	3M8
2023	13,705,000	5.000%	4.890%	3N6
2024	14,390,000	5.000%	5.000%	3P1
2025	15,110,000	5.000%	5.070%	3Q9
2026	15,865,000	5.000%	5.150%	3R7
2027	16,655,000	5.125%	5.220%	3S5
2028	17,510,000	5.125%	5.290%	3T3
2029	18,405,000	5.250%	5.360%	3U0

$249,455,000 Term Bonds

$108,130,000 5.500% Term Bond Due July 1, 2034 Initial Yield 5.620% CUSIP Suffix: 3W6[(1)(2)]

$141,325,000 5.500% Term Bond Due July 1, 2039 Initial Yield 5.670% CUSIP Suffix: 3V8[(1)(2)]

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1 CUSIP numbers for the Bonds have been assigned by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. and are included solely for the convenience of the owners of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP. Neither the City, the Co-Financial Advisors, nor the Underwriters are responsible for the selection or correctness of the CUSIP numbers set forth herein.

2 The Series 2009A Bonds maturing on and after July 1, 2019, are subject to optional redemption prior to maturity, in whole or in part, on July 1, 2018, or any date thereafter, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date.

3 Yields for Series 2009A Bonds maturing in the years 2019 through 2023 are calculated to the first optional redemption date.

THE SERIES 2009A BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACT. THE REGISTRATION OR QUALIFICATION OF THE SERIES 2009A BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAW OF THE STATES IN WHICH THE SERIES 2009A BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. THE SERIES 2009A BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

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

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

This Official Statement is delivered in connection with the sale of securities referred to herein and may not be reproduced or used, in whole or in part, for any other purposes. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2009A Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation, or sale. No dealer, salesperson, or other person has been authorized by the City to give any information or to make any representation other than those contained herein, and, if given or made, such other information or representation must not be relied upon as having been authorized by the City, the Underwriters, or any other person. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the matters described herein since the date hereof.

The prices and other terms respecting the offering and sale of the Series 2009A Bonds may be changed from time to time by the Underwriters after such Bonds are released for sale, and the Series 2009A Bonds may be offered and sold at prices other than the initial offering prices, including to dealers who may sell the Series 2009A Bonds into investment accounts.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2009A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

City of Houston, Texas

ELECTED OFFICIALS

Bill White, Mayor

Annise D. Parker, City Controller

CITY COUNCIL

Council Member, District A	Toni Lawrence
Council Member, District B	Jarvis Johnson
Council Member, District C	Anne Clutterbuck
Council Member, District D	Wanda Adams
Council Member, District E	Mike Sullivan
Council Member, District F	M.J. Khan, P.E.
Council Member, District G	Pam Holm
Council Member, District H	Edward Gonzales
Council Member, District I	James G. Rodriguez
Council Member, At-Large Position 1	Peter Brown
Council Member, At-Large Position 2	Sue Lovell
Council Member, At-Large Position 3	Melissa Noriega
Council Member, At-Large Position 4	Ronald C. Green
Council Member, At-Large Position 5	Jolanda "Jo" Jones

APPOINTED OFFICIALS

Chief Administrative Officer	Anthony W. Hall, Jr.
City Attorney	Arturo G. Michel
Director, Finance Department	Michelle Mitchell
Interim Director, Houston Airport System	Eric R. Potts
City Secretary	Anna Russell

CONSULTANTS AND ADVISORS

Co-Financial Advisors	First Southwest Company Estrada Hinojosa & Co., Inc.
Co-Bond Counsel	Vinson & Elkins L.L.P. Bates & Coleman, P.C.
Co-Special Disclosure Counsel	Fulbright & Jaworski L.L.P. Escamilla & Poneck, Inc.
Airport Management Consultant	Roger H. Bates, Airport Consultant

FINANCING WORKING GROUP MEMBERS

Houston Airport System	Ian Wadsworth Ellen Erenbaum
Office of the City Attorney	Susan T. Taylor Gary L. Wood Sameera Mahendru
Finance Department	Charles R. Leal Jennifer Mott
Office of the City Controller	James Moncur Shawnell Holman-Smith

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OFFICIAL STATEMENT

$449,660,000
CITY OF HOUSTON, TEXAS
AIRPORT SYSTEM
SENIOR LIEN REVENUE AND REFUNDING BONDS,
SERIES 2009A

INTRODUCTION

This Official Statement, including the cover page and schedules hereto, is provided to furnish information regarding the offer and sale by the City of Houston, Texas of its Airport System Senior Lien Revenue and Refunding Bonds, Series 2009A (the "Series 2009A Bonds"). The Series 2009A Bonds are issued pursuant to Chapters 1201, 1207, 1371, and 1503, Texas Government Code, as amended (collectively, the "Act"), an ordinance adopted by the City Council of the City on June 24, 2009 (the "Ordinance"), and the Officers Pricing Certificate authorized by such Ordinance.

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

The City is the fourth largest city in the nation and the largest city in Texas. In July 2008, according to most recently available statistics by the U.S. Census Bureau, the City's population was approximately 2.24 million, and, based on 2008 U.S. Census estimates, the population of the 10-county metropolitan statistical area ("Houston-Baytown-Sugar Land MSA" or the "MSA") was approximately 5.73 million, which is the sixth largest in the United States. For additional information about the City, see "THE CITY AND CITY FINANCIAL INFORMATION" and "APPENDIX A— Report of the Airport Management Consultant."

Brief descriptions and summaries of the Series 2009A Bonds, the Houston Airport System and the Ordinance are included in this Official Statement. References herein to the Series 2009A Bonds and the Ordinance are qualified in their entirety by reference to the Ordinance and the form of the Series 2009A Bonds included therein. An Airport Management Consultant's Report prepared in connection with and as a requirement for the issuance of the Series 2009A Bonds is included in this Official Statement as APPENDIX A. Houston Airport System Fund financial statements of the City of Houston, Texas are included as APPENDIX B. A summary of certain provisions of the Ordinance and a glossary of defined terms is included as APPENDIX C, and unless otherwise specifically defined herein, capitalized terms used herein have the meanings set out in APPENDIX C.

PURPOSE AND PLAN OF FINANCING

The Bonds

The Series 2009A Bonds are senior lien bonds and special obligations of the City payable from and equally and ratably secured by a lien on the Net Revenues of the Houston Airport System on parity with the City's outstanding airport system Senior Lien Notes, which are part of a revolving $150 million senior lien commercial paper program, and any Additional Senior Lien Bonds or Senior Lien Notes which may be issued hereafter. See "—Security for the Bonds".

After the issuance of the Series 2009A Bonds, in addition to the Series 2009A Bonds and the Senior Lien Notes, the City will have outstanding approximately $2.0 billion of Subordinate Lien Bonds which are secured by a subordinate lien on Net Revenues of the Houston Airport System.

Proceeds of the sale of the Series 2009A Bonds will be used to (i) refund and defease a portion of certain outstanding Senior Lien Notes, (ii) reimburse the City for previously expended Houston Airport System project costs, (iii) finance various projects for authorized Houston Airport System purposes, (iv) fund the debt service Reserve Fund Requirement relating to the Series 2009A Bonds, (v) fund capitalized interest for the Series 2009A Bonds, and (vi) pay costs of issuance relating to the Series 2009A Bonds.

SOURCES AND USES OF FUNDS

The following table summarizes the estimated sources and uses of proceeds of the Series 2009A Bonds:

	Series 2009A Bonds
Sources of Funds:	
Principal Amount of the Bonds	$ 449,660,000.00
Net Original Issue Discount	(1,420,311.15)
Total Sources of Funds	$ 448,239,688.85
Uses of Funds:	
Deposit to Issuing Paying Agent Relating to Refunded Senior Lien Notes	$ 87,000,000.00
Deposit to Project Fund[(1)]	289,217,080.58
Deposit to Debt Service Reserve Account for the Series 2009A Bonds	33,095,993.76
Capitalized Interest	33,974,955.34
Underwriters' Discount	2,474,718.66
Costs of Issuance[(2)]	2,476,940.51
Total Uses of Funds	$ 448,239,688.85

(1) Includes reimbursements for prior Houston Airport System project cost expenditures.

(2) Includes legal fees, financial advisory fees, rating agency fees, fees of the Paying Agent/Registrar, and other costs of issuance.

THE BONDS

General

The Series 2009A Bonds are Senior Lien Bonds that, together with all other Senior Lien Obligations from time to time outstanding, are payable by a lien on the Net Revenues of the Houston Airport System. The lien on Net Revenues securing the Series 2009A Bonds and other Senior Lien Obligations is senior to the lien on the Net Revenues securing the Subordinate Lien Bonds and any Inferior Lien Bonds.

The Series 2009A Bonds will mature in the aggregate principal amounts and on the dates indicated on the inside cover page of this Official Statement. The Series 2009A Bonds will be dated as set forth in the Ordinance authorizing their issuance and the Officers Pricing Certificate authorized by such Ordinance and will accrue interest from the Date of Delivery as set forth on the cover page hereof. Interest on the Series 2009A Bonds will be payable each January 1 and July 1, commencing January 1, 2010, until maturity or earlier redemption. Interest on the Series 2009A Bonds will be calculated on the basis of a 360-day year composed of twelve 30-day months from the later of their issuance date or the most recent Interest Payment Date to which interest has been paid or provided for. Wells Fargo Bank, N.A., Houston, Texas, is the initial paying agent/registrar (the "Paying Agent/Registrar") for the Series 2009A Bonds. The Series 2009A Bonds will be issued in fully registered form in denominations of $5,000 or any integral multiple thereof.

Principal of the Series 2009A Bonds is payable when due upon presentation and surrender thereof at the principal payment office of the Paying Agent/Registrar, which is currently located in Houston, Texas. Interest on the Series 2009A Bonds will be payable to the registered owner whose name appears in the registration books for the Series 2009A Bonds (the "Register") maintained by the Paying Agent/Registrar at the close of business on the 15th day of the calendar month immediately preceding the applicable interest payment date (the "Record Date") and will be payable by the Paying Agent/Registrar by check sent by United States Mail, first class postage prepaid, to the address of the registered owner recorded in the Register. Accrued interest payable at maturity of the Series 2009A Bonds will be paid upon presentation and surrender of such Bonds at the principal payment office of the Paying Agent/Registrar.

Ownership

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

Transfers and Exchanges

Beneficial ownership of the Series 2009A Bonds registered in the name of The Depository Trust Company, New York, New York ("DTC"), will initially be transferred as described under "APPENDIX F — DEPOSITORY TRUST COMPANY."

So long as any Bonds remain Outstanding, the Paying Agent/Registrar shall keep the Register at its designated corporate trust office in which, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of the Series 2009A Bonds in accordance with the terms of the Ordinance. A copy of the Register shall be maintained at an office of the Paying Agent/Registrar in Texas.

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

In the event the Series 2009A Bonds are not in the DTC book-entry only registration system, all Bonds shall be exchangeable upon the presentation and surrender thereof at the designated corporate trust office of the Paying Agent/Registrar for a Bond or Bonds of the same maturity of the same series and interest rate and in any authorized denomination, in an aggregate principal amount equal to the unpaid principal amount of the Series 2009A Bond or Series 2009A Bonds presented for exchange.

Each Series 2009A Bond delivered in accordance with the Ordinance shall be entitled to the benefits and security of the Ordinance to the same extent as the Bond or Bonds in lieu of which such Bond is delivered.

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

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

Optional Redemption

The Series 2009A Bonds maturing on and after July 1, 2019, are subject to optional redemption prior to maturity, in whole or in part, on July 1, 2018, or any date thereafter, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date.

Mandatory Redemption

The Series 2009A Bonds maturing on July 1, of the years 2034 and 2039 (the "2009A Term Bonds") are being issued as term bonds and are subject to mandatory sinking fund redemption prior to their scheduled maturity, at a redemption price equal to the principal amount thereof, plus interest accrued thereon to the date of redemption, on the dates and in the amounts (subject to reduction as described below) shown in the following schedule:

$108,130,000 Term Bond
Due July 1, 2034

Mandatory Sinking Fund Redemption Date (July 1)	Mandatory Sinking Fund Redemption Amount
2030	$19,375,000
2031	20,440,000
2032	21,565,000
2033	22,750,000
2034 (Maturity)	24,000,000

$141,325,000 Term Bond
Due July 1, 2039

Mandatory Sinking Fund Redemption Date (July 1)	Mandatory Sinking Fund Redemption Amount
2035	$25,320,000
2036	26,715,000
2037	28,185,000
2038	29,735,000
2039 (Maturity)	31,370,000

The particular 2009A Term Bonds to be redeemed shall be selected by the Paying Agent/Registrar by lot or other customary random selection method. The principal amount of 2009A Term Bonds to be mandatorily redeemed in each year shall be reduced by the principal amount of such 2009A Term Bonds that have been purchased and canceled by the City or have been optionally redeemed and which have not been made the basis for a previous reduction.

In lieu of mandatorily redeeming the 2009A Term Bonds, the City has reserved the right to purchase for cancellation the Series 2009A Bonds of the same maturity.

Selection of Bonds for Redemption

The Series 2009A Bonds may be redeemed in part only in integral multiples of $5,000. If a Series 2009A Bond subject to redemption is in a denomination larger than $5,000, a portion of such Series 2009 Bond may be redeemed, but only in integral multiples of $5,000. In selecting portions of Series 2009A Bonds for redemption, each Series 2009A Bond shall be treated as representing that number of Series 2009A Bonds of $5,000 denomination which is obtained by dividing the principal amount of such Series 2009 Bond by $5,000. Upon presentation and surrender of any Series 2009A Bond for redemption in part, the Paying Agent/Registrar, in accordance with the provisions of the Ordinance, shall authenticate and deliver in exchange therefor a Series 2009A Bond or bonds of the same series and like maturity and interest rate in an aggregate principal amount equal to the unredeemed portion of the Series 2009A Bond so presented and surrendered.

Notice of Redemption of the Bonds

At least 30 and not more than 60 days prior to the date fixed for any redemption, a written notice of such redemption shall be given to the Registered Owners of the Series 2009A Bonds or portions thereof being called for redemption by sending written notice by certified mail addressed to each such Registered Owner at their address shown on the registration books of the Paying Agent/Registrar; provided, however, that so long as DTC is the securities depository for the Series 2009A Bonds such notice shall be given only to DTC. Any notice given as provided in the Ordinance shall be conclusively presumed to have been duly given, whether or not the Registered Owner receives such notice. By the date fixed for any such redemption, due provision shall be made with the Paying Agent/Registrar for the payment of the required redemption price for the Series 2009A Bonds or the portions thereof which are to be so redeemed, plus accrued interest to the date fixed for redemption. If a portion of any such Series 2009A Bonds shall be redeemed, a substitute Series 2009 Bond having the same maturity date, bearing interest at the same rate, and in an aggregate principal amount equal to the unredeemed portion thereof, will be issued to the Registered Owner upon the surrender of the Series 2009A Bonds being redeemed, all as provided for in the Ordinance.

Security for the Bonds

The Series 2009A Bonds are special obligations of the City that, together with the Outstanding Senior Lien Notes and any Additional Senior Lien Bonds or Additional Senior Lien Notes hereafter issued, are payable from and are equally and ratably secured by a lien on the Net Revenues of the Houston Airport System and the Senior Lien Bond Interest and Sinking Fund, all as defined and provided in the Ordinance. The Series 2009A Bonds are also secured by a separate account of the Senior Lien Bond Reserve Fund pledged solely to the Series 2009A Bonds (referred to herein as the "2009A Reserve Account"), which account will be initially funded with proceeds of the Series 2009A Bonds. The lien on Net Revenues securing the Series 2009A Bonds and other Outstanding Senior Lien Obligations and any Additional Senior Lien Obligations is senior to the lien on Net Revenues securing the Outstanding Subordinate Lien Bonds and any Additional Subordinate Lien Bonds or Inferior Lien Bonds. For definitions of certain capitalized terms used herein see APPENDIX C. See also "DEBT SERVICE REQUIREMENTS OF HOUSTON AIRPORT SYSTEM BONDS."

The Series 2009A Bonds do not constitute a general obligation of the City. Owners of the Series 2009A Bonds shall never have the right to demand payment of principal of or interest on the Series 2009A Bonds from any funds raised or to be raised by taxation.

Net Revenues. Net Revenues means Gross Revenues remaining after the deduction of the Operation and Maintenance Expenses of the Houston Airport System. See APPENDIX C.

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

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

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

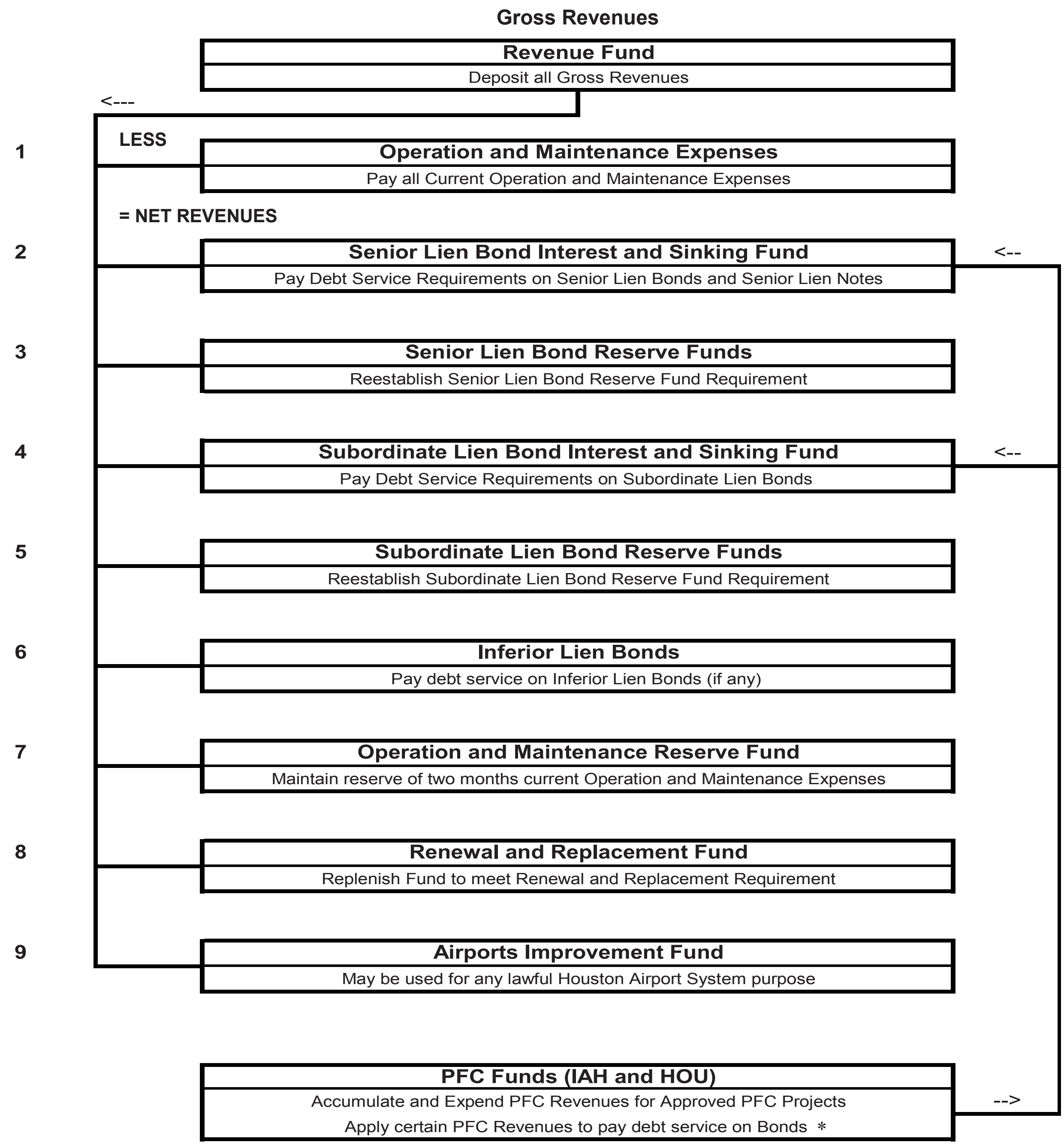
The following expenses are specifically excluded from the definition of Operation and Maintenance Expenses: (1) any allowance for depreciation; (2) costs of capital improvements; (3) reserves for major capital improvements, Houston Airport System operations, maintenance or repair; (4) any allowance for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

Perfection of Security Interest in Revenues. Chapter 1208, Texas Government Code, applies to the issuance of the Series 2009A Bonds and the lien on Net Revenues thereto, and such lien is, therefore, valid, effective, and perfected.

Potential Effects of City Charter Revenue Limitations on Airport Revenues. For a discussion of the effect of certain City Charter tax and revenue limitations, voter-approved propositions, and the potential impact of ongoing litigation involving such limitations and propositions on the operation of the Houston Airport System, see "THE CITY AND CITY FINANCIAL INFORMATION—City Charter Tax and Revenue Limitations."

Flow of Funds

Below is a presentation of the application of revenues under provisions of the Outstanding Bond Ordinances of the Houston Airport System. For more information about the Houston Airport System's revenues, see "The Bonds—Security for the Bonds" and "APPENDIX C."



* PFC revenues are not formally pledged to pay debt service on any Houston Airport System Bonds, including the Series 2009A Bonds, but have been approved by the Federal Aviation Administration for such purpose and will be transferred periodically by the Houston Airport System to the Senior Lien and Subordinate Lien Bond Interest and Sinking Funds or such other account dedicated to pay debt service attributable to approved PFC projects.

Debt Service Reserves

The Series 2009A Bonds will be secured by the 2009A Reserve Account pledged solely to the Series 2009A Bonds, which account will be initially funded with proceeds of the Series 2009A Bonds in an amount equal to the Reserve Fund Requirement for the Series 2009A Bonds. The Ordinance requires the City to maintain a balance within the 2009A Reserve Account equal to the Reserve Fund Requirement for the Series 2009A Bonds. The Reserve Fund Requirement for the Series 2009A Bonds is an amount which shall be computed and recomputed upon the issuance of the Series 2009A Bonds and on each date on which the Series 2009A Bonds are paid at maturity or optionally or mandatorily redeemed, to be the greatest amount of Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all the Series 2009A Bonds then Outstanding. For additional information relating to the required reserve funds and other funds under the Ordinance, see "APPENDIX C."

Rate Covenant

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

Debt Service Requirements do not include any interest on Houston Airport System Bonds to the extent that the provision for the payment of such interest has been made by (1) appropriating for such purpose amounts sufficient to provide for the full and timely payment of such interest either from the proceeds of Houston Airport System Bonds, from interest earned or to be earned thereon, from other Houston Airport System funds other than Net Revenues, or from any combination of such sources and (2) depositing such amounts (except interest to be earned, which will be deposited as received) into a fund or account for capitalized interest, the proceeds of which are required to be transferred as needed into the Senior Lien Bond Interest and Sinking Fund or the Subordinate Lien Bond Interest and Sinking Fund, as the case may be. See APPENDIX C. Subject to the procedure described in "–Amendments of Outstanding Houston Airport System Bond Ordinances," the Ordinance provides that the Debt Service Requirements definition excludes any portion or all of the interest on or principal of Houston Airport System Bonds which has been irrevocably committed to be paid from Houston Airport System funds other than Net Revenues including, but not limited to, PFC Revenue or Excluded Fee and Change Revenues.

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

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

Bondholders' Remedies

The Ordinance provides that if the City defaults in the payment of principal of or interest on any Senior Lien Obligations, including the Series 2009A Bonds, or the performance of any duty or covenant provided by law or in the Ordinance, Owners of such Senior Lien Obligations, including the Series 2009A Bonds, may pursue all legal remedies afforded by the Constitution and the laws of the State of Texas to compel the City to remedy such default and to prevent further default or defaults.

The Ordinance neither appoints nor makes any provision for the appointment of a trustee to protect the rights of Owners of the Series 2009A Bonds. Furthermore, the Ordinance does not provide for acceleration of maturity of the Series 2009A Bonds or for foreclosure on Net Revenues or possession of Net Revenues by a trustee or agent for Owners of the Series 2009A Bonds or for operation of the Houston Airport System by an independent third party in the event of default.

No lien has been placed on any of the physical properties comprising the Houston Airport System to secure the payment of or interest on the Series 2009A Bonds. Moreover, in the event of default, the Owners of the Series 2009A Bonds have no right or claim under the laws of the State of Texas against the Houston Airport System or any property of the City other than their right to receive payment from Net Revenues and certain Funds maintained pursuant to the Ordinance. Owners of the Series 2009A Bonds have no right to demand payment of principal of or interest or premium, if any, on the Series 2009A Bonds from any funds raised or to be raised by taxation or from any funds on deposit in any of the special Funds described in the Ordinance, except the Senior Lien Bond Interest and Sinking Fund and the 2009A Reserve Account of the Senior Lien Bond Reserve Fund. Further, unless sovereign immunity is expressly waived by the City, sovereign immunity would be available as a defense against suits for money damages against the City or the Houston Airport System in connection with the Series 2009A Bonds. Sovereign immunity will not be waived in connection with the issuance of the Series 2009A Bonds. Accordingly, the only practical remedy in the event of a default may be a mandamus proceeding to compel the City to increase rates and charges reasonably required for the use and service of the Houston Airport System or perform its other obligations under the Ordinance, including the deposit of the Gross Revenues into the special Funds provided in the Ordinance and the application of such Gross Revenues and such special Funds in the manner required in the Ordinance. Such remedy may need to be enforced on a periodic basis because maturity of the Series 2009A Bonds is not subject to acceleration. In addition, the City's ability to comply with the Rate Covenant will be limited by contractual and competitive supply and demand constraints. See "–Rate Covenant."

The City is also eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"); however, Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, such as that of the Net Revenues of the Houston Airport System. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce any other remedies available to the registered owners, other than for the pledge of Net Revenues securing the Series 2009A Bonds, would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it.

The enforcement of a claim for payment of principal of or interest on the Series 2009A Bonds and the City's other obligations with respect to the Series 2009A Bonds are subject to the applicable provisions of the federal bankruptcy laws and to any other similar laws affecting the rights of creditors of political subdivisions generally.

Additional Houston Airport System Bonds

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

Amendments of Outstanding Houston Airport System Bond Ordinances

Under the Ordinance the City has determined to amend certain provisions, including the definitions of "Debt Service Requirements" and "Gross Revenues." The definition of Debt Service Requirements is being amended in order to recognize that Debt Service Requirements (to the payment of which Net Revenues are pledged) may be reduced to the extent moneys are made available from sources (e.g., PFC Revenues) other than Net Revenues. The definition of Gross Revenues is being amended to exclude Excluded Fee and Charge Revenues and to exclude the proceeds of certain future payments defined in the Ordinance as Taxable Bond Credit Revenues (such amendments are collectively herein referred to herein as the "Proposed Amendments"). In addition to the Proposed Amendments, the Ordinance contains additional provisions to allow for the implementation of revised definitions of Gross Revenues and Debt Service Requirements, and clarifies the treatment of PFC Revenues under the existing Ordinance. For a description of the Proposed Amendments and other additional changes to the Ordinance, see "APPENDIX C." The Proposed Amendments are being adopted as part of the Ordinance, and shall be binding upon all Owners of the Series 2009A Bonds. Additionally, the City expects to include the Proposed Amendments in each ordinance authorizing Additional Houston Airport System Obligations. The City has authorized the amendment of each of its previously adopted ordinances pursuant to which Houston Airport System Bonds are outstanding to include the Proposed Amendments, subject, however, in each case to obtaining written consent from the appropriate party or parties required or authorized to grant such consent to the inclusion of the Proposed Amendments pursuant to the respective terms of each such prior ordinance and satisfying any other conditions as may be required to amend such ordinance. The Proposed Amendments shall become effective on the date on which they have become incorporated into every ordinance pursuant to which Houston Airport System Bonds are currently Outstanding (the "Amendment Effective Date").

Amendments to Series 2009 Bond Ordinance

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

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

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

RESERVE FUND AND RESERVE FUND SURETY POLICIES

Reserve Fund for the Series 2009A Bonds

Upon the delivery of the Series 2009A Bonds, the Reserve Fund Requirement for the Series 2009A Bonds will be $33,095,993.76. The City will fund such amount with proceeds of the Series 2009A Bonds which will be credited to the 2009A Reserve Account of the Senior Lien Bond Reserve Fund that is pledged to payment of the Series 2009A Bonds.

Reserve Fund Surety Policies for Senior Lien Notes

The City also maintains a separate reserve account within the Senior Lien Bond Reserve Fund for the Outstanding Senior Lien Notes. In order to satisfy the Reserve Fund Requirement for the Outstanding Senior Lien Notes, the City presently has three outstanding Senior Lien Bond Reserve Fund Surety Policies issued by the Financial Guaranty Insurance Corporation ("FGIC") in an aggregate maximum amount of approximately $12,374,996. Pursuant to a Reinsurance Agreement between FGIC and MBIA Insurance Corporation ("MBIA") dated September 30, 2008, MBIA agreed to reinsure the FGIC policies, including those relating to the Senior Lien Notes and to the Outstanding Subordinate Lien Bonds (described below). MBIA subsequently assigned its rights and obligations under such Reinsurance Agreement to National Public Finance Guarantee Corporation (f/k/a MBIA Insurance Corporation of Illinois). The Senior Lien Notes Reserve Fund Surety Policies terminate on various dates beginning October 25, 2023.

Subordinate Lien Reserve Fund Surety Policies

The City also maintains a separate reserve fund for the benefit of all Outstanding Subordinate Lien Bonds. In order to satisfy the Reserve Fund Requirement for the Outstanding Subordinate Lien Bonds, the City previously acquired Subordinate Lien Bond Reserve Fund Surety Policies issued by (1) FGIC in the aggregate maximum amount of $108,444,368.70, (2) Financial Security Assurance ("FSA") in the aggregate maximum amount of $31,921,383.50, and (3) Syncora Guarantee ("Syncora"), as successor to XL Capital Assurance, Inc., in the aggregate maximum amount of $15,756,228. As of April 26, 2009, the New York State Insurance Department (the "NYSID") stipulated that Syncora may not pay any claims under its policies until it has restored its surplus to policyholders to the minimum required by New York State insurance law. While the Syncora policies are still active, the City has made a supplemental deposit of cash into the Subordinate Lien Bond Reserve Fund in an amount equal to or exceeding the value of the Syncora policies to ensure that the Reserve Fund Requirement for the Subordinate Lien Bonds is met.

THE HOUSTON AIRPORT SYSTEM

The Houston Airport System

The Houston Airport System includes Intercontinental, Hobby, and Ellington, each of which is subject to all applicable provisions of the Federal Aviation Administration ("FAA") regulations pertaining to operational safety of air carrier airports. The City manages and operates the Houston Airport System as an enterprise system of the City. Existing Houston Airport System facilities are expected to be improved and expanded from time to time as demand and other factors require. See "–Houston Airport System Capital Improvement Program."

Intercontinental, which opened in 1969, is the City's dominant air carrier facility and is located approximately 22 miles north of the City's downtown on approximately 10,000 acres. Hobby is located approximately seven miles southeast of downtown on approximately 1,500 acres. Ellington is situated approximately 15 miles southeast of downtown on approximately 2,000 acres, a portion of which was conveyed to the City by the federal government on July 1, 1984.

Management

The City's airport system is managed and operated by the Houston Airport System, an enterprise system of the City, under the administrative control of the Mayor. The City Controller, as the Chief Financial Officer of the City, maintains the books of account, prepares financial statements and co-signs, with the Mayor, all warrants, contracts and orders for payment of any public funds or money relating to the Houston Airport System. The day-to-day operations of the Houston Airport System are under the direct supervision of the Director of the Houston Airport System, who is appointed by the Mayor, subject to confirmation by the City Council.

Following is selected biographical information concerning certain principal administrative officers of the Houston Airport System:

Eric R. Potts, appointed Interim Director of Aviation in May 2009, is responsible for the overall management of the Houston Airport System at all of its locations and facilities. Prior to this appointment, Mr. Potts served as the Deputy Director of the Houston Airport System for Planning, Design and Construction since November 2000 responsible for all planning, design and construction activities. Previously, Mr. Potts was the Executive Director of the Civil Works Directorate, U.S. Army Corps of Engineers, with responsibility for the coordination of staff who supervised the nationwide Civil Works activities of eight major commands and 38 districts, employing 300 officers, and 26,000 civilian employees. Projects under this group include providing navigation, flood damage reduction, and environmental restoration to the nation. A career Army officer, Mr. Potts held a number of command and staff positions in the U.S. and Germany.

Ian N. Wadsworth, Deputy Director of the Houston Airport System for Finance and Administration since November 2008, is responsible for planning, organizing and directing properties, finance, human resources, procurement and warehousing functions. Prior to joining the Houston Airport System, Mr. Wadsworth served in various finance, planning, and marketing roles over the past 15 years at American Airlines, Capital One Financial, and Global Aero Logistics, the parent company of ATA Airlines, World Airways, and North American Airlines. Mr. Wadsworth is an MBA graduate of the University of Michigan.

Frank M. Haley, Jr., Deputy Director of the Houston Airport System for Public Safety and Technology since December 28, 2007, is responsible for all police and fire operations as well as all security and information technology issues for Intercontinental, Hobby, and Ellington. In addition, Mr. Haley will function as the Acting Deputy Director of the Houston Airport System for Operations Services when Mr. Thomas B. Bartlett, a current 20 year veteran of the airport, retires in late July. In this acting capacity, Mr. Haley will be responsible for the daily operations, maintenance and administration of the three airports. Mr. Haley has been employed by the airport system for over 20 years, and has served as the Chief Information Officer for the last nine years, Chief of Operations Services for four years, Superintendent of Communications and Assistant Airport Manager over Facilities Administration and Technology. Mr. Haley was instrumental in implementing FAA FAR 107.14 requirements for airport security in 1990, and has been involved with requirements for current TSA security initiatives since 9/11.

Robert R. Wigington, Deputy Director of the Houston Airport System for Marketing, Communications and Community Affairs since August 2007, manages all marketing, communications, community relations, media relations and air service development. Mr. Wigington has more than 25 years of experience with airports and the aviation, transportation, economic development and travel and tourism industries. Prior to joining the Houston Airport System, Mr. Wigington served as the Director of Marketing and Route Service Development for the San Diego County Regional Airport Authority, and as executive vice president and CFO/COO for the Airports Council International-North America (ACI-NA). In addition, Mr. Wigington led the airport and aviation/transportation consulting practice for Fleishman Hillard/GPC, served as senior associate for Booz Allen Hamilton and worked with the Port Authority of New York and New Jersey. Mr. Wigington has also completed the ACI Airport Executive Leadership Program.

John F. Silva, Acting Deputy Director of the Houston Airport System for Planning, Design and Construction (PDC) since May 2009 and Chief of Staff for PDC since January 2008, is responsible for administration of all design and construction contracts, managing long-term and short-term airport projects, analyzing operations and implementing best practice policies and procedures. Mr. Silva's 19-year career with the City of Houston includes positions of management in the Mayor's Office, as well as the Information Technology, Convention & Entertainment Facilities and Parks & Recreation departments. Mr. Silva complied and managed the City's Capital Improvement Program from 2000 through 2005 and developed the project list/schedule for the City's Bond Election in 2001. From 2005 through 2007, Mr. Silva helped lead a city-wide integration of the multimillion dollar SAP ERP solution that included implementation, training and rollout for 23 City departments with over 23,000 employees. Mr. Silva is an MPA graduate of the University of Houston.

Airport Service Region

The Houston Airport System is located in the nation's fourth most populous city and lies within the sixth largest metropolitan statistical area in the United States. Located on the coastal plain in Southeast Texas, approximately 50 miles from the Gulf of Mexico, the City is a center for the energy, financial, medical, transportation, retail and manufacturing industries.

The development and diversity of the economic base of an airport service region is important to airline traffic growth at the airports in the region. This is particularly true for an economy in which the industries in the region may rely on the airports for passenger and cargo airline service. The primary service region for the Houston Airport System, the 10-county 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 two additional counties for the broader Houston-Baytown-Huntsville Combined Statistical Area ("CSA"). According to U.S. Bureau of the Census, the population estimate was 5.73 million for the MSA and 5.83 million for the CSA as of July 1, 2008. The air service region also encompasses other smaller markets such as Beaumont/Port Arthur, Victoria, Brownsville and Del Rio in Texas and Lake Charles, Louisiana as those airports only provide air service to and from Intercontinental. See the following map of the Houston Airport System Air Service Area.

Houston Airport System Facilities

Intercontinental. Existing principal facilities at Intercontinental consist of five runways, various taxiways, aircraft aprons, a bulk fuel storage facility, an underground fuel distribution system, five terminal buildings with related support facilities, a central federal inspection services building ("Central FIS"), an automated people mover system ("APM"), a 565 guest-room hotel leased to and managed by Marriott Hotels, roadways and surface and structural parking spaces for approximately 22,312 automobiles. Intercontinental has a 12,000-foot runway, two 10,000-foot runways, a 9,400-foot runway and a 9,000-foot runway; together they are capable of handling any aircraft now in commercial service.

The five terminal buildings (Terminals A, B, C, D, and E) serve both narrowbody and widebody aircraft. Terminal A contains approximately 630,000 square feet of floor space and 20 aircraft gates and space for up to six turbo-prop aircraft, Terminal B contains approximately 345,000 square feet of floor space and 35 aircraft gates with ramp space for up to 15 regional jet aircraft, and Terminal C contains approximately 1,055,000 square feet of floor space and 31 aircraft gates. Terminal D contains approximately 486,000 square feet of floor space (including the former FIS space which is not yet being used for other purposes) and 14 aircraft gates with ramp space for up to six wide-body jet aircraft which are used primarily for international arrivals and departures. Terminal E, (which was financed through a special facility revenue bond with Continental,) contains approximately 610,000 square feet of floor space and 23 aircraft gates. The Central FIS, which was completed in January 2005, has approximately 906,494 square feet of floor space, with a capacity to process 4,000 passengers per hour based on current FIS criteria, and includes approximately 56,000 square feet for Continental's central ticketing area plus an additional 44,000 square feet in the garage for a new automated baggage screening area. Terminal D, Terminal E, the Central Ticketing Facility and the Central FIS are collectively referred to as the International Terminal Complex or "ITC." The APM stations contain approximately 83,000 square feet at Terminals B, C, and the ITC.

The existing terminals and the hotel are connected by an underground train which has been in operation since the opening of Intercontinental in 1969 and has not had a major renovation. Additionally, Terminals B, C, D, E and the Central FIS are connected by an above-ground APM located in the secure area of Intercontinental which can only be accessed by ticketed passengers. An extension of the above-ground APM to Terminal A is underway and is expected to be completed by the end of 2010. The Marriott Hotel at Intercontinental opened in 1972 and was expanded to 565 guest-rooms in 1982. It is owned by the City, subject to leases that terminate in 2019.

Other City-owned facilities at Intercontinental include three cargo buildings and an office building occupied by Houston Airport System. Two air carriers, two fixed base operators and a number of private corporations maintain hangar and maintenance facilities and air cargo office and warehouse facilities at Intercontinental.

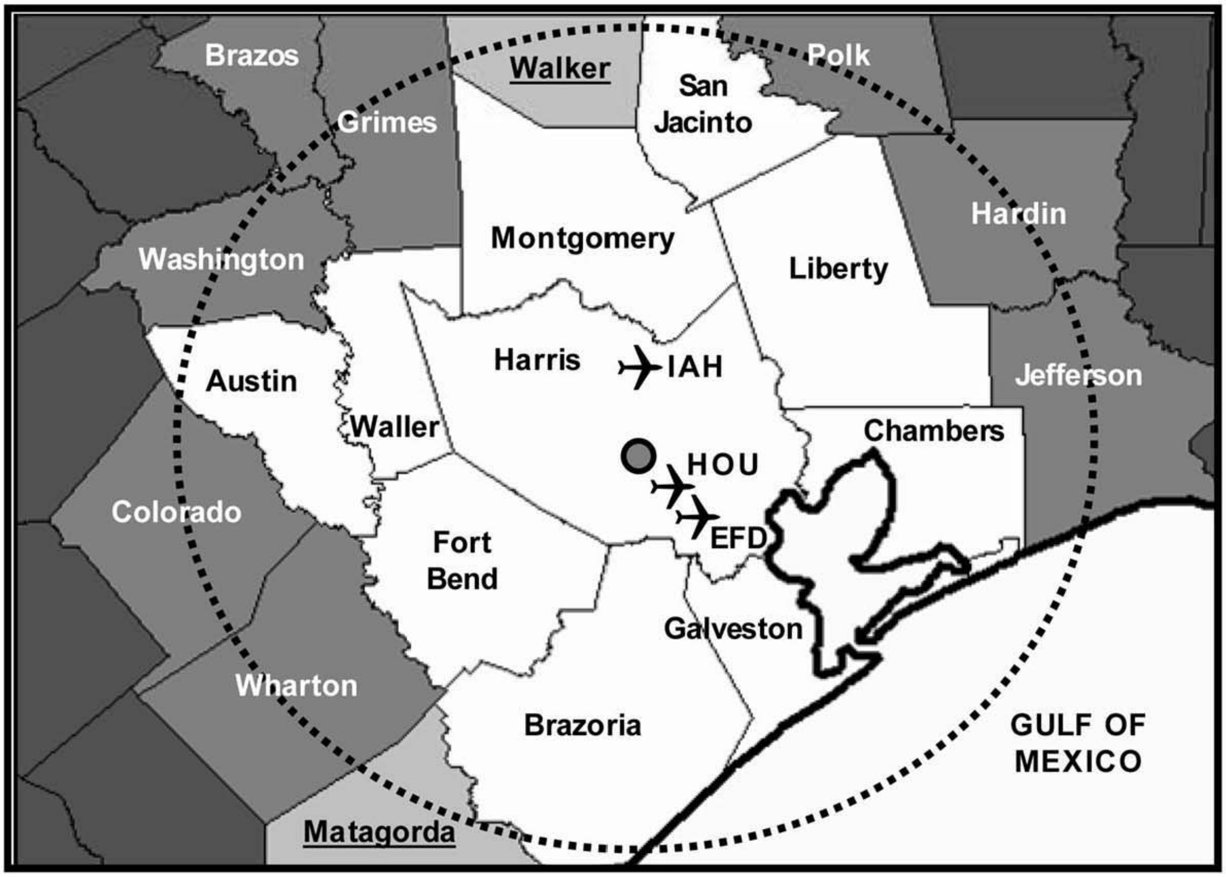
A consolidated rental car facility located on a site adjacent to J. F. Kennedy Boulevard opened in August 2003. The facility was financed with the proceeds of the Series 2001 Special Facility Bonds (Consolidated Rental Car Facility), which are secured by and payable from a customer facility charge assessed on rental car customers at Intercontinental. See "HOUSTON AIRPORT SYSTEM AGREEMENTS–Other Agreements."

A new cargo area complex opened in January 2003 as part of the implementation of a phased development of 165 acres of land at the northeast end of Intercontinental. See "HOUSTON AIRPORT SYSTEM AGREEMENTS–Other Agreements."

Hobby. Existing principal facilities at Hobby consist of four runways, various taxiways, aircraft aprons, an underground fuel distribution system, one terminal building with a single concourse, roadways and surface and structural parking spaces for approximately 4,031 automobiles. Additional facilities include a cargo building, an office building primarily occupied by the FAA and several hangars. Hobby has two 7,600-foot runways, one 6,000-foot runway and one 5,150-foot runway and is designed to handle only narrow-body aircraft no larger than a Boeing 727-200 or an Airbus A-320. Hobby is extensively utilized for general aviation operations and is equipped to accommodate aircraft, fixed base operators and corporate hangars. Hobby currently has 25 gates available for use.

Ellington. City facilities at Ellington include one 9,000 foot runway, one 8,000 foot runway, and one 4,600 foot runway, a fuel storage system and various buildings and hangars. The federal government has retained title to certain properties adjacent to the flight line of the former Ellington Air Force Base for federal agency use, and the City and the federal government have entered into agreements under which Ellington is being operated for joint military/civil aviation use. It is currently intended that non-governmental use of Ellington will be primarily to accommodate general aviation, relieving Hobby of such traffic. Presently, Ellington has two fixed base operators ("FBOs"), each with new hangars and three corporate based operators. There are currently competing parties interested in developing t-hangars along Taxilane K, which opened in April 2007. The ultimate scope and financial implications of possible future development of Ellington cannot be predicted at the current time. The City has entered into a brokerage/marketing contract to market the development of approximately 600 acres on the north and southeast sides of the airport.

Houston Airport System Air Service Area



	Metropolitan Statistical Area (MSA) of **Houston – Sugar Land – Baytown, TX** includes 10 counties
	Consolidated Statistical Area (CSA) of **Houston – Baytown – Huntsville, TX** adds both Matagorda & Walker counties
	75-mile radius adds parts of an additional 8 counties

Source: U.S. Census Bureau

Houston Airport System Capital Improvement Program

General Discussion. The Capital Improvement Program ("CIP") is a comprehensive plan that determines the capital and infrastructure needs of the Houston Airport System. The City, through the Houston Airport System, began a major CIP program in FY 1999 to expand and modernize Houston Airport System facilities at Intercontinental, Hobby, and Ellington. Over the last ten years, CIP program appropriations amounted to approximately $2.7 billion. Due to the increased uncertainty in the airline industry, increased cost of fuel, increasing project costs, and volatility in the financing market, the Houston Airport System will continue to review the FY 2010-2014 CIP. See also "INVESTMENT CONSIDERATIONS." The majority of the work is substantially complete and includes such major projects as a new runway and other runway and taxiway expansion and improvements, a new international arrival facility, and terminal and apron improvements at Intercontinental; runway and taxiway improvements and a new concourse at Hobby (complete except for the final work on the central concourse and terminal at Hobby; and airfield improvements at Ellington.

CIP Projects. The Houston Airport System recently submitted its approved five-year CIP for FY 2010 through 2014 ("FY 2010-2014 CIP") of approximately $526 million plus the total estimated appropriation for continuing projects approved or commenced in FY 2009 of $310 million. Due to financial and economic constraints, the FY 2010-2014 CIP was significantly reduced from five-year CIPs submitted in the past to include only priority projects. The major projects between FY 2009 and FY 2014, which include portions of the Master Plan elements discussed below, include approximately $108 million for the Hobby terminal renovation project including passenger loading bridges and in-line baggage security system, $93 million for additional renovation and improvements to Terminal A & C facilities at Intercontinental, $66 million for expansion and renovation at Terminal B (a majority of this project is forecast outside of this CIP but may move forward if demand improves), $228 million for expansion and renovation at Terminal D, final $40 million for the APM expansion to Terminal A, $16 million for central plant expansion, $16 million for fuel storage improvements, $12 million for a consolidated communication/emergency center, $8 million for public utility lines, $84 million for airfield projects at Intercontinental, $13 million for airfield projects at Hobby, $12 million for parking improvements at Hobby, $45 million for miscellaneous professional services and projects, including Job Order Contracting and geographic information system development for the system, and $47 million for other projects at Intercontinental, Hobby and Ellington to maintain the facilities. Additionally, there is $18 million for various Hurricane Ike repair and replacements which may be subject to insurance and/or Federal Emergency Management Agency ("FEMA") reimbursements in the future and $28 million for drainage and flood control projects that may be subject to FEMA mitigation grants. For additional description of the Houston Airport System CIP, see "APPENDIX A—Report of the Airport Management Consultant."

CIP Project Funding. The continuing FY 2009 projects and the FY 2010-2014 CIP are anticipated to be funded with $327 million from the Airports Improvement Fund, $347 million from commercial paper and bond proceeds, $25 million from Renewal and Replacement Fund, $21 million from Transportation Security Administration funding for Electronic Detection System (EDS) projects at Intercontinental and Hobby, and $27 million from potential FEMA grants. Additionally, $167 million of projected FAA Airport Improvement Program funding includes approximately $31 million of grant funds associated with a 10-year Letter of Intent ("LOI") from the FAA which began in Federal FY 2001, $91 million as reimbursements for other completed projects and $45 million as FAA discretionary funds. The LOI grant funds, as well as other grant reimbursements for prior projects, are expected to reduce the amount of Net Revenues required to pay Debt Service Requirements on Outstanding Houston Airport Bonds, making funds available to pass through from the Revenue Fund to the Airports Improvement Fund. Additionally, PFC funds approved to pay debt service for certain projects will allow a similar pass through from the Revenue Fund to the Airports Improvement Fund.

The Report of the Airport Management Consultant defines the Current CIP. The Current CIP incorporates some previously funded amounts (such as portions of the full APM project that were funded in FY 2008 from commercial paper that will be part of the Series 2009A Bonds or design portions of projects that will be funded with the FY 2010-2014 CIP). For a description of the Proposed Bonds, see "APPENDIX A—Report of the Airport Management Consultant."

Continental Term Sheet Projects. The Houston Airport System has entered into a term sheet with Continental Airlines to construct a $1.1 billion renovation and expansion of Terminal B and extension of the APM to Terminal A. Approximately $458 million is included in the Intercontinental Master Plan projects below, related to renovation of Terminal B ramps, infrastructure and the APM extension, and is included in the FY 2009 projects or FY 2010-2014 CIP described above. The City and Continental are also exploring other alternative financing options, such as special facilities bonds for approximately $674 million for the Continental project components. The APM extension to Terminal A is underway with most of it being programmed in FY 2008 and the final portion in FY 2009. The rest of the project has been delayed due to financial and economic constraints. A portion is included in the FY 2010-2014 CIP with a large portion delayed until FY 2015 or later. If the financial and economic constraints change, the City would consider changes in future five-year CIP submittals. See "HOUSTON AIRPORT SYSTEM AGREEMENTS–Terminal B Expansion Program Term Sheet."

Master Plans. The Houston Airport System completed the Ellington Master Plan in 2002, the Hobby Master Plan in 2003 and the Intercontinental Master Plan in February 2007. Houston Airport System master plans are demand driven, not time driven. Planning Activity Levels (PAL's) are tied to growth metrics and trigger project implementation when a pre-defined level is reached. If the growth metrics indicate slow growth, then PAL's move later on the time line. Conversely, if growth metrics show rapid growth, then PAL's move closer on the time line and warrant a faster response.

The implementation portion of the Hobby Master Plan identified $1 billion in improvements that should be made to the airport by 2023. Some of these projects are in the FY 2010-2014 CIP. Other projects will be added from the master plan to the upcoming CIP. Actual implementation of those projects will depend on the outcome of an Environmental Impact Study (EIS). The EIS will determine which set of alternative projects to pursue.

The implementation portion of the Intercontinental Master Plan identified $6.25 billion in improvements that should be made to the airport by 2025. Approximately $660 million in planned projects has been proposed in the FY 2010-2014 CIP. When the Intercontinental EIS is completed, an additional $5 billion will be programmed into the CIP over the next 15 years.

Passenger Facility Charge (PFC). The City is authorized to impose PFCs for certain Houston Airport System improvements, subject to approval by the U.S. Department of Transportation.

On November 1, 2006, the City implemented a PFC of $3.00 per enplaned passenger at Hobby. The City has authority to impose and use $163,517,150 with collections through November 1, 2017. The City's authority to impose and use PFCs at Hobby is subject to certain terms and conditions provided in the federal PFC authorizing legislation, the PFC regulations adopted by the FAA and specific FAA approval applicable to the Hobby PFC program. If the City fails to comply with any of these requirements, the failure could reduce or terminate the City's authority to impose PFCs and use such PFCs to finance a portion of the CIP. The PFC approval allows the City to (a) pay debt service on outstanding bonds issued for certain completed Hobby projects, (b) reimburse the Houston Airport System for the unamortized cost of certain other Hobby projects that were originally funded from the Houston Airport System's resources (the Airports Improvement Fund), (c) provide pay-as-you-go PFC funding of the local share of the costs of certain planned future airfield projects, and (d) pay debt service on commercial paper and future bonds to finance certain Hobby projects.

On December 1, 2008, the City implemented a PFC of $3.00 per enplaned passenger at Intercontinental. The City has authority to impose and use $1,372,445,143 with collections through November 1, 2027. The City's authority to impose and use PFCs at Intercontinental is subject to certain terms and conditions provided in the federal PFC authorizing legislation, the PFC regulations adopted by the FAA and specific FAA approval applicable to the Intercontinental PFC program. If the City fails to comply with any of these requirements, the failure could reduce or terminate the City's authority to impose PFCs and use such PFCs to finance a portion of the CIP. The PFC approval allows the City to (a) pay debt service on outstanding bonds issued for certain completed Intercontinental projects, (b) reimburse the Houston Airport System for the unamortized cost of certain other Intercontinental projects that were originally funded from the Houston Airport System 's resources (the Airports Improvement Fund), and (c) pay debt service on commercial paper and future bonds to finance certain Intercontinental projects.

For a discussion of the treatment of PFC Revenues under the Ordinance, see "APPENDIX C – THE ORDINANCE – SUMMARY AND GLOSSARY OF TERMS." The PFCs are not pledged or committed to pay debt service on the Series 2009A Bonds.

HOUSTON AIRPORT SYSTEM OPERATING STATISTICS

The FAA classifies the City as a large air traffic hub. According to ACI-NA, an airport industry group, Intercontinental and Hobby ranked 8th and 42nd, respectively, based on preliminary total U.S. passenger traffic for calendar year 2008. The Houston Airport System's total passengers increased by 1.6% from 51.5 million in Fiscal Year 2007 to 52.3 million in Fiscal Year 2008. Total passengers at Intercontinental increased 0.8% from 42.8 million to 43.2 million and at Hobby increased 5.3% from 8.6 million to 9.1 million. Continental is the dominant air carrier operating at Intercontinental and Southwest is the dominant air carrier operating at Hobby. See "Schedule 1–Passenger Statistics." and "Schedule 2 — Airline Market Shares."

Airlines Serving the Houston Airport System

Continental. During Fiscal Year 2008, Continental and its affiliate partners represented 87.3% of the passengers at Intercontinental and 72.1% of the passenger traffic for the full Houston Airport System and 86.8% and 71.8% respectively, during the first ten months of Fiscal Year 2009. See Schedule 2–Airline Market Shares. In Fiscal Year 2008, Continental (including its commuter partners: ExpressJet, Colgan Air, and Chautauqua Airlines) accounted for an estimated 47.4% of operating revenues of the Houston Airport System. For a discussion of the source of operating revenues for the Houston Airport System, and the term of Continental's use and lease agreement at Intercontinental, respectively, see "HOUSTON AIRPORT SYSTEM FINANCIAL INFORMATION–Sources of Operating Revenues," and "HOUSTON AIRPORT SYSTEM AGREEMENTS–Use and Lease Agreements–Continental Use and Lease Agreements," "Continental Terminal E Lease" and "APPENDIX A–Report of the Airport Management Consultant."

Southwest. Southwest has the second largest market share at the Houston Airport System. During Fiscal Year 2008, Southwest represented 88.7% of the passengers at Hobby and 15.4% of the passenger traffic for the full Houston Airport System and 88.2% and 15.2% respectively, during the first ten months of Fiscal Year 2009. See Schedule 2–Airline Market Shares. In Fiscal Year 2008, Southwest accounted for an estimated 6.4% of operating revenues of the Houston Airport System. For a discussion of Southwest's expansion at Hobby, the source of operating revenues for the Houston Airport System, and the term of Southwest's use and lease agreement at Hobby, respectively, see "HOUSTON AIRPORT SYSTEM FACILITIES–Hobby," "HOUSTON AIRPORT SYSTEM FINANCIAL INFORMATION–Source of Operating Revenues," "HOUSTON AIRPORT SYSTEM AGREEMENTS–Use and Lease Agreements–Hobby Use and Lease Agreement," and "APPENDIX A–Report of the Airport Management Consultant."

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

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Schedule 1: Passenger Statistics. Schedule 1 indicates total passenger growth over the period between FY 1999 and FY 2008. Other than FY 2002 and FY 2003, which were impacted by the events of September 11th, the Houston Airport System shows a constant growth with a compound annual growth rate for the 10-year period of 2.8% with most of the growth at Intercontinental (2.9% for domestic passengers and 5.8% for international for a combined growth of 3.4%). Hobby, which offers no international service, has stayed relatively level over the 10-year period. All commercial passenger activity ceased at Ellington in September 2004. During the first ten months of FY 2009, total passengers were down 8.3% at Intercontinental, 8.4% at Hobby and 8.3% for the Houston Airport System compared to the first ten months of FY 2008. Of these total passengers for the Houston Airport System, domestic enplanements were down 9.3% and international passengers were down only 2.7%.

	Domestic Passengers Intercontinental		**Domestic Passengers Hobby**		**Domestic Passengers[1] Total**		**International Passengers[2] Intercontinental**		**Total Passengers[1]**	
Fiscal Year	Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change
1999	27,271	6.8%	8,795	2.3%	36,166	5.6%	4,801	15.4%	40,967	6.6%
2000	28,892	5.9%	9,053	2.9%	38,034	5.2%	5,340	11.2%	43,374	5.9%
2001	30,105	4.2%	9,038	-0.2%	39,207	3.1%	5,811	8.8%	45,018	3.8%
2002	28,168	-6.4%	8,192	-9.4%	36,428	-7.1%	5,556	-4.4%	41,984	-6.7%
2003	27,931	-0.8%	7,796	-4.8%	35,808	-1.7%	5,526	-0.5%	41,334	-1.5%
2004	29,473	5.5%	8,089	3.8%	37,642	5.1%	5,952	7.7%	43,594	5.5%
2005	31,609	7.2%	8,247	2.0%	39,870	5.9%	6,818	14.5%	46,688	7.1%
2006	34,105	7.9%	8,423	2.1%	42,528	6.7%	7,126	4.5%	49,654	6.4%
2007	35,260	3.4%	8,642	2.6%	43,902	3.2%	7,555	6.0%	51,457	3.6%
2008	35,201	-0.2%	9,097	5.3%	44,298	0.9%	7,976	5.6%	52,274	1.6%
2008 (Jul 2007 - Apr 2008)	29,078	n/a	7,416	n/a	36,494	n/a	6,528	n/a	43,022	n/a
2009 (Jul 2008 - Apr 2009)*	26,295	-9.6%	6,790	-8.4%	33,085	-9.3%	6,349	-2.7%	39,434	-8.3%

[1] The Domestic Passengers Total and Houston Airport System Total columns also includes enplanements and deplanements for Ellington between fiscal years 1998-2005. In its highest year, Ellington had 113 (in thousands) enplanements and deplanements. All commercial passenger service at Ellington ceased in September 2004.
[2] Hobby does not provide international service.
* Preliminary for 2009.

Schedule 1A: Total Enplaned Passengers for the Houston Airport System. Schedule 1A indicates the originating enplaned passengers between FY 1999 and FY 2008. As with Schedule 1, there is continued growth with the exception of FY 2002 and FY 2003 for a compound annual growth rate over the 10-year period of 1.9%. During the first ten months of FY 2009, approximately 46.2% of the enplaned passengers at Intercontinental and 80.1% of the enplaned passengers at Hobby were originating enplaned passengers.

George Bush Intercontinental Airport

Fiscal Year ended June 30	Originating Enplanements	Connecting Enplanements	Total Enplaned Passengers	Originating Enplanement Percentage
1999	8,323,914	7,725,343	16,049,257	51.9%
2000	8,839,346	8,172,995	17,012,341	52.0%
2001	9,139,616	8,746,479	17,886,095	51.1%
2002	7,934,632	8,876,817	16,811,449	47.2%
2003	7,820,907	8,842,781	16,663,688	46.9%
2004	8,626,935	9,066,201	17,693,136	48.8%
2005	9,326,276	9,872,313	19,198,589	48.6%
2006	9,983,652	10,692,215	20,675,867	48.3%
2007	10,477,803	11,008,827	21,486,630	48.8%
2008	10,449,356	11,190,625	21,639,981	48.3%
2008 (July 2007 - Apr 2008)	8,598,562	9,210,515	17,809,077	48.3%
2009 (July 2008 -Apr 2009)*	7,544,845	8,792,631	16,337,476	46.2%

William P. Hobby Airport

Fiscal Year ended June 30	Originating Enplanements	Connecting Enplanements	Total Enplaned Passengers	Originating Enplanement Percentage
1999	3,513,843	883,860	4,397,703	79.9%
2000	3,585,312	932,620	4,517,932	79.4%
2001	3,564,988	953,505	4,518,493	78.9%
2002	3,166,701	927,932	4,094,633	77.3%
2003	2,994,073	904,483	3,898,556	76.8%
2004	3,103,828	940,732	4,044,560	76.7%
2005	3,236,719	914,007	4,150,726	78.0%
2006	3,313,974	922,244	4,236,218	78.2%
2007	3,396,182	947,575	4,343,757	78.2%
2008	3,605,540	956,631	4,562,171	79.0%
2008 (July 2007 - Apr 2008)	2,928,527	787,023	3,715,550	78.8%
2009 (July 2008 -Apr 2009)*	2,726,387	677,291	3,403,678	80.1%

Houston Airport System (1)

Fiscal Year ended June 30	Originating Enplanements	Connecting Enplanements	Total Enplaned Passengers	Originating Enplanement Percentage
1999	11,890,082	8,609,203	20,499,285	58.0%
2000	12,471,384	9,105,615	21,576,999	57.8%
2001	12,738,648	9,699,984	22,438,632	56.8%
2002	11,137,116	9,804,749	20,941,865	53.2%
2003	10,857,245	9,747,264	20,604,509	52.7%
2004	11,772,263	10,006,933	21,779,196	54.1%
2005	12,570,835	10,786,320	23,357,155	53.8%
2006	13,297,626	11,614,459	24,912,085	53.4%
2007	13,873,986	11,956,402	25,830,388	53.7%
2008	14,054,896	12,147,256	26,202,152	53.6%
2008 (July 2007 - Apr 2008)	11,527,089	9,997,538	21,524,627	53.6%
2009 (July 2008 -Apr 2009)*	10,271,232	9,469,922	19,741,154	52.0%

(1) The Houston Airport System Totals also include enplanements for Ellington between fiscal years 1999-2005. In its highest year, Ellington had 57,403 originating and total enplaned passengers. All commercial passenger service at Ellington ceased in September 2004.
* Preliminary for 2009.

Schedule 2: Airline Market Shares. Schedule 2 shows the airline market shares for FY 2007 and FY 2008. Continental and its affiliate partners represented 87.7% of the passengers in FY 2007 and 87.3% in FY 2008 at Intercontinental. Southwest represented 86.8% and 88.7% of the passengers at Hobby during FY 2007 and FY 2008, respectively. During FY 2007, Continental and its affiliate partners represented 72.9% and Southwest represented 14.6% of the passenger traffic for the full Houston Airport System. During FY 2008, Continental and its affiliate partners represented 72.1% and Southwest represented 15.4% of the passenger traffic for the full Houston Airport System. For the first ten months of FY 2009, Continental and its affiliate partners represented 86.8% of the passengers at Intercontinental and 71.8% for the full Houston Airport System and Southwest represented 88.2% of the passengers at Hobby and 15.2% for the full Houston Airport System.

	Intercontinental				Hobby				Houston Airport System			
	Fiscal Year 2007		Fiscal Year 2008		Fiscal Year 2007		Fiscal Year 2008		Fiscal Year 2007		Fiscal Year 2008	
Airlines	Total Passengers	Market Share	Total Passengers	Market Share	Total Passengers	Market Share	Total Passengers	Market Share	Total Passengers	Market Share	Total Passengers	Market Share
Domestic												
Air Tran	0	0.0%	0	0.0%	342,306	4.0%	366,915	4.0%	342,306	0.7%	366,915	0.7%
America West and affiliates	321,175	0.8%	57,210	0.1%	0	0.0%	0	0.0%	321,175	0.6%	57,210	0.1%
American Airlines and	1,008,544	2.4%	994,819	2.3%	222,903	2.6%	191,167	2.1%	1,231,447	2.4%	1,185,986	2.3%
ATA Airlines	0	0.0%	0	0.0%	136,606	1.6%	445	0.0%	136,606	0.3%	445	0.0%
Continental	22,015,159	51.4%	22,024,869	51.0%	0	0.0%	0	0.0%	22,015,159	42.8%	22,024,869	42.1%
Continental Connection [1]	551,623	1.3%	643,964	1.5%	0	0.0%	0	0.0%	551,623	1.1%	643,964	1.2%
Continental Express [1]	8,814,843	20.6%	8,514,427	19.7%	0	0.0%	0	0.0%	8,814,843	17.1%	8,514,427	16.3%
Charter Airlines [2]	2,955	0.0%	3,938	0.0%	7,542	0.1%	3,843	0.0%	10,499	0.0%	7,781	0.0%
Delta and affiliates	690,725	1.6%	701,020	1.6%	276,161	3.2%	297,160	3.3%	966,886	1.9%	998,180	1.9%
Frontier and affiliates	181,458	0.4%	202,542	0.5%	0	0.0%	0	0.0%	181,458	0.4%	202,542	0.4%
JetBlue	0	0.0%	0	0.0%	157,289	1.8%	167,605	1.8%	157,289	0.3%	167,605	0.3%
Northwest and affiliates	530,089	1.2%	570,271	1.3%	0	0.0%	0	0.0%	530,089	1.0%	570,271	1.1%
Southwest	0	0.0%	0	0.0%	7,498,778	86.8%	8,070,262	88.7%	7,498,778	14.6%	8,070,262	15.4%
United and affiliates	706,293	1.6%	698,033	1.6%	0	0.0%	0	0.0%	706,293	1.4%	698,033	1.3%
US Airways and affiliates	437,226	1.0%	789,522	1.8%	0	0.0%	0	0.0%	437,226	0.8%	789,522	1.5%
Total Domestic	35,260,090	82.4%	35,200,615	81.5%	8,641,585	100.0%	9,097,397	100.0%	43,901,677	85.3%	44,298,012	84.7%
International												
AeroMexico	186,838	0.4%	159,364	0.4%					186,838	0.4%	159,364	0.3%
Air Canada and affiliates	177,908	0.4%	195,737	0.5%					177,908	0.3%	195,737	0.4%
Air France	250,585	0.6%	244,877	0.6%					250,585	0.5%	244,877	0.5%
Aviacsa	33,526	0.1%	21,558	0.0%					33,526	0.1%	21,558	0.0%
British Airways	212,185	0.5%	208,026	0.5%					212,185	0.4%	208,026	0.4%
Cayman	14,616	0.0%	2,149	0.0%					14,616	0.0%	2,149	0.0%
Charter Airlines	600	0.0%	1,834	0.0%					600	0.0%	1,834	0.0%
China Airlines	49,205	0.1%	28,473	0.1%					49,205	0.1%	28,473	0.1%
Continental	4,804,886	11.2%	5,157,748	11.9%					4,804,886	9.3%	5,157,748	9.9%
Continental Express	1,347,229	3.1%	1,365,774	3.2%					1,347,229	2.6%	1,365,774	2.6%
Emirates	0	0.0%	79,888	0.2%					0	0.0%	79,888	0.2%
KLM	202,127	0.5%	202,222	0.5%					202,127	0.4%	202,222	0.4%
Lufthansa	176,507	0.4%	199,064	0.5%					176,507	0.3%	199,064	0.4%
Pakistan International	6,565	0.0%	0	0.0%					6,565	0.0%	0	0.0%
Singapore	0	0.0%	15,126	0.0%					0	0.0%	15,126	0.0%
TACA	65,909	0.2%	64,797	0.2%					65,909	0.1%	64,797	0.1%
World Airways	26,440	0.1%	29,226	0.1%					26,440	0.1%	29,226	0.1%
Total International	7,555,126	17.6%	7,975,863	18.5%	0	0%	0	0%	7,555,126	14.7%	7,975,863	15.3%
Total Airlines	42,815,216	100.0%	43,176,478	100.0%	8,641,585	100.0%	9,097,397	100.0%	51,456,803	100.0%	52,273,875	100.0%

[1] Continental Connection was operated by Colgan. Continental Express was operated by ExpressJet and Chautauqua airlines.
[2] Houston Airport System totals include 2 charter passengers in FY 2007 at Ellington. Commercial passenger traffic at Ellington ceased in September 2004.

Schedule 3: Total Aircraft Operations and Aircraft Landed Weight. Schedule 3 shows the Aircraft Operations and Aircraft Landing Weight for the Houston Airport System between FY 1999 and FY 2008 and the first 9 months of FY 2008 and FY 2009.

	Aircraft Operations (in thousands)			Aircraft Landed Weight (in million pounds)		
Fiscal Year	Total	Increase (Decrease)	Percentage Change	Total	Increase (Decrease)	Percentage Change
1999	796	7	0.9%	30,119	1,866	6.6%
2000	827	31	3.9%	31,495	1,376	4.6%
2001	823	-4	-0.5%	32,083	588	1.9%
2002	790	-33	-4.0%	30,496	-1,587	-5.0%
2003	811	21	2.7%	30,803	307	1.0%
2004	856	45	5.6%	31,444	641	2.1%
2005	887	31	3.6%	32,543	1,099	3.5%
2006	933	46	5.2%	32,808	265	0.8%
2007	983	50	5.4%	33,930	1,122	3.4%
2008	974	-9	-0.9%	34,097	167	0.5%
2008 (July 2007 – April 2008)	812	n/a	n/a	28,335	n/a	n/a
2009 (July 2008 – April 2009	742	-70	-8.6%	26,562	-1,773	-6.3%

HOUSTON AIRPORT SYSTEM FINANCIAL INFORMATION

Schedule 4 sets forth, for the Fiscal Years indicated, (1) the Gross Revenues, Operation and Maintenance Expenses and Net Revenues (each computed as defined in the Ordinance) of the Houston Airport System, (2) the total Debt Service Requirement (computed as defined in the Ordinance) on then Outstanding Houston Airport System Bonds, which include all obligations payable from revenues of the Houston Airport System and (3) the coverage of Debt Service Requirement by Net Revenues. All amounts in "Schedule 4–Selected Financial Information" for Fiscal Years 2004 through 2008 are derived from the audited financial statements of the Houston Airport System Fund or from the supplementary information and the statistical section included in the City Controller's Comprehensive Annual Financial Report of the City of Houston, Texas, for each respective Fiscal Year. The nine-month comparative figures shown for Fiscal Years 2008 and 2009 were generated from the internal financial reports of the City and have not been audited by the City's auditors. The schedule should be read in conjunction with the complete audited financial statements of the City of Houston, Texas, Airport System Fund Component Unit Financial Report and the notes thereto included as APPENDIX B.

Schedule 4: Selected Financial Information.

FISCAL YEARS
(Dollars in Thousands)

	2004	2005	2006	2007	2008	2008 as of April 30, 2008 (10 months)	2009 as of April 30, 2009 (10 months)
Operating Revenues							
Landing fees:							
Landing fees	$ 53,906	$ 99,197	$ 98,385	$ 88,933	$ 95,730	$ 80,290	$ 74,661
Aviation fuel	1,112	1,400	1,559	1,540	1,522	1,252	1,124
Aircraft parking	1,993	1,475	1,814	1,667	1,765	1,612	837
Subtotal	57,011	102,072	101,758	92,140	99,017	83,154	76,622
Building and ground area revenues:							
Terminal space	101,042	136,075	162,491	182,113	193,375	161,093	145,763
Cargo building	982	893	1,553	2,011	2,469	2,068	2,056
Other rentals	3,065	3,354	3,801	5,037	5,054	4,209	4,181
Hangar rental	2,499	2,077	2,349	3,394	3,473	2,873	3,313
Ground rental	8,189	9,018	9,757	7,165	7,415	6,214	6,370
Subtotal	115,777	151,417	179,951	199,720	211,786	176,457	161,683
Parking, concession and other revenues:							
Retail concessions	22,563	19,823	21,070	26,953	29,435	24,614	22,183
Auto parking	51,437	55,444	62,377	65,454	72,958	60,020	55,598
Auto rental	16,800	18,065	21,438	22,950	24,529	20,144	20,537
Ground transportation	3,737	3,954	3,999	4,617	4,806	3,962	3,702
Other operating revenue	3,088	2,866	3,268	4,304	4,645	2,796	3,626
Subtotal	97,625	100,152	112,152	124,278	136,373	111,536	105,646
Total operating revenue	$ 270,413	$ 353,641	$ 393,861	$ 416,138	$ 447,176	$ 371,147	$ 343,951
Nonoperating Revenues [1]							
Interest on investments [1]	8,406	10,498	17,742	26,847	30,064	25,428	20,294
Other revenues - revenue fund	114	4,175	(58)	483	182	388	1,445
Subtotal	8,520	14,673	17,684	27,330	30,246	25,816	21,739
Total Gross revenues	$ 278,933	$ 368,314	$ 411,545	$ 443,468	$ 477,422	$ 396,963	$ 365,690
Operation and maintenance expenses [2]							
Personnel and other current expenses	161,204	223,972	202,496	$ 214,611	$ 229,551	$ 176,046	$ 188,822
Retiree health and life insurance liability [2]	-	-	-	-	(11,356)	-	-
Collateralized pension notes [2]	-	(34,800)	-	-	-	-	-
Interest on pension bonds and note [3]	-	1,921	3,069	3,064	3,064	2,554	1,693
Interest on electricity contract	-	-		45	50	-	-
Bad debt expenses	441	-				-	-
Operation and maintenance expenses	$ 161,645	$ 191,093	$ 205,565	$ 217,720	$ 221,309	$ 178,600	$ 190,515
Net revenue	$ 117,288	$ 177,221	$ 205,980	$ 225,748	$ 256,113	$ 218,363	$ 175,175
Total debt service requirements	$75,797	$ 112,248	$ 140,513	$ 144,495	$ 157,619		
Grant/PFC revenue available for debt service	(32,823)	(25,506)	(46,621)	(20,679)	(28,022)		
Net debt service requirement [4]	$ 42,974	$ 86,742	$ 93,892	$ 123,816	$ 129,597		
Coverage of debt service	2.73	2.04	2.19	1.82	1.98		

(1) The figures shown have been adjusted for miscellaneous revenues not defined as Gross Revenues or Net Revenues in the Ordinance
(2) Does not include depreciation expenses. Also, does not include retiree health and life insurance liability or collateralized pension notes.
(3) Portion of debt of the City of Houston allocated to the Houston Airport System.
(4) Does not include debt service for which interest was capitalized from bond proceeds or provided from sources other than Net Revenues such as grant funds or PFC funds. See definition of "Debt Service Requirements" in APPENDIX H.

Net Revenues increased to $117.3 million in Fiscal Year 2004, to $177.2 million in Fiscal Year 2005, to $206.0 million in Fiscal Year 2006, to $225.7 million in Fiscal Year 2007 and $256.1 in Fiscal Year 2008. The Fiscal Year 2005 increase in Operating Revenues was primarily due to adding three runway projects and a partial year of the ISEP into the rates and charges. The Fiscal Year 2006 increase in Operating Revenues was primarily due to a full year of the ISEP in the rates and charges. The Fiscal Year 2007 revenues contain an accrual for the Fiscal Year 2006 rates and charges reconciliation which reallocated certain revenues between the airfield and the terminal. There were additional increases in terminal rents for additional leased space. Terminal concessions show a 28% increase over Fiscal Year 2006. The Fiscal Year 2008 revenues increased for additional improvements to terminals and aprons at both airports as well as a $2 per day increase in parking rates in the garages.

For the first ten months of Fiscal Year 2009 compared to the first ten months of Fiscal Year 2008, Landing Fees and Terminal Space revenues were down due to the implementation of the PFC at Intercontinental primarily because a portion of the projects which generated these fees and revenues are now funded with PFC funds. As a result, these revenues may no longer be generated through rates and charges. PFC funds are not considered gross revenues but are primarily applied to pay debt service. Additionally, Parking, Concessions and Other Revenues were down due to decreased passengers.

Fiscal Year 2009 revenues are expected to be reduced between $15 million and $25 million due to settlement of rates and charges amounts from Fiscal Years 2007 and 2008. Rates and charges settlements arise due to differences between the estimated expenses and other parameters when rates and charges are set at the beginning of a fiscal year, compared to actual audited performance after the close of such fiscal year. Rates and charges are adjusted in a subsequent fiscal year to account for any prior surplus or deficit (referred to herein as the "Settlement"). The expected Settlement for Fiscal Years 2007 and 2008, to be finalized by August 2009 and recognized in Fiscal Year 2009, is projected to be atypically large because, among other factors, the Houston Airport System actual energy costs for Fiscal Year 2007 were approximately $9.8 million lower than the budgeted energy costs. Settlements for Fiscal Years 2000 to 2006 have ranged from a credit for tenants of $13.4 million to a charge against tenants of $2.8 million, and have averaged $2.3 million in favor of the tenants.

Interest on investments increased beginning in Fiscal Year 2007 as the Houston Airport System increased its cash on hand position. For the first ten months of Fiscal Year 2009 compared to the first ten months of Fiscal Year 2008, interest revenue was down due to lower interest rates and lower balances due to on-going projects funded.

Operation and Maintenance Expenses increased following the events of September 11, 2001, as a result of both increased security costs and new facilities that have been placed in service. From Fiscal Year 2004 to Fiscal Year 2008, Total Operation and Maintenance Expenses increased from $161.6 million to $221.3 million, an average annual increase of 8.2%. Beginning in Fiscal Year 2005, the Houston Airport System began paying interest on the City's pension bonds and note. For the first ten months of Fiscal Year 2009 compared to the first ten months of Fiscal Year 2008, expenses increased by $11.9 million. Most of this was due to a full ten months of salary increases under the terms of a collective bargaining agreement, plus increases for electricity and natural gas. See "THE CITY AND CITY FINANCIAL INFORMATION–Employee Pension Funds."

Grant Revenue for Fiscal Year 2006 contained grants from two federal fiscal years that were received during one City fiscal year. The overall result was a reduction in the debt service coverage for Fiscal Year 2007. Total debt service is expected to be down due to reduced interest on variable rate debt. Additional grants received during Fiscal Year 2009 will cause the Debt Service Requirement to go down. Debt Service Requirement will also be reduced during Fiscal Year 2009 when the PFC payments for related debt service projects are paid, including half-year payments for the Intercontinental projects and the full year for Hobby projects.

Sources of Operating Revenues

Operating Revenues of the Houston Airport System are generated from the following revenue-producing sources:

Landing Fees. Landing fees for scheduled airlines at Intercontinental and Hobby are computed under formulas derived from various use and lease agreements and license agreements (see "HOUSTON AIRPORT SYSTEM AGREEMENTS–Use and Lease Agreements"), which rates are also applied by ordinance to nonscheduled, commercial aircraft and nonsignatory scheduled aircraft landings at both airports based upon maximum FAA-approved gross landed weights. In addition, the City receives revenues from aviation fuel flowage fees (currently six cents per gallon) assessed on the delivery of fuel to certain aircraft in lieu of landing fees. The City suspended such fuel flowage fees at Intercontinental beginning in November 2000 and reinstated them in February 2004.

Building and Ground Area Revenues. Terminal space rentals paid by scheduled airlines under use and lease agreements are subject to annual compensatory adjustment depending upon additional capital improvements, maintenance, operating and overhead expenses allocable to the facilities. Ground rentals are charged by the City under long-term ground leases of land at Intercontinental, Hobby, and Ellington. The City leases various parcels of land: to airlines, fixed base operators and various corporations for hangars, aircraft maintenance facilities, flight kitchens and cargo buildings; to auto rental companies for their service facilities and storage lots; and to a variety of other entities for buildings and other permanent improvements.

Parking, Concession, and Other Revenues. City-owned parking facilities are the largest single source of revenues of the Houston Airport System other than payments by the airlines. As of August 31, 2008, such facilities consisted of approximately 22,312 public parking spaces at Intercontinental and approximately 4,031 at Hobby. Auto parking operations are managed by the Houston Airport System and are operated by New South Parking pursuant to a concession agreement with the City. See "HOUSTON AIRPORT SYSTEM AGREEMENTS–Other Agreements." Parking rates are approved by the City Council of the City. The City's parking facilities compete with several off-airport private parking operators that provide free shuttle service to their customers at both Intercontinental and Hobby. Accordingly, competitive supply and demand constraints affect the City's ability to continue to generate parking revenues.

Concessions include news and gift shops, restaurants, lounges, auto rentals, advertising and operation of the 565 guest-room Marriott Hotel located at Intercontinental. The hotel lease and other terminal concession agreements provide for annual payments based on the greater of a percentage of gross income or guaranteed minimums.

Revenues from auto rentals are derived from a concession fee (in addition to certain ground rentals) paid by auto rental companies to the City as either a percentage of the gross auto rentals or a guaranteed minimum, whichever is greater.

Funds must be generated primarily from parking and other concession revenues and from investment income and other nonoperating revenues in order to (1) cover the Houston Airport System's operating expenses and amortization of capital costs not attributable to facilities and services used by the airlines, (2) produce surplus to meet current or anticipated needs of the Houston Airport System, and (3) comply with the Rate Covenant. In Fiscal Year 2008, Continental Airlines (including its regional partners: ExpressJet Airlines, Colgan Air, and Chautauqua Airlines) and Southwest accounted for an estimated 47.3% and 6.4%, respectively, of operating revenues of the Houston Airport System down from 49.9% for Continental and 8.0% for Southwest, due to greater diversification of revenues.

Schedule 5: Summary of Certain Fees and Charges. (1) Schedule 5 contains the established rates and charges for FY 2008 and FY 2009 as set forth in the Use and Lease Agreements for Intercontinental and Hobby.

	IAH		HOU	
	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2008	Fiscal Year 2009
Landing Rates (1)	$2.928	$2.948	$2.255	$2.186
Terminal Space Rentals (2)	$27.52 - $112.85	$27.06 - $73.04	$86.07 - $91.45	$94.18 - $94.36
Apron (2)	$2.443 - $2.889	$2.265 - $2.865	$2.288	$2.202
Parking Rates (maximum per day)				
Economy	$6.00	$6.00	$6.00	$6.00
Structured (3)	$15.00	$15.00	$15.00	$15.00
Surface	--	--	--	--
Short-Term	--	--	--	--
Sure Park	$15.00	$15.00	--	--

(1) Per 1,000 pounds for landing weight
(2) Range per square foot
(3) Rate changed August 30, 2007

DEBT SERVICE REQUIREMENTS OF HOUSTON AIRPORT SYSTEM BONDS

Schedule 6 sets forth the Debt Service Requirements, computed as defined in APPENDIX C, on all Outstanding Houston Airport System Senior Lien Bonds, assuming scheduled mandatory redemption of any term bonds.

Schedule 6: Houston Airport System Debt Service Requirements Schedule.

	Series 2009A Bonds						
Period Ending	Principal	Interest (net of capitalized interest)	Senior Lien Debt Service[1]	Subordinate Lien Debt Service[2]	Total Bonds Debt Service	Inferior Lien Obligation[3]	Bonds plus Inferior Lien Obligation
07/01/2010	-	$ 5,691,321	$ 5,691,321	$ 154,713,910	$ 160,405,230	$ 6,583,400	$ 166,988,630
07/01/2011	-	11,523,081	11,523,081	154,809,770	166,332,851	6,582,006	172,914,857
07/01/2012	-	17,454,880	17,454,880	154,714,412	172,169,292	6,583,250	178,752,542
07/01/2013	-	21,786,126	21,786,126	154,789,737	176,575,863	6,586,325	183,162,188
07/01/2014	-	23,818,994	23,818,994	154,780,478	178,599,472	6,584,125	185,183,597
07/01/2015	$ 9,275,000	23,818,994	33,093,994	154,778,688	187,872,682	6,581,800	194,454,482
07/01/2016	9,740,000	23,355,244	33,095,244	154,772,223	187,867,467	6,583,525	194,450,992
07/01/2017	10,225,000	22,868,244	33,093,244	154,741,033	187,834,277	6,583,200	194,417,477
07/01/2018	10,735,000	22,356,994	33,091,994	154,492,291	187,584,285		187,584,285
07/01/2019	11,275,000	21,820,244	33,095,244	154,422,000	187,517,244		187,517,244
07/01/2020	11,835,000	21,256,494	33,091,494	154,426,803	187,518,296		187,518,296
07/01/2021	12,430,000	20,664,744	33,094,744	154,843,667	187,938,411		187,938,411
07/01/2022	13,050,000	20,043,244	33,093,244	154,564,143	187,657,387		187,657,387
07/01/2023	13,705,000	19,390,744	33,095,744	154,988,813	188,084,557		188,084,557
07/01/2024	14,390,000	18,705,494	33,095,494	154,999,373	188,094,867		188,094,867
07/01/2025	15,110,000	17,985,994	33,095,994	154,018,099	187,114,093		187,114,093
07/01/2026	15,865,000	17,230,494	33,095,494	154,024,519	187,120,013		187,120,013
07/01/2027	16,655,000	16,437,244	33,092,244	153,749,856	186,842,100		186,842,100
07/01/2028	17,510,000	15,583,675	33,093,675	153,452,183	186,545,858		186,545,858
07/01/2029	18,405,000	14,686,288	33,091,288	151,052,299	184,143,586		184,143,586
07/01/2030	19,375,000	13,720,025	33,095,025	150,980,984	184,076,009		184,076,009
07/01/2031	20,440,000	12,654,400	33,094,400	155,792,342	188,886,742		188,886,742
07/01/2032	21,565,000	11,530,200	33,095,200	155,768,896	188,864,096		188,864,096
07/01/2033	22,750,000	10,344,125	33,094,125		33,094,125		33,094,125
07/01/2034	24,000,000	9,092,875	33,092,875		33,092,875		33,092,875
07/01/2035	25,320,000	7,772,875	33,092,875		33,092,875		33,092,875
07/01/2036	26,715,000	6,380,275	33,095,275		33,095,275		33,095,275
07/01/2037	28,185,000	4,910,950	33,095,950		33,095,950		33,095,950
07/01/2038	29,735,000	3,360,775	33,095,775		33,095,775		33,095,775
07/01/2039	31,370,000	1,725,350	33,095,350		33,095,350		33,095,350
	$449,660,000	$457,970,383	$907,630,383	$3,549,676,519	$4,457,306,902	$52,667,631	$4,509,974,533

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(1) Includes the Series 2009A Bonds and excludes the Senior Lien Notes, $6 million of which will be outstanding after issuance of the Series 2009A Bonds. Discrepancies in totals may exist due to rounding.

(2) Variable and auction rate bonds reflected at original certified rate.

(3) Represents HAS assumption of payments for Series 1997A Special Facility Bonds under sublease. July 15 payments treated as made in the preceding fiscal year

Schedule 7: Houston Airport System Outstanding Debt. The following Schedule 7 summarizes Houston Airport System debt outstanding as of August 1, 2009 adjusted to include the Series 2009A Bonds and exclude the Refunded Notes.

	As of August 1, 2009 (in thousands)
Senior Lien Revenue Bonds, fixed rate	$ 449,660
Senior Lien Notes[(1)]	6,000
Subordinate Lien Revenue Bonds, fixed rate	1,622,090
Subordinate Lien Revenue Bonds, periodic auction rate[(2)]	330,300
Subordinate Lien Revenue Bonds, variable rate[(3)]	92,900
Inferior Lien Obligations[(4)(5)]	41,735
Total Outstanding Principal	$ 2,542,685
Special Facilities Revenue Bonds[(5)(6)]	$ 579,725

(1) The City has authorized issuance of up to $150 million of Airport System Senior Lien Notes, Series A and B.

(2) This reflects the principal amount of the Series 2000P-1 and 2000P-2 auction rate bonds, and 2002C, 2002D-1, and 2002D-2 auction rate bonds. The auction rate bonds are not short term/demand obligations as defined in the bond ordinances authorizing the issuance of the Houston Airport System Bonds. The City has no current plans to refund the periodic auction rate bonds.

(3) This reflects the principal amount of the Series 2005A variable rate demand obligations.

(4) The City has authorized issuance of up to $150 million of Airport System Inferior Lien Commercial Paper Notes, Series C, none of which are outstanding.

(5) Under a sublease to the City of the APM financed with the Series 1997A Special Facilities Bonds, the City has agreed to make sublease payments that include amounts equal to the debt service on such bonds. Such payments are payable from Houston Airport System Net Revenues on the same priority as Inferior Lien Obligations. Accordingly, for purposes of this schedule, the Series 1997A Special Facilities Bonds are listed as Inferior Lien Obligations rather than as Special Facilities Bonds, even though they currently remain outstanding as Special Facilities Bonds.

(6) Special facilities revenue bonds are payable solely from payments by special facilities leases and/or other security not provided by the City or the Houston Airport System.

HOUSTON AIRPORT SYSTEM AGREEMENTS

Use and Lease Agreements

General. At both Intercontinental and Hobby, most landing fees and terminal rentals are paid by the airlines pursuant to use and lease agreements. Those agreements generally require the airlines to pay landing fees, terminal building rentals and certain other charges to enable the City to recover costs allocable to facilities occupied and used by the airlines. These costs include Operation and Maintenance Expenses, amortization charges associated with the City's investment in airport capital improvements and interest on the City's investment in land. Those airlines that do not operate under use and lease agreements generally operate under agreements or arrangements on a month-to-month basis or under City ordinance.

The City has the following use and lease agreements with the airlines operating at Intercontinental and Hobby: (1) Continental and the City entered into a use and lease agreement (the "Continental Use and Lease Agreement"), effective as of January 1, 1998 with respect to Terminal B and Terminal C at Intercontinental, (2) Continental and the City entered into a lease agreement for Terminal E, dated as of August 1, 2001; (3) the City entered into use and lease agreements with the Continental and other airlines operating and occupying space and gates in the expanded Terminal A at Intercontinental (the "Terminal A Airlines"), effective as of January 1, 1998; (4) the City has entered into International Facilities Agreements governing the use of Terminal D and the Central FIS with Continental and foreign flag carriers; (5) the City has entered into new use and lease agreements for airlines at Hobby; and (6) the City entered into a term sheet with Continental on April 29, 2008 with respect to the Terminal B Expansion Program (the "Term Sheet").

The following section summarizes the major provisions of the Houston Airport System's use and lease agreements and license agreements.

Continental Use and Lease Agreement. The Continental Use and Lease Agreement, which 20 year term expires on December 31, 2017, represents the remaining portion of the amortization period of the original Terminal C investment. The City and Continental are currently considering extending Continental's lease of Terminal C for an additional 10 years to 2027. To facilitate Continental's hub operations at Intercontinental, Continental has the preferential right to use all of the apron area and exclusive right to use of all of the holdrooms and other airline space in Terminal C for the duration of the lease term. The original term of Continental's lease for Terminal B is 10 years, effective from January 1, 1998 through December 31, 2007; Continental exercised its option on the Terminal B space to extend the term of the lease for an additional 10 years to December 31, 2017. Continental also has the preferential right to use all of the aircraft parking positions and exclusive right to use of all of the holdrooms and other airline space in Terminal B, subject to the City's right under certain conditions to require Continental to relinquish such space because of under-utilization. As of January 25, 2005, the City subleases the Terminal B-C link of the APM from Continental and includes it in the rates and charges for Terminals B, C, D, E, and the Central FIS. The Term Sheet related to Terminal B, discussed below, will have certain impacts on this agreement.

In calculating airline fees, rentals and charges at Intercontinental, costs of support facilities such as the interterminal train system and the chilled and hot water plant are allocated among the various areas benefiting from such facilities, including airline areas of the terminal buildings. In addition, the City charges apron fees that are calculated to recover costs allocable to the aprons. Landing fees under the Continental Use and Lease Agreement continue to be calculated according to a formula through which the airlines are required to pay their pro-rata share of all costs allocable to the airfield cost center after first deducting airfield revenues derived from general aviation (principally fuel flowage fees, if any).

With respect to terminal building rental rates, the Continental Use and Lease Agreement provides for a "compensatory" rate-making methodology that has been in effect since the airport opened in 1969 which includes: (1) the City treating each terminal at Intercontinental (Terminals A, B, C, D, E, the Central FIS and the APM) as a separate cost center for rates and charges purposes and (2) computing capital costs in the airline rate base (terminals and airfield) to reflect level annual amortization of investments. Costs associated with public and concession areas of the terminals are the responsibility of the City and are recovered through concession revenues (including parking, rental car and ground transportation revenues) and other non-airline revenues. The rate base in Terminal B includes a "base capital charge" of $6.50 per square foot to compensate the City for the economic value of depreciated facilities.

The City has retained the discretion to make capital investment decisions and issue Additional Airport Bonds, as needed, to ensure that adequate facilities are provided on a timely basis to meet public and airline needs. See "THE CITY AND THE HOUSTON AIRPORT SYSTEM–Houston Airport System Capital Improvement Program."

Continental Terminal E Lease. The term of Continental's lease of Terminal E project facilities (including Terminal E, central ticketing facility, Terminal E baggage system improvements, Terminal C-East garage ATO facility, Terminal E apron area and fueling facilities and ancillary facilities) terminates the later of (i) the final scheduled maturity of the bonds issued to finance the Terminal E project or (ii) 25 years from January 25, 2005, the date of beneficial occupancy of the Central FIS. Continental has the option to extend the term for an additional 5-year period, subject to certain conditions. Continental net leased the facilities on an exclusive basis with the exception of the Terminal E Apron area and fueling facilities which are leased on a preferential basis.

As security for the Series 2001 Special Facilities Bonds (Terminal E Project), the Terminal E Lease obligates Continental to pay rent, directly to the trustee, equal to debt service on the bonds, In addition, Continental is obligated to pay the City ground rentals for the special facility areas and "city charges" for the portions of the facilities financed by the City as well as certain allocations of project amortization, maintenance, and operations costs, and replenishment of the renewal and extension fund for systems costs, and airport and departmental administrative costs. For the City charges, Terminal E is treated as a separate rates and charges cost center similar in manner to the other terminals as discussed above under the Continental Use and Lease Agreement. In consideration of Continental's net leasing of the entire Terminal E and central ticketing facility (including the public areas), Continental will derive the financial benefit of all "inside concessions" at Terminal E, such as revenues from concession agreements for food and beverage, gift/news, telephone and advertising.

Terminal B Expansion Program Term Sheet. The City entered into a Term Sheet for the Terminal B Expansion Program and is currently negotiating the corresponding lease agreement. The Term Sheet identifies certain projects to be constructed by the City including Terminal B North and South ramp replacement, Terminal B parking structure replacement, associated infrastructure including roadway, signage, utility and fuel storage improvements, and the expansion of the APM to Terminal A and certain projects to be constructed by Continental including Terminal B South and North Concourse replacement facilities, central terminal redevelopment and a Second FIS facility (the "Second FIS"). Contracts will be coordinated between the City and Continental so that associated projects within each phase of the program are completed concurrently. The City will use its best efforts to authorize and issue special facility revenue bonds on behalf of Continental for their projects. The Term Sheet provides that Continental will be responsible for all costs associated with the Terminal B and the Second FIS, including all public areas. Similar to the Continental Terminal E Lease above, in exchange for Continental net leasing the entire facilities, they will derive the financial benefit of all "inside concessions". For these concessions, Continental will pay the City an annual amount equal to 10% of all net inside concession rent paid to them subject to an annual maximum of $1 million. With respect to the Second FIS, Continental will guarantee a minimum traffic level through the Central FIS Facility.

Additionally, Continental and the City agree to extend the Terminal C lease for an additional 10 years and upon DBO of the Second FIS, Continental will relinquish its preferential gate rights on certain gates in Terminal D. Continental agreed to support the PFC program at a $3.00 per enplaned passenger level. The application for the PFC has been approved by the FAA and PFC collections began December 1, 2008.

Because of current economic and market conditions, it is unlikely the City and Continental can issue Continental special facility revenue bonds ("SFRBs") at reasonable interest rates at the present time. As a result, Continental has requested that the Terminal B Expansion Program be deferred until market conditions allow for the issuance of Continental SFRBs at reasonable interest rates.

Terminal A Airlines Use and Lease Agreement. The use and lease agreement for the Terminal A carriers operating at Intercontinental are similar to the Continental Use and Lease Agreement with respect to rates and charges methodology and language, but different with respect to term and facility management provisions. The term of the use and lease agreement for the Terminal A carriers is for seven years, commencing from July 1, 1998 to June 30, 2005. These agreements are currently being held over on a month-to-month basis while a new agreement is under discussion. The rate-making provisions are expected to remain substantially the same. Facility management provisions included in such agreements are flexible in comparison to other use and lease agreements utilized by other major airports. In this regard, holdroom space and aircraft parking positions are leased on a preferential use, rather than an exclusive use, basis. In addition, space assignments are subject to annual review and potential reallocation based on a document, the Standard Gate Concept Definition for Preferential Gate Use Policy, which has been developed by the City and incorporated by reference in such agreements. This policy document confirms the City's airport-wide gate utilization standard of four flights per day and defines the standard relationships between assigned gates (based on aircraft size) and various categories of terminal space. The intent of the policy is to ensure balanced use of space and gates in the terminal as airlines change flight activity and terminal use over time. The use and lease agreements for Terminal A also include a base capital charge of $5.00 per square foot (compared to $6.50 in the Continental Use and Lease Agreement) but require the airlines to pay costs of certain unamortized improvements to Terminal A which Continental is not required to pay in Terminal B. The landing fee methodology in the Terminal A use and lease agreements is identical to that of the Continental Use and Lease Agreement.

International Facilities Agreement. Continental and the foreign flag international airlines at Terminal D and the Central FIS operate under the terms of the International Facility Agreement on a month-to-month basis, which will not extend beyond June 30, 2010. The lease agreements set forth the methodology for calculating rates and charges for the use of the facility. The methodology is generally based on the compensatory rate-making concepts in effect in the other terminals, but with separate charges for use of the aircraft parking positions and loading bridges (on a total enplaned and deplaned passenger basis); operations, office, and club room space (on a per square foot basis); ticketing and baggage make-up space (on an enplaned passenger basis); holdrooms, sterile corridors and related space (on a deplaned passenger basis); and Federal Inspection Services and baggage claim areas (on a deplaned passenger basis).

Hobby Use and Lease Agreement. The use and lease agreements for the airlines operating at Hobby are similar in form and substance to the agreements at Intercontinental, but with certain differences in rate-making methodology that resulted in the division of the airport into various sub-cost centers: the Main Terminal and the Central Concourse. There is not expected to be any further division of such cost centers into "airline" and "public/concession space" as is the practice at Intercontinental. Under the Hobby use and lease agreements, the total costs of each cost center are then divided by the total amount of "usable space" (i.e. gross space less mechanical, electrical, and utility space) in the cost center to determine an average rate that will apply to all leasable space. As at Intercontinental, the costs associated with public and concession space will be covered by concession revenues and other non-airline revenue sources. Under the Hobby use and lease agreements, landing fees are calculated using the same formula as the use and lease agreements at Intercontinental. The City entered into new agreements with Southwest, Delta, American Eagle and Air Tran in September 2008 which will expire on June 30, 2015.

Other Agreements

The City receives revenues from automobile rental companies under agreements which guarantee annual minimum rental amounts or, if greater, a percentage of gross revenues from automobile rentals at both Intercontinental and Hobby. The City has agreements with seven rental car companies operating at the consolidated rental car facility at Intercontinental on a site adjacent to J.F. Kennedy Boulevard. The concession agreement and facility lease have terms that expire August 31, 2028, 25 years from the date of beneficial occupancy of the facility. The consolidated rental car facility was financed with proceeds of the Series 2001 Special Facilities Bonds (Rental Car Facility) issued in the principal amount of $130,250,000 in March 2001 that are secured by and payable from a separate customer facility charge ("CFC") assessed on rental car customers at Intercontinental. Under the terms of the lease, the rental car companies are responsible for all operating and maintenance costs associated with the facility and the consolidated busing operation. The City also has concession agreements with eight rental car companies operating at Hobby that expire May 31, 2010.

The City leases a hotel, land and parking areas at Intercontinental to Host of Houston Ltd. (operated as a Marriott Hotel). The leases entitle the City to the greater of certain guaranteed annual minimum amounts or percentages of gross sales from operations of the hotel facilities, including concessions, parking, and valet parking, each year. The agreements also entitle the City to collect ground rental payments for the use of parking areas based on the square footage used for hotel parking. The leases terminate October 30, 2019.

The City also receives revenues from concession agreements with food, alcoholic beverage, gift/news and other concessionaires operating at the terminals. The revenues paid to the City under these concession agreements are based on the greater of certain guaranteed annual minimum amounts or a percentage of gross revenues received by the concessionaires. In 2008, the City extended its original 10-year food and beverage concession agreement at Intercontinental with Concessions of Houston through June 30, 2012, and in Fiscal Year 2004, two master gift/news concessions with Houston 8/Host Joint Venture and Paradies-IAH, L.L.C. were awarded at Intercontinental which will expire in 2013 plus three one-year options to 2016, respectively. Another food and beverage concession in Terminal C area is operated by JDDA SSP under an agreement that will expire on December 31, 2016 with two one-year options. A new concession for duty free shops was awarded in October 2005 to The Nuance Group (Houston) LLC, which will expire in 2014. In Fiscal Year 2003, the City awarded new food and beverage to 4 Families of Houston and gift/news concession to Hudson News Company for the new areas at Hobby which will expire in 2020 and 2015, respectively.

Aero Houston Central leases most of the cargo facilities in the central cargo area under various ground and building leases through December 31, 2024. The City and Continental executed a lease agreement for the City to construct a new cargo building for Continental. The agreement has a term of 25 years beginning December 12, 2004. Federal Express Corporation also leases a cargo building and aircraft parking ramp under a lease that will expire on July 31, 2012.

The Houston Airport System has implemented the phased development of 165 acres of land at the northeast end of Intercontinental as a new cargo area. The first phase involved approximately 104 acres and provides more than half a million square feet of cargo terminal space, with parking spaces for 20 widebody freighter aircraft. The City has leased to three private developers approximately eight acres of land each (25.5 acres in the aggregate) for cargo development purposes. The developers, IAH Air Cargo Center, L.P. (currently GE Capital), MLR (currently assigned to Aero Houston East, LLC), and TCC/AMB Aviation IAH, L.P. (currently assigned to Aero Houston East II, L.P.), each built, operates and maintains air cargo and warehouse facilities on the northeast side of Intercontinental pursuant to 40-year ground lease with the right to terminate after 30 years. The cargo and warehouse facilities opened in March 2003. Five acres of the building site have been leased to United Parcel Service ("UPS"), which relocated operations from Ellington to Intercontinental. UPS also leased three jet aircraft and one turbo-prop parking positions under a separate agreement. TCC also has an approximately 4-acre lease upon which they constructed a building to be used for perishables or other cargo.

Ellington Airport is being used by certain federal government agencies under a joint use agreement between the City and the federal government, which expired June 30, 2007 and a new agreement is under negotiation.

Houston Airport System is affiliated with Houston Airport System Development Corporation (HASDC), a Texas nonprofit corporation, created to provide a mechanism for Houston Airport System to provide (through HASDC) technical expertise to airports around the world in planning, training, operations, privatization and other airport-related activities. HASDC was created to benefit the Houston Airport System by seeking to increase air travel and air transport and trade activities through the Houston Airport System and the City. Under their contractual arrangement, HASDC pays the Houston Airport System for all technical services that it provides. To date, HASDC has organized a number of training sessions for airport executives from China and other foreign countries and is a participant in various consortiums that provide privatized operation and development of airports in Ecuador and Costa Rica. The City of Houston has recently initiated a review of Houston Airport System's affiliation with HASDC as part of a strategic assessment to determine the optimal use of limited Houston Airport System resources.

Reports in various news sources dated July 28, 2009, raised the question whether HASDC should be considered a component unit of the City and therefore consolidated into the City's financial reporting. The City of Houston has determined that HASDC is a separate legal entity that is not a component unit of the City of Houston for financial reporting purposes and that the City is not legally liable for any obligations of the Corporation.

REPORT OF THE AIRPORT MANAGEMENT CONSULTANT

The City has engaged Roger H. Bates, Airport Consultant (the "Airport Management Consultant"), in association with Unison-Consulting, Inc., and AVK Consulting, to evaluate the ability of the City to generate sufficient Net Revenues from the Houston Airport System to meet the financial requirements established by the Ordinance during each year of the seven-year forecast period, encompassing Fiscal Years 2009-2015. See the Report of the Airport Management Consultant (the "Report") included herein as APPENDIX A.

In the Report, the Airport Management Consultant identifies key factors upon which the future financial results of the Houston Airport System depend. Such factors are presented for each airport and include the roles of Continental at Intercontinental and Southwest at Hobby. The Airport Management Consultant also identifies other factors that affect air traffic activity of the Houston Airport System, including local, national and international economic conditions, air fare trends, the price of jet fuel and overall airline industry trends, and develops air traffic forecasts that are based in part on certain assumptions described therein. See Section III of the Report.

The Houston Airport System may issue one or more additional series of Houston Airport System Bonds over the next few years to complete the financing of the Current CIP. For the purposes of the Airport Management Consultant's analysis, all of the projects in the Current CIP are taken into account in the financial forecasts, including projects that are designated to be funded, all or in part, with proceeds of any such additional Houston Airport System Bonds. See "APPENDIX A – Report of the Airport Management Consultant" and "Houston Airport System" – Houston Airport System Capital Improvement Program – *General Discussion*."

The financial forecasts presented in the Report are based on information and assumptions that have been reviewed with and approved by the Houston Airport System. See Section V of the Report. The Report should be read in its entirety for an understanding of the forecasts and the underlying assumptions contained therein. In the opinion of the Airport Management Consultant, the assumptions underlying the forecasts are reasonable given the information available and circumstances existing as of the date of the Report. However, any forecast is subject to uncertainties, and inherent uncertainties are heightened by currently weak economic conditions and air traffic trends. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, the actual results achieved may vary from the forecasts, and the variations could be material. The accompanying prospective financial information may not comply with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information. Neither the City's independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective financial information contained in the Report, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.

The tables on the following pages, which have been extracted from the Report, show forecasts during each Fiscal Year of the forecast period based on (a) the baseline forecast of air traffic activity for Gross Revenues; Operation and Maintenance Expenses; Net Revenues; Debt Service Requirements; Debt Service coverage ratios; the Rate Covenant Compliance; and Airline Costs Per Enplaned Passenger at Intercontinental and Hobby and (b) the lower sensitivity forecast of air traffic activity for Debt Service coverage ratios and Airline Cost Per Enplaned Passenger at Intercontinental and Hobby. See Section V of APPENDIX A for The Airport Management Consultant's complete financial analysis and forecast for the Houston Airport System.

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SUMMARY TABLE - BASE FORECAST
Houston Airport System
(Fiscal Year End June 30)

		Forecast (in thousands)					
Gross Revenues		**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
George Bush Intercontinental Airport/Houston							
Airline revenues	[A]	$212,400	217,545	$221,537	$230,251	$234,748	$237,357
Other		121,725	123,530	135,930	142,935	152,247	158,814
William P. Hobby Airport							
Airline revenues	[B]	38,095	37,830	36,980	37,416	39,504	40,994
Other		33,741	33,821	36,602	37,444	40,307	41,226
Ellington Airport		1,465	1,467	1,469	1,471	1,473	1,476
Interest income and other revenues		20,925	22,049	25,883	31,800	32,445	33,710
		$428,351	$436,242	$458,401	$481,318	$500,724	$513,577
Operation and Maintenance Expenses		244,669	252,009	260,364	270,232	281,042	292,286
Net Revenues	[C]	$183,682	$184,233	$198,037	$211,086	$219,682	$221,291
Debt Service Requirements							
Senior Lien Bonds (a)		$6,980	$18,678	$25,334	$32,603	$35,281	$43,371
Less: IAH and HOU PFCs		(839)	(5,281)	(9,461)	(12,057)	(12,764)	(18,676)
	[D]	$6,141	$13,397	$15,873	$20,546	$22,517	$24,695
Subordinate Lien Bonds (a)		$147,799	$148,279	$148,254	$147,853	$148,658	$147,952
Less: IAH and HOU PFCs/LOI grants (b)		(35,173)	(26,076)	25,940)	(25,921)	(26,023)	(25,991)
		$112,626	$122,203	$122,314	$121,932	$122,635	$121,961
Inferior Lien Bonds (a)		$6,583	$ 6,582	$6,583	$6,586	$6,584	$6,582
Less: IAH PFCs		(6,583)	(6,582)	(6,583)	(6,586)	(6,584)	(6,582)
		$ -	$ -	$ -	$ -	$ -	$ -
	[E]	$118,767	$135,600	$138,187	$142,478	$145,152	$146,656
Debt service coverage ratio (c)							
Senior Lien Bonds	[C/D]	**29.91**	**13.75**	**12.48**	**10.27**	**9.76**	**8.96**
Total	[C/E]	**1.55**	**1.36**	**1.43**	**1.48**	**1.51**	**1.51**
Rate covenant compliance							
Net Revenues	[C]	$183,682	$184,233	$198,037	$211,086	$219,682	$221,291
125% Senior Lien Bond debt service		$7,676	$16,747	$19,842	$25,682	$28,147	$ 30,869
110% Subordinate Lien Bond debt service		123,889	134,423	134,545	134,125	134,899	134,157
100% Inferior Lien Bond debt service		-	-	-	-	-	-
	[F]	$131,565	$151,170	$154,387	$159,807	$163,045	$165,026
		[C] exceeds [F] in each Fiscal Year.					
Airline cost per enplaned passenger							
Intercontinental							
Enplaned passengers	[G]	19,256	19,352	20,187	20,934	21,808	22,513
Airline cost per enplaned passenger	[A/G]	**$11.03**	**$11.24**	**$10.97**	**$11.00**	**$10.76**	**$10.54**
Hobby							
Enplaned passengers	[H]	4,017	4,011	4,024	4,070	4,134	4,164
Airline cost per enplaned passenger	[B/H]	**$9.48**	**$9.43**	**$9.19**	**$9.19**	**$9.56**	**$9.84**

(a) Net of capitalized interest and AIP grants.
(b) FY 2010 represents the last of the LOI grant application.
(c) Interest rate calculated at assumed market rates.

SUMMARY TABLE - LOW SENSITIVITY FORECAST
Houston Airport System
(Fiscal Year End June 30)

	Forecast (in thousands)					
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
Debt service coverage ratio (c)						
Senior Lien Bonds	**29.91**	**13.72**	**12.14**	**9.78**	**9.02**	**8.07**
Total	**1.55**	**1.36**	**1.39**	**1.41**	**1.40**	**1.36**
Airline cost per enplaned passenger						
Intercontinental						
Airline cost per enplaned passenger	**\$11.03**	**\$11.30**	**\$11.50**	**\$11.95**	**\$12.19**	**\$12.32**
Hobby						
Airline cost per enplaned passenger	**\$9.48**	**\$9.42**	**\$9.21**	**\$9.33**	**\$9.85**	**\$10.23**

(a) Net of capitalized interest and AIP grants.
(b) FY 2010 represents the last of the LOI grant application.
(c) Interest rate calculated at assumed market rates.

THE AIRLINE INDUSTRY FINANCIAL INFORMATION

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

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

INVESTMENT CONSIDERATIONS

Potential Effects of City Charter Revenue Limitations on Airport Revenues

For a discussion of the effect of certain City Charter tax and revenue limitations, voter-approved propositions, and the potential impact of ongoing litigation involving such limitations and propositions on the operation of the Houston Airport System, see "THE CITY AND CITY FINANCIAL INFORMATION–City Charter Tax and Revenue Limitations."

Changes in Federal Legislation

In February 1980, Congress passed what is commonly referred to as the "Wright Amendment," as a part of the International Air Transportation Competition Act of 1979. The Wright Amendment limited interstate commercial airline passenger services out of Love Field in the City of Dallas, Texas, a hub for Southwest, (i) to any interstate destinations in aircraft having a passenger capacity of 56 seats or less (the "Commuter Aircraft Exception"), or on charter flights not exceeding 10 per month, and (ii) to the four states adjacent to Texas in aircraft of any size, subject to certain restrictions on through-service or ticketing, and operational restrictions on the flight or aircraft serving any point outside such adjacent states. In 1997, Congress passed the so-called "Shelby Amendment." That legislation (i) expanded the adjacent-state rule of the Wright Amendment to add three states to the four states adjacent to Texas, and (ii) provided that an aircraft weighing not more than 300,000 pounds that is reconfigured to accommodate 56 or fewer passengers would be in compliance with the Commuter Aircraft Exception of the Wright Amendment, regardless of its destination. In 2005, Congress expanded the adjacent-state rule to include Missouri thus allowing non-stop flights from Love Field to a total of eight states. On October 13, 2006, President Bush signed into law legislation which (i) allows one-stop and through-service ticketing outside of the Wright Amendment's former restrictions, (ii) reduces Love Field's maximum gate capacity from 32 to 20 gates, and (iii) completely repeals the Wright Amendment in 2014. The impact on the Houston Airport System in 2014 cannot be predicted at this time.

General Factors Affecting Airline Activity at Houston Airport System

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

The financial strength and stability of airlines serving the Houston Airport System are key determinants of future airline traffic. In addition, individual airline decisions regarding level of service, particularly hubbing activity, at the Houston Airport System will affect total enplanements. No assurance can be given as to the levels of aviation activity that will be achieved by the Houston Airport System. There can be no assurance that the Houston Airport System, despite a demonstrated level of airline service and operations, will continue to maintain such levels in the future. The continued presence of the airlines serving the Houston Airport System, and the levels at which that service will be provided, are a function of a variety of factors. See "APPENDIX A—Report of the Airport Management Consultant" for additional detail on these factors.

Financial Condition of the Airlines

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

Since the economic deregulation of the airline industry in 1978, the industry has undergone significant changes including the number of airline mergers, acquisitions, bankruptcies and closures. In addition, the financial results of the airline industry have been subject to substantial volatility since deregulation. The airline industry is highly competitive and susceptible to price discounting. Carriers have used discount fares to stimulate traffic during periods of slack demand, to generate cash flow and to increase market share. Airline profit levels are highly sensitive to changes in fuel costs, fare levels and passenger demand. Passenger demand and fare levels have in the past been influenced by, among other things, the general state of the economy (both internationally and domestically), international events, airline capacity and pricing actions taken by carriers. The continuing influence of these factors and their impact on the airline industry may result in further bankruptcy filings and major restructurings by airlines.

Since 2001, the global airline industry has undergone substantial structural changes and has sustained significant financial losses. After a period of improved cash flow beginning in 2005, airlines are again facing significant challenges. Most recently the significant increase in the price of jet fuel affected airline capacity. Due to the discretionary nature of business and personal travel spending, airline passenger traffic and revenues are heavily influenced by the state of the U.S. economy, other regional and world economies, corporate profitability, security concerns and other factors. Structural changes to the industry are the result of a number of factors including the impact of low cost carriers, internet travel web sites and carriers reorganizing under the U.S. Bankruptcy Code. Since the events of September 11, 2001, a number of airlines, including, but not limited to, Air Canada, ATA, Aloha Airlines ("Aloha"), Delta, Frontier Airlines ("Frontier"), Hawaiian Airlines ("Hawaiian"), Independence Air, Maxjet, Mesaba Airlines, Midway Airlines ("Midway"), Northwest Airlines ("Northwest"), Skybus Airlines ("Skybus"), United, US Airways, Vanguard Airlines ("Vanguard Air") and Varig Airlines ("Varig"), filed for bankruptcy reorganization. Vanguard Air ceased operations in 2002, Midway ceased operations in 2003, Varig ceased operations in 2005, Independence ceased operations in 2006 and Maxjet ceased operations in 2007. Aloha ceased passenger operations on March 31, 2008. ATA ceased operations on April 3, 2008. SkyBus ceased operations in April 2008. A number of these airlines remain under bankruptcy protection. Airline bankruptcies are discussed in greater detail under " – Effect of Airline Bankruptcies" below.

Faced with the growth of lower-cost airlines and evolving business technology, legacy airlines (United, Delta, Northwest, Continental, American and US Airways) have changed their business practices, including reducing or eliminating service on unprofitable routes, reducing their work forces, implementing pay cuts, reducing fares to compete with low-cost carriers, deferring aircraft deliveries, streamlining operations and significantly increasing the use of smaller, regional jets.

Also in recent years, major U.S. airlines, including Continental, have been the subject of published reports concerning airline industry consolidations and mergers. Delta and Northwest have announced a merger agreement subject to regulatory approval. Depending on which airlines serving the Houston Airport System, if any, merge, the result may be fewer flights, and decreased gate utilization by one or more airlines, which decrease could be significant. Such decreases could result in reduced Net Revenues, reduced PFC collections and increased costs for the airlines serving the Houston Airport System. At this time, the City cannot predict the potential impact of any such matters on the business, financial condition, and results of operation at the Houston Airport System.

The revenues of both the Houston Airport System and the airlines serving the Houston Airport System may be materially affected by many factors including, without limitation, the following:

Cost of Fuel. Airline earnings are significantly affected by the price of aviation fuel. According to the Air Transport Association, (the "ATA") fuel is the largest cost component of airline operations, and therefore an important and uncertain determinant of an air carrier's operating economics. There has been no shortage of aviation fuel since the "fuel crisis" of 1974, but there have been significant price increases for fuel.

Any unhedged increase in fuel prices causes an increase in airline operating costs. According to the ATA, a one-dollar per barrel increase in the price of crude oil equates to approximately $445 million in annual additional expense for U.S. airlines. Fuel prices continue to be susceptible to, among other factors, political unrest, Organization of Petroleum Exporting Countries policy, increased demand for fuel caused by rapid growth of economies such as China and India, fuel inventory maintained by certain industries, reserves maintained by governments, currency fluctuations, disruptions to production and refining facilities and weather. In recent years, the cost of aviation fuel has risen sharply in response both to political instability abroad as well as increased demand for petroleum products around the world. Oil prices reached an all-time record high of $145.29 per barrel in July 2008, but have steadily declined in the past nine months. Significant fluctuations and prolonged increases in the cost of aviation fuel have adverse affected air transportation industry profitability, causing airlines to reduce capacity, fleet and personnel and to increase airfares and institute fuel, checked baggage and other extra surcharges, all of which may decrease demand for air travel.

Many airlines, including Continental and Southwest Airlines, engage in or have engaged in fuel hedging -- purchasing fuel in advance at a fixed price through derivative contracts -- to help manage the risk of future increases in fuel costs. However, there can be no assurance that any fuel hedging contract can provide any particular level of protection from volatile fuel prices. For a discussion of the risks associated with fuel hedging, please reference the annual report of Continental and Southwest Airlines as filed with the Commission at http://www.sec.gov.

Economic Conditions. Historically, the financial performance of the air transportation industry has correlated with the state of the national economy. Future increases in passenger traffic will depend largely on the ability of the U.S. to sustain growth in economic output and income. Since 2006, the rate of economic growth in the U.S. has slowed considerably, primarily due to losses in real estate values and tightening of credit in financial markets. During September 2008, significant and dramatic changes occurred in the financial markets. Several U.S. commercial and investment banks declared bankruptcy, were acquired by other financial institutions, combined with other financial institutions or sought huge infusions of capital. The volatility in the capital markets led the U.S. government to intervene by making funds available to certain institutions, obtaining a majority ownership stake in others and assuming large amounts of troubled financial instruments in exchange for imposing greater regulation over certain institutions in order to restore the consumers' confidence in the nation's financial markets. The short and long term effects of these developments on the broader economy are uncertain. There can be no assurances that such developments will not adversely affect the air transportation industry.

World Health Concerns. Periodically, outbreaks of infectious diseases may adversely affect air travel. Most recently an outbreak of influenza A (H1N1) virus in Mexico and cases reported in the United States have caused travel concerns that could adversely affect traffic at the Houston Airport System in 2009. The United States government urged Americans to avoid all non-essential travel to Mexico. After the onset of the outbreak in May, Houston Airport System airlines traveling to Mexico reduced seat capacity by approximately 44% against planned May seats. In June, seats are down 4% against original planned June seats. Actual enplanement data for the same period is not yet available. Americans are also concerned about exposure to the virus from contact with other airline passengers, and many have curtailed domestic and foreign travel. Although the World Health Organization raised the influenza pandemic alert to phase 5, it did not recommend travel restrictions related to the outbreak of influenza A.

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

Threat of Terrorism. The terrorist attacks in the United States and other parts of the world, the conflicts in Iraq and Afghanistan and the increased threat of further terrorist attacks decreased passenger traffic levels at the Houston Airport System from 2001 until Fiscal Year 2005. Should new attacks occur against the air transportation industry, the travel industry, cities, utilities, infrastructure, office buildings or manufacturing plants, the adverse effect on travel demand could be substantial.

Capacity of National Air Traffic Control and Airport Systems. Demands on the national air traffic control system continue to cause aircraft delays and restrictions, both on the number of aircraft movements in certain air traffic routes and on the number of landings and takeoffs at certain airports. These restrictions affect airline schedules and passenger traffic nationwide. The Federal Aviation Administration is gradually automating and enhancing the computer, radar, and communications equipment of the air traffic control system and assisting in the development of additional airfield capacity through the construction of new runways and the more effective use of existing runways. However, increasing demands on the national air traffic control and airport systems could cause increased delays and restrictions in the future.

Cost and Schedule of Houston Airport System CIP

The costs and the schedule of the projects included in the CIP depend on various sources of funding, including equity funds, Additional Houston Airport System Obligations, commercial paper notes, PFCs, and federal grants, and are subject to a number of uncertainties. The ability of the Houston Airport System to complete the FY 2010-2014 CIP may be adversely affected by various factors including: (i) estimating errors, (ii) design and engineering errors, (iii) changes to the scope of the projects, (iv) delays in contract awards, (v) material, and/or labor shortages, (vi) unforeseen site conditions,

(vii) adverse weather conditions, (viii) contractor defaults, (ix) labor disputes, (x) unanticipated levels of inflation, (xi) environmental issues, including environmental approvals that the Houston Airport System has not obtained at this time, and (xii) additional security improvements and associated costs mandated by the federal government. A delay in the completion of certain projects under the 2010-2014 CIP could delay the collection of revenues for such projects, increase project costs, and cause the rescheduling of other projects. In addition, any of the deferred projects could be implemented at any time adding to the cost of the 2010-2014 CIP. There can be no assurance that the cost of construction of the 2010-2014 CIP projects will not exceed the currently estimated dollar amount or that the completion of the projects will not be delayed beyond the currently projected completion dates. Any schedule delays or cost increases could result in the need to issue Additional Bonds and may result in increased costs per enplaned passenger to the airlines, which may place the Houston Airport System at a competitive disadvantage to other airports. See "The Houston Airport System Capital Improvement Program."

Effect of Airline Bankruptcies

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

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

PFCs. Pursuant to 49 U.S.C. §40117 and the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (the "PFC Act"), the FAA has approved the City's application to require the airlines to collect and remit to the City a $3.00 PFC on each enplaning revenue passenger at Hobby and Intercontinental as further discussed in "Houston Airport System Capital Improvement Program–Passenger Facility Charge."

The PFC Act provides that PFCs collected by the airlines constitute a trust fund held for the beneficial interest of the eligible agency (i.e., the City) imposing the PFCs, except for any handling fee or retention of interest collected on unremitted proceeds. In addition, federal regulations require airlines to account for PFC collections separately and to disclose the existence and amount of funds regarded as trust funds for financial statements. However, the airlines are permitted to commingle PFC collections with other revenues and are also entitled to retain interest earned on PFC collections until such PFC collections are remitted. In the event of a bankruptcy, the PFC Act, as amended in December 2003, provides that (1) PFCs are and remain trust funds, (2) the airline in bankruptcy may not grant to any third party any security or other interest in PFC revenue, and (3) the airline in bankruptcy must segregate in a separate account PFC revenue equal to its average monthly PFC liability as well as postpetition actual PFCs. Despite these enhanced statutory protections, it is unclear whether the City would be able to recover the full amount of PFC trust funds collected or accrued by an airline in the event of a liquidation or cessation of business. The City also cannot predict whether an airline operating at Hobby Airport or Intercontinental that files for bankruptcy would have properly accounted for PFCs owed to the City or whether the bankruptcy estate would have sufficient moneys to pay the City in full for PFCs owed by such airline. The PFCs are not pledged to the payment of the Series 2009A Bonds. For a discussion of the treatment of PFC Revenues under the Ordinance, see "APPENDIX C."

There may be other possible effects of a bankruptcy of an airline that could result in delays or reductions in revenues received by the Houston Airport System and potentially in delays or reductions in payments on the Series 2009A Bonds. Regardless of any specific adverse determinations in an airline bankruptcy proceeding, the fact of an airline bankruptcy proceeding could have an adverse effect on the liquidity and value of the Series 2009A Bonds.

Assumptions in the Report of the Airport Management Consultant

The Report of the Airport Management Consultant incorporates numerous assumptions as to the utilization of the Houston Airport System and other matters and states that any projection is subject to uncertainties. Inevitably, some assumptions used to develop the projections will not be realized and unanticipated events and circumstances may occur. Therefore, the actual results achieved during the forecast period will vary from the projections, and the variations may be material. See "REPORT OF THE AIRPORT MANAGEMENT CONSULTANT" and APPENDIX A – "Report of the Airport Management Consultant."

THE CITY AND CITY FINANCIAL INFORMATION

The City

The City has a mayor-council form of government in which the Mayor and the 14-member City Council serve as the legislative body. Nine council members are elected by district and five council members are elected at-large. The Mayor, all members of the City Council and the City Controller are elected for two-year terms. The present term of office for all elected officials expires in January 2010.

Although the City is a home-rule city under the Texas Constitution, it may not adopt ordinances or charter provisions inconsistent with Texas law. Under the Texas Constitution, the City Charter may be amended not more than once every two years at an election held for that purpose, which may be called by the City Council or upon petition of 20,000 of the City's registered voters. The last City Charter amendments were adopted on November 7, 2006. See "–City Charter Tax and Revenue Limitations."

The Texas Legislature meets biannually and may adopt legislation which affects operations of the City, including the Houston Airport System. The 81st Texas Legislature concluded its regular session on June 1, 2009, and concluded its special called session on July 3, 2009.

City Interest Rate Swap Policy

On November 25, 2003, the City adopted a master swap policy (the "Swap Policy"), to provide guidance for the City in its use of swaps, caps, floors, collars, options and other derivative financial products (collectively, "Swaps") in conjunction with the City's management of its assets and liabilities. The Swap Policy describes the circumstances and methods by which Swaps will be used, the guidelines to be employed when Swaps are used, and who is responsible for carrying out these policies. The City may enter into Swaps as authorized by the City Council and approved by the Attorney General of the State of Texas in connection with the issuance or payment of certain debt obligations, before, concurrently with, or after the actual issuance of the debt.

The City has entered into Swap agreements in connection with its Public Improvement Bonds and Combined Utility System Revenue Bonds. To date, the City has not entered into any Swap agreements in connection with the Series 2009A Bonds or other Houston Airport System Bonds.

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

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

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

Investment of Moneys

The City maintains an investment strategy that emphasizes, in order of priority, safety, liquidity and return on investment, as embodied in its investment policy (the "Policy"). The City does not invest in inverse floaters, or interest-only or principal-only mortgage-backed securities. The Policy provides, among other things, that (1) the Investment Manager (as defined in the Policy) shall submit quarterly investment reports to City Council and (2) the Policy shall be reviewed annually by City Council. For a further discussion of the Houston Airport System Fund investments as of June 30, 2008, see Note 1.F.1 and Note 3.B of the Notes to the Financial Statements as set forth in APPENDIX B. On November 5, 2008, the City Council amended the Investment Policy to, among other things, allow the City to purchase its own obligations or enterprise-issued obligations on a temporary basis.

S&P has assigned an "AAAf" credit quality rating, and an "S1" volatility rating to the City's General Investment Portfolio. The ratings reflect the view of S&P, from whom an explanation of the significance of such ratings may be obtained.

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

Health Care Benefits for Retired Employees

The City provides certain health care benefits for its retired employees, their spouses and survivors. Employees on long-term disability and their spouses can also qualify for retiree health care benefits. Currently, substantially all of the City's employees that reach normal retirement age while working for the City will become eligible for such benefits. As of the Fiscal Year that commenced on July 1, 2007, the City is required by the Government Accounting Standards Board Statement No. 45 ("GASB 45"), *Accounting by Employers for Other Postemployment Benefits (OPEB)*, to report an actuarially determined estimate of the cost of post-employment benefits, other than pensions, such as health and life insurance for current and future retirees. Under GASB 45 the City must recognize such estimated costs over the working lifetime of employees, and to the extent such estimated costs are not prefunded, report such estimated costs as a financial statement liability. On July 1, 2008, the City commissioned a new actuarial study; however, the City does not expect the final numbers to be available until Fall 2009.

The City has taken steps to assess the current and future financial impact of its unfunded OPEB liabilities, and is reviewing the appropriate policies to address and manage any such liabilities. The City has incorporated GASB 45 reporting requirements into its annual financial statements. The amount reported is based on a preliminary actuarial study which indicated that as of June 30, 2006 the City's total actuarial accrued liability (AAL) for estimated benefits payable to the City's municipal employees and classified police officers and firefighters was approximately $3.2 billion. The actuarially required annual contribution that would be required to pay the normal costs of the benefits and to effect a level amortization of the AAL over a 30 year period would be approximately $326 million.

Similar to many issuers, the City's current practice has been to fund the cost of OPEB on an annual pay-as-you-go basis and to account for OPEB costs as a current operating expense in the Fiscal Year in which the OPEB cost is paid. The Houston Airport System Fund paid approximately $1.4 million for retiree health insurance premiums in Fiscal Year 2006 or 2.8% of the City's total payments of $50.8 million. The Houston Airport System Fund's payment for Fiscal Year 2007 was $1.6 million and $1.6 million for Fiscal Year 2008. The Houston Airport System Fund's payment for Fiscal Year 2009 is estimated to be $1.6 million. To date, the City has not accumulated assets to offset future benefit costs.

Options available to any issuer such as the City to offset or reduce the future costs of the OPEB liability that will be reported under GASB 45 include the following:

- Reduction of benefits for active employees and/or retirees;

- Increase of required contributions from active employees and/or retirees; and
- Contributing assets or pre-funding with real property, a dedicated revenue stream or other taxes or City assets not yet identified.

See also Appendix B, particularly Note 8 of the Houston Airport System Fund's audited financial statements for Fiscal Year 2008, which includes information relating to retiree health care premiums paid by the City in Fiscal Year 2007, as well as information relating to health and long-term disability benefits.

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

In order to invoke the provisions of Chapter 146, a majority of the municipal employees must submit a petition requesting the recognition of a particular employee association as the sole and exclusive bargaining agent for all covered employees before the City may begin negotiations with the employee association. After receiving such a petition, the City may (i) grant recognition of the association as requested in the petition and meet and confer under Chapter 146 without an election by the voters of the City, (ii) order an election to determine whether City may meet and confer under Chapter 146, or (iii) order a certification election to determine whether the employee association represents a majority of the covered employees. See also "– Health Care Benefits for Retired Employees."

The City has recognized the Houston Organization of Public Employees ("HOPE") as the exclusive bargaining agent for all covered employees. The City and HOPE have entered into a meet and confer agreement with a three-year term ending June 30, 2011, which provides for, among other things, annual across the board wage increases of 3% of base pay and annual performance pay pools of 1.25% of each City department's aggregate base pay. While pension benefits and contributions are not part of the meet and confer agreement, the increase in wages agreed to will affect the City's pension contributions. The City has recently reached an agreement with the Houston Municipal Employees Pension System ("HMEPS") specifically related to pension benefits and contributions. See "Employee Pension Funds" below for a discussion of the "meet and confer" process for HMEPS.

Employee Pension Funds

General Overview

Pension Systems. The City has three pension programs that cover all full time City employees: the HMEPS (also referred to herein as the "Municipal System") for municipal employees, including virtually all Houston Airport System employees; the Houston Police Officers' Pension System ("HPOPS" or the "Police System") for classified police officers; and the Houston Firefighters' Relief and Retirement Fund ("HFRRF" or the "Firefighter Fund") for classified firefighters (collectively, the "Pension Systems"). The Pension Systems were established in accordance with State law, with the Municipal System established pursuant to Article 6243h of the Vernon's Texas Civil Statutes, as amended, (the "HMEPS Statute"), the Police System established pursuant to Article 6243g-4, as amended, (the "HPOPS Statute") and the Firefighter Fund established pursuant to Article 6243e.2(1), as amended (the "HFRRF Statute," collectively with the HMEPS Statute and the HPOPS Statute, the "Pension Statutes").

The Pension Statutes establish the governance structures of the Pension Funds, City and employee contribution levels, and the determination of benefits payable to retirees under the Pension Systems; provided, however, that the HMEPS and HPOPS Statutes establish a local "meet and confer" process through which the City and the boards of trustees of the Municipal System and the Police System may reach binding agreements regarding City and employee contribution levels and the determination of benefits payable to retirees. Such agreements may provide for contribution levels and determinations of benefits that differ from those provided in the Pension Statutes.

Virtually all of the Houston Airport System's employees are members of the Municipal System, and the Houston Airport System is directly responsible only for the costs of funding the portion of the City's Municipal System contributions associated with employees of the Houston Airport System. See "—Houston Airport System's Contributions to the Municipal System," below. Due to the small number of classified police and firefighters employed by the Houston

Airport System, the anticipated increases in City contributions to the Police System and Firefighter Fund in future fiscal years should not have a substantial financial impact on the Houston Airport System.

Funding Status. Since 2001, the Municipal System has experienced increases in future actuarially determined contributions and corresponding increases in their unfunded AAL ("UAAL") components. See "–Schedule 8: Municipal System Pension Plan Assets, Liabilities and Unfunded Actuarial Accrued Liability." Such increases primarily stem from the adoption by the Texas Legislature in 2001 of increased benefit levels for municipal employees. These benefit changes were supported jointly by the City and representatives of the Municipal System based on an actuarial cost analysis performed by the Municipal System's actuary. The 2001 benefit changes in combination with lower than expected investment performance resulted in actuarially determined net contributions of 52.9% of payroll and a UAAL of approximately $1.8 billion as of July 1, 2003.

As a result of the growth in future actuarially determined contributions and their component UAALs, the City has taken a number of actions to improve the financial condition of the Municipal System. Pursuant to an election held on May 15, 2004, the voters authorized the City to opt-out of an amendment to the Texas Constitution that prohibits (unless the jurisdiction "opts out") a reduction in or other impairment of the retirement or death benefits provided by the public retirement systems of political subdivisions that a member of such a system has "accrued." In addition, the City and the Municipal System entered into a "meet and confer" agreement in 2004 (the "2004 HMEPS Agreement"). The 2004 HMEPS Agreement was considered by the City to be an intermediate step toward addressing the unexpected financial challenges arising from the 2001 benefit increases. To provide a more permanent, long term solution to those financial challenges, the City and the Municipal System subsequently entered into an amendment to the 2004 HMEPS Agreement (the "2007 HMEPS Agreement," together with the 2004 HMEPS Agreement, the "HMEPS Agreements") regarding benefit levels for current and future employees and employee and certain City contributions. See "—HMEPS Agreements" for a more complete description of the HMEPS Agreements.

As a result of the HMEPS Agreements, the actuarially determined contribution for the municipal system has been reduced to approximately 19% of payroll and the UAAL has been reduced to approximately $986 million as of July 1, 2008. See "–Schedule 8: Municipal System Pension Plan Assets, Liabilities and Unfunded Actuarial Accrued Liability."

While in the near term the City contributions are expected to continue to be less than the actuarially determined amounts, the actuarial projections as of July 1, 2008 indicate the actual City contributions over the long term will equal the actuarially determined contributions of approximately 20% of payroll. However, the recent decline in the market value of assets after July 1, 2008 will result in a gradual increase in the future actuarially determined contributions and their component UAALs. The amount of the future increases will be contingent upon the extent of any recovery over the next few years in the market value of assets.

Schedule 8: Municipal System Pension Plan Assets, Liabilities and Unfunded Actuarial Accrued Liability.

(in millions)

	As of July 1[a]				
	2004	2005	2006	2007	2008
Actuarial Accrued Liability	$ 2,634	$ 2,725	$ 2,894	$ 3,129	$ 3,296
Actuarial Value of Plan Assets [b]	$ 1,501	$ 1,778	$ 1.867	$ 2,194	$ 2,310
Unfunded Actuarial Accrued Liability	$ 1,133	$ 948	$ 1,027	$ 935	$ 986
Funded Ratio [c]	57%	65%	65%	70%	70%

(a) For further details, see the Houston Airport System Fund's financial statements for Fiscal Year 2008 presented in APPENDIX B, including particularly Note 7 and the section captioned "Required Pension System Supplementary Information."

(b) The actuarial value of plan assets is determined by the actuary for the Municipal System. The value represents a generally accepted method of recognizing market gains and losses (relative to the assumed rate of return) over a five-year period.

(c) Funded Ratio means actuarial value of plan assets divided by accrued liability.

Houston Airport System's Contributions to the Municipal System

The City budgets for its contributions to the Municipal System by allocating the cost among its General Fund and various Enterprise Funds, like the Houston Airport System, based upon the percentage of total payroll paid by the funds. For Fiscal Year 2008, municipal employees of the Houston Airport System comprised approximately 12% of the total civilian workforce payroll of the City, and, accordingly, the Houston Airport System was responsible for approximately 12% ($9 million) of the City's $75 million contribution to the Municipal System. The General Fund was responsible for approximately 48% ($36 million) of the City's contribution to the Municipal System, with the remainder being split by the City's remaining Enterprise Funds. To the extent the share of budgeted payroll for municipal employees of the Houston Airport System changes in the future, the allocable percentage of the budgeted contributions by the Houston Airport System to the Municipal System will also change.

In addition to the cash contributions made by the City, the City has issued three series of pension obligation bonds in order to meet its obligations under its 2004 Meet and Confer Agreement. The City paid $99 million of the proceeds to the Municipal System over a period of three years. Although these bonds are secured by a pledge of ad valorem tax revenues, the Houston Airport System is responsible for repaying its pro-rata share of debt service on $2.0 million of pension obligation bonds issued by the City. This debt service payment is in addition to the Houston Airport System's annual contribution to HMEPS based on the current payroll of active employees. The total cost to the Houston Airport System for its pension related payroll based contributions and debt service contributions for Fiscal Year 2008 is $14.6 million and the estimate contribution for Fiscal Year 2009 is $14.1 million. In January 2009, the City refunded its $300 million 2004 Collateralized Pension Note. The Houston Airport System was responsible for $34.8 million of this note, but opted to pay off its portion at the time of the refunding.

HMEPS Agreements.

The 2004 HMEPS Agreement was effective as of September 15, 2004, and will remain in effect until December 31, 2009. The 2004 HMEPS Agreement has three elements, (1) a funding commitment by the City for Fiscal Years 2005, 2006, and 2007, including a commitment to contribute cash, issue Pension Obligations, and contribute certain City assets; (2) a required increase in the employees' contribution; and (3) benefit level reductions for employees hired prior to January 1, 2008. The 2007 HMEPS Agreement has three elements, (1) a funding commitment by the City for Fiscal Years 2008, 2009, 2010, and 2011, (2) a new noncontributory defined benefit plan with further reduced benefit levels for employees hired after January 1, 2008, and (3) an agreement to reset the actuarial value of the Municipal System Assets to the market value of such assets as of July 1, 2006.

Under the terms of the 2007 HMEPS Agreement, the City made contributions to the Municipal System of $75 million in Fiscal Year 2008, is expected to make contributions of $78.5 million in Fiscal Year 2009, $83.5 million in Fiscal Year 2010, and $88.5 million in Fiscal Year 2011. The Houston Airport System will be responsible for approximately 12% of the City's scheduled contributions based upon the current percentage of the City's total municipal employee payroll paid by the Houston Airport System.

City Charter Tax and Revenue Limitations

In 2004, voters approved initiatives proposing to reduce, cap or otherwise limit ad valorem tax revenues or other revenues of the City. One initiative ("Proposition 1") was placed on the ballot by City Council in response to a citizen initiative ("Proposition 2") that was placed on the ballot as a result of a petition submitted by voters of the City. In an election held in November 2004, a majority of the voters voted for both Proposition 1 and Proposition 2, but Proposition 1 received more favorable votes than Proposition 2. Because of language contained in Proposition 1 and the City Charter, the City believes that Proposition 1 is effective and Proposition 2 is not.. The Controller has verified that the Fiscal Year 2008 Budget complies with Proposition 1 and would comply with Proposition 2. See "—Proposition Litigation" for a discussion of an action filed in State district court seeking to invalidate Propositions G and H (the "Proposition G and H Lawsuit"). Proposition 1, Proposition 2, Proposition G and Proposition H are collectively referred to herein as "the Propositions."

Proposition 1. Proposition 1 limits increases in (i) the City's ad valorem tax revenues by requiring voter approval for increases in ad valorem taxes in future years above a limit equal to the lesser of the actual revenues in the preceding Fiscal Year, plus 4.5%, or a formula that is based upon the actual revenues received in Fiscal Year 2005 adjusted for the cumulative combined rates of inflation and the City's population growth; and (ii) water and sewer rates by limiting rate increases to the combined increases in the rates of inflation and population growth, excluding rate increases required by certain bond covenants and rates established by contract, unless approved by the voters.

Proposition 2. Proposition 2 would limit increases in the City's "combined revenues," which would include revenues of the general fund, special revenue funds and enterprise funds, excluding only grant monies and revenues from other governmental entities. Proposition 2 would require a 60% vote at a regular election to increase combined revenues over the combined revenues for the immediately preceding Fiscal Year, adjusted for the rates of change in the consumer price index (the "CPI") for the Houston area and the City's population. If the actual increase in the amounts of combined revenues for any given Fiscal Year is less than the allowable increase, then such reduced amount of combined revenues received by the City would be the baseline for the next Fiscal Year. If in any year the City's "combined revenues" exceed the amount allowed by Proposition 2, then the City is required to deposit such excess in a taxpayer relief fund. If the balance in the taxpayer relief fund reaches $10 million, such amount is required to be refunded to taxpayers.

Proposition 2 includes a provision that states that the City shall honor its covenants with bondholders such that shortfalls in debt coverage, among other covenants, shall be made up from reductions in other expenditures.

Proposition G. Proposition G amends the City Charter to exclude revenues of the City's enterprise systems (i.e. Combined Utility System, Houston Airport System, and the Convention and Entertainment Facilities Department) from the types of revenues limited under the City Charter. Prior to the approval of Proposition G, Proposition 2 would not have differentiated between general fund revenues, which fund essential services, and enterprise fund revenues, such as water sales revenues attributable to the Combined Utility System, which fund operations of a particular enterprise system. Accordingly, it is possible that the application of Proposition 2 could force reductions in essential services or other general fund expenditures, such as police, fire, parks and libraries, in order to comply with the Proposition 2 revenue limitations. Voter approval of Proposition G removed the enterprise systems from the revenue limitations of Proposition 2, although the limitation on water and sewer rate increases included in Proposition 1 remains in effect.

Proposition H. Proposition H allows the City to collect and spend up to $90 million of revenue, over and above any Proposition 2 limitations, for increased police, fire and emergency medical services and related communications and dispatch costs. The amount collected and spent in each year becomes part of the base revenue calculations for the following year. The City believes that Proposition H provides the City with additional flexibility in funding for public safety. See "–Proposition Litigation" for a discussion of a lawsuit seeking to invalidate Proposition H.

Status of Litigation. Certain supporters of Proposition 2 filed a lawsuit in State district court seeking a declaratory judgment that Proposition 2 is valid and enforceable On January 9, 2006, the district court granted the plaintiffs' motion for summary judgment. The City appealed the ruling to the Fourteenth Court of Appeals, and on April 3, 2008, the Fourteenth Court of Appeals reversed the State district court's summary judgment and remanded the case for further proceedings, finding that the plaintiffs did not have standing to sue. The plaintiffs in that litigation subsequently filed a petition for review in the Texas Supreme Court and the City filed a response. The Texas Supreme Court then requested briefing on the merits, which the parties submitted, and the petition for review has not been ruled on yet and remains pending. Unless the Texas Supreme Court grants the petition and reverses the Fourteenth Court's ruling or the plaintiffs can amend their pleadings in the district court to demonstrate standing, the case will be decided in favor of the City. The City does not believe that the plaintiffs will be able to demonstrate sufficient facts to cause the court to grant them standing. A State district court recently dismissed an action by a voter of the City that sought to invalidate Propositions G and H. The plaintiff has appealed the ruling, and the briefing in that appeal to the First Court of Appeals has been completed.

LITIGATION AND REGULATION

Houston Airport System Claims and Litigation

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

Other Claims and Litigation Affecting the City

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

In the opinion of the City's administration, it is improbable that the lawsuits now outstanding against the City could become final in a time and manner so as to have a material adverse financial impact upon the City.

Environmental Regulation

The City is subject to the environmental regulations of the State and the United States. These laws and regulations are subject to change, and the City may be required to expend substantial funds to meet the requirements of such regulatory authorities. Failure to comply with these laws and regulations may result in the imposition of administrative, civil and criminal penalties.

Air Emissions Controls

Air quality control measures required by the United States Environmental Protection Agency (the "EPA") and the Texas Commission on Environmental Quality ("TCEQ") may curtail new industrial, commercial and residential development in Houston and adjacent areas. Under the Clean Air Act Amendments of 1990, the eight county Houston-Galveston Brazoria area ("HGB area") has been designated by the EPA as a severe non-attainment area under the EPA's "one-hour" ozone standard, and as a moderate non-attainment area under the EPA's newer "eight-hour" ozone standard. Such areas are required to demonstrate progress in reducing ozone concentrations each year until compliance with EPA's ozone standards is achieved. To provide for annual reductions in ozone concentrations, the EPA and the TCEQ have imposed increasingly stringent limitations on emissions of volatile organic compounds and nitrogen oxides ("NOx") from existing stationary sources of air emissions. In addition, any new source of significant air emissions, such as a new industrial plant, must provide for a net reduction of air emissions by arranging for other industries to reduce their emissions by 1.3 times the amount of pollutants proposed to be emitted by the new source. Even though existing air emissions controls, originally imposed in an effort to achieve compliance with the one-hour ozone standard, are quite stringent, studies have indicated that even more stringent air emissions controls will be necessary in order for the HGB area to achieve compliance with the new eight-hour ozone standard. In May 2007, the TCEQ adopted a plan to impose additional controls on sources of air emissions in the HGB area that are intended to demonstrate progress in achieving compliance with the eight-hour ozone standard, and the TCEQ's plan was submitted to the EPA for approval in June 2007. Due to the magnitude of air emissions reductions required as well as shortage of economically reasonable control options, the development of a successful air quality compliance plan has been and continues to be extremely challenging and will inevitably impact a wide cross-section of the business and residential community. In addition, on March 12, 2008, the EPA announced its intention to lower its eight-hour ozone standard by 12%, from 0.084 parts per million (ppm) to 0.075 ppm. This new, lower eight-hour standard for ozone will be even more difficult for the HGB area to achieve.

If the HGB area fails to demonstrate progress in reducing ozone concentrations or fails to meet EPA's ozone standards by the deadline for moderate non-attainment areas (initially June 15, 2010), EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects, as well as severe emissions offset requirements on new major sources of hydrocarbon emissions for which construction has not already commenced. Given the very significant reductions in air emissions that will be required over the next few years in order for the HGB area to achieve compliance with the eight-hour ozone standard and the difficulties inherent in replacing fleets of vehicles and other heavy equipment, such as locomotive engines, with new ultra low emission fleets, on June 15, 2007, the Governor of Texas requested that EPA "bump-up" the HGB area from a moderate to a severe non-attainment area with respect to the eight-hour ozone standard. The EPA published notice of its intention to approve the Governor's request on December 31, 2007, but final approval of the reclassification request has not yet been issued. If the HGB area is designated as a severe non-attainment area under the eight-hour ozone standard, the deadline for achieving compliance would be extended to June 15, 2019.

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

It remains to be seen exactly what steps will ultimately be required to meet federal air quality standards, how the EPA may respond to developments as they occur, and what impact such steps and any EPA responses may have upon the economy and the business and residential communities in the HGB area.

RATINGS

Moody's Investors Service ("Moody's") and Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc. ("Standard & Poor's), have assigned ratings of "Aa3" and "AA-" respectively, to the Series 2009A Bonds.

Such ratings reflect only the view of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041; Moody's Investors Service, 7 World Trade Center, 250 Greenwich Street, 23rd Floor, New York, New York 10007. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2009A Bonds. The City and its Co-Financial Advisors will undertake no responsibility either to bring to the attention of the registered owners of the Series 2009A Bonds any proposed change in or withdrawal of such ratings or to oppose any such revision or withdrawal.

TAX MATTERS

Tax-Exempt Bonds

In the opinion of Vinson & Elkins L.L.P. and Bates & Coleman, P.C., Co-Bond Counsel, assuming compliance with certain covenants and based on certain representations, interest on the Series 2009A Bonds (the "Tax-Exempt Bonds") is excludable from gross income for federal income tax purposes under existing law, except with respect to interest on any Tax-Exempt Bond during any period while it is held by a "substantial user" of the project or a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"). The Tax-Exempt Bonds are "private activity bonds" under the Code, the interest on which is not, pursuant to the American Recovery and Reinvestment Act of 2009, (i) a specific preference item subject to the alternative minimum tax on individuals and corporations, or (ii) included in a corporation's adjusted current earnings for purposes of the alternative minimum tax.

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

Co-Bond Counsel's opinion will assume continuing compliance with the covenants of the Ordinance pertaining to those sections of the Code that affect the exclusion from gross income of the interest on the Tax-Exempt Bonds for federal income tax purposes and, in addition, will rely on representations by the City, the Co-Financial Advisors and the Underwriters with respect to matters solely within the knowledge of the City, the Co-Financial Advisors and the Underwriters, respectively, which Co-Bond Counsel have not independently verified. If the City fails to comply with the covenants in the Ordinance or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Tax-Exempt Bonds could become includable in gross income from the date of original delivery of the Tax-Exempt Bonds, regardless of the date on which the event causing such includability occurs.

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

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

Additional Federal Income Tax Considerations for the Tax-Exempt Bonds

Collateral Tax Consequences

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

Tax Accounting Treatment of Original Issue Premium

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

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

Tax Accounting Treatment of Original Issue Discount Bonds

The issue price of all or a portion of the Tax-Exempt Bonds may be less than the stated redemption price payable at maturity of such Tax-Exempt Bonds (the "Original Issue Discount Bonds"). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Tax-Exempt Bonds. Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussions regarding interest on the Tax-Exempt Bonds under the captions "Tax-Exempt Bonds" and "Additional Federal Income Tax Considerations for the Tax-Exempt Bonds–Collateral Tax Consequences" generally applies, and should be considered in connection with the discussion in this portion of the Official Statement.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

The foregoing discussion assumes that (i) the Underwriters have purchased the Tax-Exempt Bonds for contemporaneous sale to the public and (ii) all of the Original Issue Discount Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the cover page of this Official Statement. Neither the City nor Co-Bond Counsel has made any investigation or offers any comfort that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each Original Issue Discount Bond accrues daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Tax-Exempt Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (i) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (ii) the amounts payable as current interest during such accrual period on such Tax-Exempt Bond.

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Pursuant to Section 1201.041 of the Public Security Procedures Act (Chapter 1201, as amended, Texas Government Code), the Series 2009A Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries and trustees and for the sinking funds of municipalities and other political subdivisions or public agencies of the State of Texas. The Series 2009A Bonds also are generally eligible to secure deposits of any public funds of Texas municipalities, counties, school districts and Texas State agencies.

The City has made no investigation of any other laws, rules, regulations or investment criteria that might affect the suitability of the Series 2009A Bonds for any of the above purposes or limit the authority of any of the above persons or entities to purchase or invest in the Series 2009A Bonds.

CONTINUING DISCLOSURE

In the Ordinance, the City has made certain agreements regarding the continuing disclosure of information for the benefit of the holders and beneficial owners of the Series 2009A Bonds. The City is required to observe such agreements for so long as it remains obligated to advance funds to pay the Series 2009A Bonds. Under the agreements, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the information repository described below. Effective July 1, 2009, the MSRB became the sole information repository (the "Repository") for continuing disclosure documents. The City will provide the information described below to the Repository for access by the public through the Electronic Municipal Market Access (EMMA) website at www.emma.msrb.org.

Annual Reports

The City will provide certain updated financial information and operating data to the Repository annually. The information to be updated includes quantitative financial information and operating data with respect to the City's Airport System in APPENDIX B and under the schedules listed in APPENDIX E. The City will update and provide this information within six months after the end of each fiscal year. See APPENDIX E relating to the City's limited obligations to update Schedule 8, which contains actuarial information related to the Municipal System Pension Plan.

The City may provide updated information in full text or in such other form consistent with the Ordinance, or may incorporate by reference certain other publicly available documents, as permitted by Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements if the City commissions an audit and it is completed by the required time. If audited financial statements are not provided by that time, the City will provide audited financial statements when and if they become available, but if such audited financial statements are unavailable, the City will provide such financial statements on an unaudited basis within the required time. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

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

Material Event Notices

The City will also provide timely notice to the Repository of any of the following events with respect to the Series 2009A Bonds, if such event is material within the meaning of federal securities laws: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Series 2009A Bonds; (7) modifications to rights of holders of the Series 2009A Bonds; (8) Series 2009 Bond calls (other than scheduled mandatory sinking fund redemptions); (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2009A Bonds; and (11) rating changes. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information

The City has agreed to provide the foregoing information only to the Repository. The information is expected to be available to holders of the Series 2009A Bonds from the Repository through the EMMA website at www.emma.msrb.org, however the City makes no representation regarding the availability of such information from the Repository.

Limitations and Amendments

The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell the Series 2009A Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of the Series 2009A Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if the agreement, as amended, would have permitted an underwriter to purchase or sell the Series 2009A Bonds in the offering made hereby in compliance with the Rule and either the holders of a majority in aggregate principal amount of the Outstanding Series 2009A Bonds consent or any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Series 2009A Bonds. The City may also amend or repeal the agreement if the Commission amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid, and the City may amend the agreement in its discretion in any other circumstance or manner, but in either case only to the extent that its right to do so would not prevent the Underwriters from purchasing the Series 2009A Bonds in the offering described herein in compliance with the Rule. If the City amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided. See APPENDIX E relating to the City's limited obligation to update Schedule 8, which contains actuarial information related to the Municipal System Pension Plan.

Compliance with Prior Undertakings

The City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

No Continuing Disclosure Undertakings by Airlines

No airline has made any agreement regarding the continuing disclosure of information for the benefit of the holders and beneficial owners of the Series 2009A Bonds. However, certain of the certificated major domestic airlines (or their respective parent corporations) are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, and thus must file reports and other information with the Commission. See "THE AIRLINES AND THE AIRLINE INDUSTRY FINANCIAL INFORMATION." In addition, pursuant to the Rule, certain airlines may have agreed to continuing disclosure undertakings in connection with the issuance and sale of obligations other than the Series 2009A Bonds. (Continental entered into a continuing disclosure agreement in connection with the Series 1997 Special Facilities Bonds, Series 1998 Special Facilities Bonds and the Series 2001 Special Facilities Bonds (Terminal E Project).) In those instances the airlines would have undertaken, in a written agreement or contract for the benefit of the holders of such obligations, to provide to various information repositories certain annual financial information and operating data, including audited financial statements, and to provide notice to such repositories and the MSRB of certain specified material events. Such information is available to securities brokers and others who subscribe to receive the information from such repositories.

LEGAL PROCEEDINGS

The delivery of the Series 2009A Bonds is subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Vinson & Elkins L.L.P. and Bates & Coleman, P.C., Co-Bond Counsel for the City, as to the validity of the issuance of the Series 2009A Bonds under the Constitution and laws of the State of Texas. The opinion of Co-Bond Counsel will be based upon an examination of a transcript of certain certified proceedings of the City incident to the issuance and authorization of the Series 2009A Bonds. A copy of the proposed opinion of Vinson & Elkins L.L.P. and Bates & Coleman, P.C., to be delivered in connection with the Series 2009A Bonds, is attached to this Official Statement as APPENDIX D.

In their capacity as Co-Bond Counsel, Vinson & Elkins L.L.P., Houston, Texas and Bates & Coleman, P.C., Houston, Texas, have reviewed the statements and information contained in the Official Statement under the captions and sub-captions "THE BONDS," "CONTINUING DISCLOSURE" (except for the information under the sub-captions "Compliance With Prior Undertakings" and "No Continuing Disclosure Undertakings by Airlines" as to which no opinion is expressed), and "APPENDIX C – The Ordinance – Summary and Glossary of Terms," and Co-Bond Counsel is of the opinion that the statements and information contained therein, insofar as such statements and information summarize certain provisions of the Ordinance and the Series 2009A Bonds, in all material respects fairly and accurately reflect the provisions of the Ordinance and the Series 2009A Bonds; further, Co-Bond Counsel has reviewed the statements and information contained in the Official Statement under the captions and sub-captions "TAX MATTERS," and "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," and Co-Bond Counsel is of the opinion that the statements and information contained therein are correct as to matters of law.

Such firms have not, however, independently verified any of the factual information contained in this Official Statement nor have they conducted an investigation of the affairs of the City or the Houston Airport System for the purpose of passing upon the fairness, accuracy or completeness of this Official Statement. No person is entitled to rely upon such firms' limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the fairness, accuracy or completeness of any of the information contained herein. The fees of Vinson & Elkins L.L.P. and Bates & Coleman, P.C., for their services with respect to the Series 2009A Bonds are contingent upon the sale and delivery of the Series 2009A Bonds.

Certain matters will be passed upon by for the City by its Special Disclosure Co-Counsel, Fulbright & Jaworski L.L.P., Houston, Texas and Escamilla & Poneck, Inc., Houston, Texas. Certain other legal matters will be passed on for the Underwriters by their co-counsel, Winstead PC, Houston, Texas and Andrews Kurth LLP., Houston, Texas.

Vinson & Elkins L.L.P., Fulbright & Jaworski L.L.P. and Bates & Coleman, P.C., represent certain of the Underwriters from time to time in matters unrelated to the issuance of Series 2009A Bonds. Winstead PC and Andrews Kurth LLP represent the City from time to time in matters unrelated to the Series 2009A Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Series 2009A Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

CO-FINANCIAL ADVISORS

First Southwest Company, who in turn has retained Estrada Hinojosa & Company, Inc. as Co-Financial Advisor, has been retained by the City as Financial Advisor in connection with the issuance of the Series 2009A Bonds and, in such capacity, has assisted the City in the preparation of documents. The Financial Advisor's fee for services rendered with respect to the sale of the Series 2009A Bonds is not contingent upon the issuance and delivery of the Series 2009A Bonds.

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

INDEPENDENT AUDITORS

The Houston Airport System Fund financial statements, as of and for the year ended June 30, 2008, included in this Official Statement as APPENDIX B, have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report, (which included an explanatory paragraph relating to the implementation of Government Accounting Standards Board Statement No. 45 Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions) appearing herein which is based on their audit and the reports of other auditors.

UNDERWRITING

J.P. Morgan Securities Inc., as representative for and on behalf of all of the Underwriters (the "Representative"), has agreed to purchase the Series 2009A Bonds, subject to certain conditions, and has agreed to pay therefor a price of $445,764,970.19 (reflecting the par amount of the Series 2009A Bonds, less a net original issue discount of $1,420,311.15, and less an underwriting discount of $2,474,718.66). The Representative, on behalf of the Underwriters, will be obligated to purchase all of the Series 2009A Bonds, if any of the Series 2009A Bonds are purchased.

The Representative, has entered into an agreement (the "Distribution Agreement") with UBS Financial Services Inc. for the retail distribution of certain municipal securities offerings including the Series 2009A Bonds, at the original issue prices. Pursuant to the Distribution Agreement (if applicable for this transaction), J.P. Morgan Securities Inc. will share a portion of its underwriting compensation with respect to the Series 2009A Bonds with UBS Financial Services Inc.

Citigroup Inc., the parent company of Citigroup Global Markets Inc., one of the underwriters of the Series 2009A Bonds, has entered into a joint venture with Morgan Stanley whereby it is anticipated that each of Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated will distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. This distribution arrangement commenced on June 1, 2009. Pursuant to this distribution arrangement, Citigroup Global Markets Inc. will share a portion of its underwriting compensation with respect to the Series 2009A Bonds with Morgan Stanley Smith Barney LLC.

FORWARD LOOKING STATEMENTS

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

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

GENERAL INFORMATION

All of the summaries of the statutes, ordinances and other related reports set forth herein are made subject to all of the provisions of such documents. The descriptions of the Series 2009A Bonds and the Ordinance herein do not purport to be complete and all such descriptions or references thereto contained in this Official Statement are qualified in their entirety by reference to the complete forms of the Series 2009A Bonds and of the Ordinance. Statements made herein involving estimates or projections, whether or not expressly identified as such, should not be construed to be statements of fact or as representations that such estimates or projections will ever be attained or will even approximate actual results.

Copies of the June 30, 2008 Comprehensive Annual Financial Report of the City of Houston, Texas are available to each of the prospective purchasers of the Series 2009A Bonds upon written request addressed to the office of the City Controller, P.O. Box 1562, Houston, Texas 77251. THE SERIES 2009A BONDS ARE, HOWEVER, PAYABLE SOLELY FROM NET REVENUES OF THE HOUSTON AIRPORT SYSTEM AND CERTAIN RESERVES ESTABLISHED PURSUANT TO THE ORDINANCE, AND NO IMPLICATION IS MADE THAT ANY OTHER REVENUES OR MONEY OF THE CITY ARE TO BE AVAILABLE FOR THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2009A BONDS. Copies of the Ordinance are available to each of the prospective purchasers of the Series 2009A Bonds upon written request to the Office of the City Attorney, 900 Bagby, 4th Floor, Houston, Texas 77002. This document was approved by the City Council of the City.

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APPENDIX A

REPORT OF THE AIRPORT MANAGEMENT CONSULTANT

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ROGER H. BATES

Airport Consultant

June 30, 2009

Mr. Eric R. Potts
Interim Director of Aviation
Houston Airport System
P.O. Box 60106
George Bush Intercontinental Airport / Houston
Houston, Texas 77205

Re: Report of the Airport Management Consultant, City of Houston, Texas, Airport System Senior Lien Revenue Bonds, Series 2009

Dear Mr. Potts:

Roger H. Bates, Airport Consultant, in association with Unison Consulting, Inc. and AVK Consulting, is pleased to submit this Report of the Airport Management Consultant on certain aspects of the proposed issuance of City of Houston, Texas, Airport System Senior Lien Revenue Bonds, Series 2009 (the 2009 Bonds) by the City of Houston (the City).

The City intends to issue the 2009 Bonds for the following purposes:

- To refund on a current basis \$87.0 million of the City's outstanding Senior Lien AMT Commercial Paper Notes (the AMT Notes)[1], and
- To provide "new money" financing for approximately \$256.3 million of capital projects (as described later in this report).

The City also intends to issue an additional series of bonds in 2010 (the 2010 Bonds) for the following purposes:

- To refund on a current basis \$92.9 million of outstanding City of Houston, Texas, Airport System Revenue Refunding Bonds, Series 2005A[2], and
- To provide "new money" financing for approximately \$95.0 million of additional capital projects (as described later in this report).

The 2009 Bonds and the 2010 Bonds are referred to collectively in this Report as the Proposed Bonds.

The Houston Airport System (the Airport System) is comprised of three airports: George Bush Intercontinental Airport/Houston (Intercontinental), William P. Hobby Airport (Hobby) and Ellington Airport (Ellington). The Airport System is owned by the City and managed and operated by the Houston Airport System (HAS), a department of the City. Intercontinental and Hobby accommodate commercial

[1] The Commercial Paper Notes to be refunded have funded certain Airport System capital projects as described in Section IV of this report.
[2] These bonds were issued as variable rate bonds and will be refunded with fixed rate refunding bonds.

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airline activity; all three airports accommodate general aviation activity. In Fiscal Year (FY) 2008[3], the Airport System accommodated 26.2 million passenger enplanements—21.6 million (83%) at Intercontinental and 4.6 million (17%) at Hobby.

Intercontinental is a "system hub" in the route system of Continental Airlines (Continental). Continental, together with its regional affiliates, operating as Continental Express and Continental Connection, accounted for 87% of passenger enplanements at Intercontinental in FY 2008. Hobby is a major station in the route system of Southwest Airlines (Southwest)[4]. Southwest accounted for nearly 89% of passenger enplanements at Hobby in FY 2008. Approximately 48% of passengers at Intercontinental and 79% at Hobby were origination and destination (O&D) passengers in FY 2008; the balance were connecting passengers.

The U.S. economy entered a recession in December 2007—one that deepened sharply in the fourth quarter of 2008—and the ultimate length and severity of the recession cannot be determined. Air traffic activity nationwide and at Intercontinental and Hobby has declined in recent months, reversing the growth trends that had been experienced since 2002, and further traffic declines are anticipated at least through the summer of 2009. Year to date in FY 2009, passenger enplanements have declined 8.3% at Intercontinental and 8.4% at Hobby:

	Intercontinental			Hobby		
	2009	2008	% Change	2009	2008	% Change
July	1,984,876	1,966,500	0.9%	432,838	424,151	2.0%
August	1,881,089	1,905,035	-1.3%	383,321	404,338	-5.2%
September[1]	1,281,809	1,588,154	-19.3%	238,223	332,481	-28.3%
October	1,630,971	1,761,076	-7.4%	362,832	366,953	-1.1%
November	1,553,319	1,745,860	-11.0%	322,181	362,413	-11.1%
December	1,719,242	1,818,704	-5.5%	350,343	360,588	-2.8%
January	1,518,536	1,695,146	-10.4%	297,732	334,383	-11.0%
February	1,401,097	1,647,653	-15.0%	294,308	342,489	-14.1%
March	1,719,305	1,903,949	-9.7%	368,616	406,522	-9.3%
April	1,647,232	1,777,000	-7.3%	353,294	381,232	-7.3%
1st 10 Months	16,337,476	17,809,077	**-8.3%**	3,403,688	3,715,550	**-8.4%**

[1] Reflects effect of Hurricane Ike which closed airports for four days and affected operations for some time thereafter.

HAS maintains a rolling five-year Capital Improvement Program for the Airport System. The recently approved CIP encompasses the five-year period FY 2010-FY 2014. In addition to the FY 2010-FY 2014 CIP, we have included certain major ongoing projects started in FY 2008 and FY 2009. Collectively, the capital program presented in the report is referred to as the Current CIP. The total cost of the Current CIP is estimated by HAS to be $1,021 million.

The 2009-2010 Projects are projects that have already started or are programmed to start in 2009 and 2010—projects that HAS believes need to be undertaken in the near-term future notwithstanding the recent downturn in traffic and the uncertainties of the current economic environment. Beyond 2010, HAS expects to be able to fund all of the remaining projects in the Current CIP from grants-in-aid and

[3] The fiscal year of the City begins on July 1 and ends on the following June 30.

[4] Southwest's route system is structured for point to point service rather than as a "hub and spoke" network. Southwest refers to Houston as one of its "focus cities."

internally generated funds. However, given current economic conditions, the timing of the 2011-2014 Projects is uncertain.

The financial projections presented in the Report address the entire Current CIP (both the near-term 2009-2010 Projects and the longer-term 2011-2014 Projects) including the projects to be financed with the Proposed Bonds. HAS continues to evaluate capital needs and priorities, and the extent and timing of projects in the Current CIP could change as economic conditions and future air traffic demand at Intercontinental and Hobby unfold.

Section IV of the Report includes a more detailed discussion of the major projects to be financed with the Proposed Bonds.

* * * * *

The outstanding bonds of HAS have been issued on a subordinate lien basis. For market reasons, HAS has determined to issue the Proposed Bonds as Senior Lien Bonds pursuant to a master Senior Lien Bond Ordinance.[5] The new Senior Lien Bond Ordinance and the other outstanding subordinate lien bond ordinances are collectively referred to in this report as the Bond Ordinances.

In the Bond Ordinances, the City covenants that it will:

> . . .at all times fix, charge, impose and collect rentals, rates, fees and other charges for the use of the Airport System, and, to the extent it legally may do so, revise the same as may be necessary or appropriate, in order that in each Fiscal Year the Net Revenues will at all times be at least sufficient to equal the larger of either: (1) all amounts required to be deposited in such Fiscal Year to the credit of the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund, and the Subordinate Lien Bond Reserve Fund, or (2) an amount not less than 125% of the Debt Service Requirements for Senior Lien Obligations for such Fiscal Year plus 110% of the Debt Service Requirements for Subordinate Lien Bonds for such Fiscal Year.[6]

This provision is referred to as the Rate Covenant.

As a condition of issuing additional Senior Lien Bonds, the Bond Ordinances require, among other provisions, that an Airport Management Consultant provide a written report setting forth projections which indicate that, in each of the three consecutive Fiscal Years following the earlier of (a) the completion and initial use of the revenue-producing facilities to be financed with such series of Bonds, or (b) the first Fiscal Year in which the City will pay interest on or principal of the series of Bonds from Net Revenues, the estimated Net Revenues of the Airport System are equal to at least (A) 125% of the Debt Service Requirements on all Senior Lien Obligations and (B) 110% of the Debt Service Requirements on all Subordinate Lien Bonds, including the Debt Service Requirements on the Bonds to be issued. This provision is referred to as the Future Earnings Test.

This report has been prepared in part to address the requirements of the Rate Covenant and Future Earnings Test provisions of the Bond Ordinances and presents financial projections for the seven-year period FY 2009-FY 2015.

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[5] Specific provisions of the Senior Lien Bond Ordinance are described in the official statement for the 2009 Bonds.

[6] Currently there are no outstanding Airport System Senior Lien Revenue Obligations other than commercial paper which will be refunded in large part by the 2009 Bonds and the remaining part paid down with PFC resources.

Our study was undertaken to evaluate the ability of the City to generate sufficient Net Revenues from the Airport System to meet the financial requirements established by the Bond Ordinances, including 125% of the Debt Service Requirements on the Senior Lien Obligations plus 110% of the Debt Service Requirements on the Subordinate Lien Bonds during each year of the seven-year forecast period, FY 2009 through FY 2015—a period extending three years beyond the anticipated completion of projects being financed with the Proposed Bonds. In conducting the study, we analyzed:

- The City's Current CIP for the Airport System and the costs and phasing of the projects in the Current CIP to be undertaken during the forecast period.
- Future air traffic demand at Intercontinental, Hobby, and Ellington, giving consideration to the demographic and economic characteristics of the Houston air service area (the region served by the airports), historical trends in airline traffic, current airline service, and other key factors affecting future airline traffic.
- The plan of financing of the Proposed Bonds and the estimated annual Debt Service Requirements of the Proposed Bonds and other outstanding Bonds.
- Historical relationships between Airport System revenues and operating expenses and airline traffic at Intercontinental, Hobby, and Ellington, the FY 2009 and draft FY 2010 operating budgets, planned new facilities, and other factors which may affect future Gross Revenues and Operation and Maintenance Expenses at the Airport System.
- The City's policies and contractual agreements relating to the use and occupancy of Airport System facilities (in particular, the various airline use and lease agreements), the calculation of airline rates and charges, the operation of commercial concession privileges, and the leasing of buildings and grounds.

We then identified key factors upon which the future financial results of the Airport System depend and formulated assumptions regarding those factors—assumptions that were then reviewed with and approved by HAS management. On the basis of those assumptions, we then prepared the financial forecasts presented in the exhibits accompanying this report, as follows:

Exhibit A	Summary of "New Money" Project Costs
Exhibit B	Summary of Financing Plan (Sources and Uses of Funds)
Exhibit C-1	Debt Service Requirements
Exhibit C-2	Amortization Charges
Exhibit D	Operation and Maintenance Expenses
Exhibit E	Gross Revenues
Exhibit E-1	Airline Revenues—George Bush Intercontinental Airport/Houston
Exhibit E-2	Airline Revenues—William P. Hobby Airport
Exhibit F	Application of Gross Revenues to Funds and Accounts Established by the Bond Ordinances
Exhibit G	Net Revenues and Debt Service Coverage / Future Earnings Test

Funding requirements for the Proposed Bonds, including project cost estimates for new money projects, (Exhibit A) were obtained from HAS based in part on cost estimates prepared by HAS staff and by the engineering/design/program management consultants retained by HAS for various projects in the Current CIP. Estimates of future project financing requirements (Exhibit B) and annual Debt Service Requirements for the Proposed Bonds (Exhibit C-1) were provided by First Southwest Company, the City's financial advisor for the Airport System.

HAS intends to issue the Proposed Bonds to accomplish certain refundings and finance certain other projects, as further described in Section IV of this Report. For the purposes of this analysis, both the upcoming 2009 and 2010 bond financings are taken into account in the financial forecasts.

As indicated in the accompanying exhibits and as summarized in the table on the following page, the Net Revenues of the Airport System are forecast to be sufficient to meet the annual funding requirements established by the Bond Ordinances, including 125% coverage of Debt Service Requirements on the Senior Lien Bonds and 110% coverage of Debt Service Requirements on the Subordinate Lien Bonds in each year of the forecast period.

Based on current project schedules, HAS management estimates that the new capital projects being financed with the Proposed Bonds will be substantially complete by the end of FY 2012. Accordingly, the future earnings test for the issuance of Additional Airport Bonds applies to the three-year period, FY 2013 through FY 2015. As indicated in the accompanying Exhibit G and in the summary table on the following page, the requirements of the Future Earnings Test are met.

Airline revenues at an airport are often expressed on a per enplaned passenger basis (as "airline cost per enplaned passenger") to facilitate the comparison of such costs among airports. The summary table on the following page summarizes forecast airline costs per enplaned passenger for each year of the forecast period. Airline costs per enplaned passenger in FY 2013, the first year following completion of the projects being financed with the Proposed Bonds, are forecast to be $11.00 at Intercontinental and $9.19 at Hobby. In our opinion, these projected airline costs per enplaned passenger are reasonable in relation to costs at other major airports that have recently undergone major expansion programs.

Airline costs per enplaned passenger at Intercontinental are projected to decrease in FY 2010 as new PFC resources are generated and applied to offset debt service on prior projects. Airline costs per enplaned passenger at Intercontinental are projected to remain stable in the $10-$11 range throughout the forecast period—in fact, declining gradually after FY 2012—even with implementation of the Current CIP. This is attributable in part to (1) the relatively moderate level of new capital investment in the out years of the Current CIP, (2) anticipated resumption of moderate traffic growth after the current (2008-2010) recession is projected to end, and (3) the use of additional PFC resources to offset a significant portion of the new debt service coming on line (see further discussion in Section IV).

Airline costs per enplaned passenger at Hobby have increased significantly over the past two years as airfield projects and major phases of the Terminal Expansion Program have been placed in service. However, airline costs per enplaned passenger at Hobby are projected to remain stable in the $9-$10 range throughout the forecast period as a result of the relatively moderate level of new capital investment and the fact that such new investment is being offset in part by prior capital investments that will be fully amortized and fall out of the airline rate base.

* * * * *

SUMMARY OF FINANCIAL RESULTS

Houston Airport System

Fiscal Years ending June 30

(In thousands)

		Historical		Estimated	Forecast					
Gross Revenues		**2007**	**2008**	**2009 (a)**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
George Bush Intercontinental Airport/Houston										
Airline revenues	[A]	$ 239,597	$ 250,618	$ 232,469	$ 212,400	$ 217,545	$ 221,537	$ 230,251	$ 234,748	$ 237,357
Other		114,331	123,278	118,796	121,725	123,530	135,930	142,935	152,247	158,814
William P. Hobby Airport										
Airline revenues	[B]	31,069	38,027	38,573	38,095	37,830	36,980	37,416	39,504	40,994
Other		28,454	33,012	32,377	33,741	33,821	36,602	37,444	40,307	41,226
Ellington Airport		1,820	1,508	1,121	1,465	1,467	1,469	1,471	1,473	1,476
Interest income and other revenues		28,197	30,978	27,729	20,925	22,049	25,883	31,800	32,445	33,710
		$ 443,468	$ 477,421	$ 451,065	$ 428,351	$ 436,242	$ 458,401	$ 481,318	$ 500,724	$ 513,577
Operation and Maintenance Expenses		217,720	221,309	239,246	244,669	252,009	260,364	270,232	281,042	292,286
Net Revenues	[C]	$225,748	$256,113	$211,819	$183,682	$184,233	$198,037	$211,086	$219,682	$221,291
Debt Service Requirements										
Senior Lien Bonds (b)	[D]	$ 2,796	$ 2,274	$ 1,374	$ 6,141	$ 13,397	$ 15,873	$ 20,546	$ 22,517	$ 24,695
Subordinate Lien Bonds (b)		114,718	120,737	107,942	112,626	122,203	122,314	121,932	122,635	121,961
Inferior Lien Bonds (b)		6,302	6,587	3,295	-	-	-	-	-	-
	[E]	$ 123,816	$ 129,598	$ 112,611	$ 118,767	$ 135,600	$ 138,187	$ 142,478	$ 145,152	$ 146,656
Debt service coverage ratio										
Senior Lien Bonds	[C/D]	**80.74**	**112.63**	**154.16**	**29.91**	**13.75**	**12.48**	**10.27**	**9.76**	**8.96**
Total	[C/E]	**1.82**	**1.98**	**1.88**	**1.55**	**1.36**	**1.43**	**1.48**	**1.51**	**1.51**
Rate covenant compliance										
Net Revenues	[C]	$225,748	$256,113	$211,819	$183,682	$184,233	$198,037	$211,086	$219,682	$221,291
125% Senior Lien Bond debt service		$ 3,495	$ 2,843	$ 1,718	$ 7,676	$ 16,747	$ 19,842	$ 25,682	$ 28,147	$ 30,869
110% Subordinate Lien Bond debt service		126,190	132,811	118,737	123,889	134,423	134,545	134,125	134,899	134,157
100% Inferior Lien Bond debt service		6,302	6,587	3,295	-	-	-	-	-	-
	[F]	$ 135,987	$ 142,240	$ 123,749	$ 131,565	$ 151,170	$ 154,387	$ 159,807	$ 163,045	$ 165,026
					[C] exceeds [F] in each Fiscal Year.					
Airline cost per enplaned passenger										
Intercontinental										
Enplaned passengers	[G]	21,488	21,640	19,807	19,256	19,352	20,187	20,934	21,808	22,513
Airline cost per enplaned passenger	[A/G]	**$11.15**	**$11.58**	**$11.74**	**$11.03**	**$11.24**	**$10.97**	**$11.00**	**$10.76**	**$10.54**
Hobby										
Enplaned passengers	[H]	4,344	4,562	4,117	4,017	4,011	4,024	4,070	4,134	4,164
Airline cost per enplaned passenger	[B/H]	**$7.15**	**$8.34**	**$9.37**	**$9.48**	**$9.43**	**$9.19**	**$9.19**	**$9.56**	**$9.84**

(a) FY 2009 airline rentals, fee, and charges do not included a pending $15 to $25 million reduction to account for the settlement of an FY 2007 and FY 2008 overcollection in airline revenues.

(b) Net of capitalized interest and AIP grants and PFCs applied against debt service.

The financial forecasts presented in this Report are based on information and assumptions that have been reviewed with and approved by HAS management. The Report should be read in its entirety for an understanding of the forecasts and the underlying assumptions. In our opinion, the assumptions underlying the forecasts are reasonable given the information available and circumstances existing as of the date of this Report. However, any forecast is subject to uncertainties, and inherent uncertainties are heightened by currently weak economic conditions and air traffic trends. Inevitably, some assumptions will not be realized, and unanticipated events and circumstances may occur. Therefore, the actual results achieved may vary from the forecasts and the variations could be material.

* * * * *

On behalf of Roger H. Bates—Airport Consultant, Unison-Consulting, Inc. and AVK Consulting, it has been our privilege to assist the City with this significant revenue bond financing program.

Respectfully submitted,

Roger H Bates

Roger H. Bates
Airport Consultant

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TABLE OF CONTENTS

Report of the Airport Management Consultant
City of Houston, Texas, Airport System Senior Lien Revenue Bonds, Series 2009

EXHIBITS

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Section I

INTRODUCTION

This Report addresses the financial aspects of two proposed financings (the Proposed Bonds) by the City of Houston (the City) for the Houston Airport System (the Airport System). The City intends to issue bonds in 2009 (the 2009 Bonds) for the following purposes:

- To refund on a current basis $87.0 million of the City's outstanding Senior Lien AMT Commercial Paper Notes (the AMT Notes)[1]

- To provide financing for approximately $256.3 million of capital projects (as described later in this report)

The City also intends to issue an additional series of bonds in 2010 (the 2010 Bonds) for the following purposes:

- To refund on a current basis $92.9 million of outstanding City of Houston, Texas, Airport System Revenue Refunding Bonds, Series 2005A[2], and

- To provide "new money" financing for approximately $95.0 million of additional capital projects (as described later in this report).

The Airport System is owned by the City and managed and operated by the Houston Airport System (HAS), a department of the City. The Airport System is comprised of three airports: George Bush Intercontinental Airport/Houston (Intercontinental or IAH), William P. Hobby Airport (Hobby or HOU), and Ellington Airport (Ellington or EFD). In FY 2008,[3] 26.2 million passengers were enplaned at the three airports—21.6 million (83%) at Intercontinental and 4.6 million (17%) at Hobby. Commercial service at Ellington ceased in September 2004.

Intercontinental is a "system hub" in the route system of Continental Airlines (Continental). Continental, together with its regional affiliates, Continental Express and Continental Connection, accounted for 87% of passenger enplanements at Intercontinental in FY 2008. Hobby is a major station in the route system of Southwest Airlines (Southwest)—a route system structured for point to point service rather than as a "hub and spoke" network. Southwest accounted for 89% of passenger enplanements at Hobby in FY 2008. Approximately 48% of passengers at Intercontinental and 79% of passengers at Hobby were origination and destination (O&D) passengers in FY 2008; the balance were connecting passengers.

HAS maintains a rolling five-year Capital Improvement Program for the Airport System. The recently submitted CIP encompasses the five-year period FY 2010-FY 2014. In addition to the FY 2010-FY 2014 CIP, we have included certain major ongoing projects started in FY 2008 and all other major projects started or to be started in FY 2009. Collectively, the capital program presented in the report is referred to as the Current CIP. The total cost of the Current CIP is estimated by HAS to be $1,021 million.

---

[1] The Commercial Paper Notes to be refunded have been used to fund certain completed and ongoing Airport System capital projects as described in Section IV of this report.

[2] These bonds were issued as variable rate bonds and will be refunded with fixed rate refunding bonds.

[3] The City's fiscal year begins on July 1 and ends on June 30.

All of the "new money" projects being financed with the Proposed Bonds are either already in process or scheduled to begin in calendar years 2009 and 2010. Beyond 2010, HAS plans to finance a new concourse at Terminal D (currently programmed to start in the spring of 2011) but expects to fund all of the remaining projects in the Current CIP from grants-in-aid and internally generated funds.

The financial projections presented in the Report address the financial aspects of the entire Current CIP including the projects to be financed with the Proposed Bonds.

This report has been prepared to address the financial aspects of the Proposed Bonds. In particular, the report documents forecasts of Airport System Net Revenues and revenue bond debt service coverage and assesses the ability of the City to meet the requirements of the Future Earnings Test provision of the Bond Ordinance.

The report is organized in the following sections:

- **Section I--Introduction** – an overview of the report.
- **Section II--Demographic and Economic Profile** – a profile of the Houston air service area economy and recent demographic and economic trends that influence air traffic.
- **Section III--Aviation Activity Analysis and Forecast** – a review of recent air traffic trends at the airports in the Airport System, a discussion of factors affecting future air traffic demand at the airports, and projections of air traffic activity for each airport through FY 2015.
- **Section IV—The Current CIP and the Plan of Finance** – a discussion of the major projects in the Current CIP, a summary of project costs to be financed with the Proposed Bonds, the Plan of Financing (sources and uses of funds) for the Proposed Bonds, and resulting annual debt service requirements.
- **Section V--Financial Analysis and Forecast** – a review of leases and agreements, historical trends and key assumptions underlying the forecasts of Operation and Maintenance Expenses, Revenues, Net Revenues, and debt service coverage for the 7-year forecast period, FY 2009 - FY 2015.

The financial forecasts are discussed in Section V and presented in a series of exhibits at the back of the report.

Section II

DEMOGRAPHIC AND ECONOMIC PROFILE

The demographic and economic trends in an airport's air service area influence air travel demand, particularly the origination and destination (O&D) segment. This section identifies the air service area of the Houston Airport System, and presents demographic and economic data that demonstrate the ability of the air service area to support traffic growth. Annual data are reported on a calendar year basis, unless specified otherwise.

AIR SERVICE AREA

The Airport System serves the Houston-Sugar Land-Baytown Metropolitan Statistical Area (Houston MSA), located along the Gulf Coast region in Texas. Also referred to as "Greater Houston", the Houston MSA contains ten counties: Austin, Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty, Montgomery, San Jacinto, and Waller,[4] and covers a total area of 10,062 square miles, slightly smaller than Maryland but larger than Massachusetts, New Jersey, New Hampshire or Vermont (**Figure II-1**).[5]

Houston's location offers geographic advantages (**Figure II-2**):

- It is situated in the central time zone, allowing for optimal communications within the United States.
- It is equidistant from the east and west coasts, allowing for optimal accessibility for air travel.
- It offers worldwide access through the Port of Houston, only nine miles from the city center.
- It enjoys a mild climate, allowing for year-round outdoor activities.[6]

The Houston MSA provides a large, growing, and robust market for O&D travel. The area economy is diversified and has shown strength in overcoming economic shocks, downturns in the energy sector, and contractions in the national and global economy. While not immune to the current economic slowdown, according to Greater Houston Partnership, Houston remains one of the best places to ride out the recession and is well positioned to return to growth once the global financial crisis subsides and economic recovery begins.[7]

POPULATION

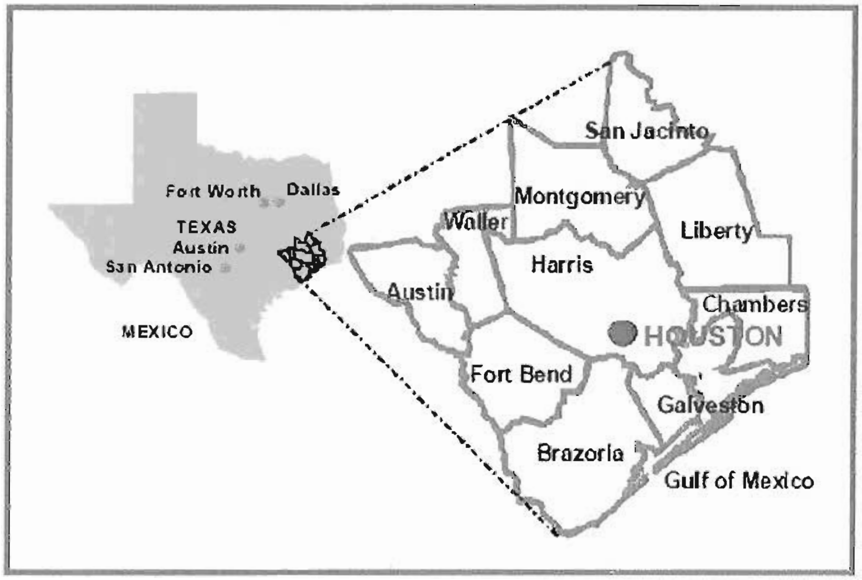
The Houston MSA offers a large, fast-growing, diverse, young, and well-educated population:

- Based on the 2008 U.S. Census estimates, the Houston MSA is the sixth largest metropolitan area in the United States with a population of 5.7 million, representing approximately 24% of the population of Texas (**Table II-1**). As **Figure II-3** shows, nearly 70% of the population of Houston MSA resides in Harris County where HAS' three airports are located. The

[4] MSA definitions are updated every ten years to reflect standards set following each decennial census, and annually between censuses to reflect the most recent Census Bureau population estimates. The definition of the Houston MSA was last revised in June 2003.
[5] Greater Houston Partnership, *Houston Area Profile*, April 22, 2008.
[6] Greater Houston Partnership, *Geographic Advantage*, 2008.
[7] Greater Houston Partnership, *Houston Economy at a Glance*, Volume 17, Number 12, December 2008.

population of the Houston MSA is centered in Harris County's City of Houston. Based on July 2007 estimates, the most recent available for cities, the City of Houston, with a population of 2.24 million was the fourth most populous city in the nation (trailing only New York, Los Angeles and Chicago) and the largest in Texas.

Figure II-1
HOUSTON-SUGAR LAND-BAYTOWN, TX MSA



Source: Greater Houston Partnership.

Figure II-2
HOUSTON'S GEOGRAPHIC ADVANTAGE

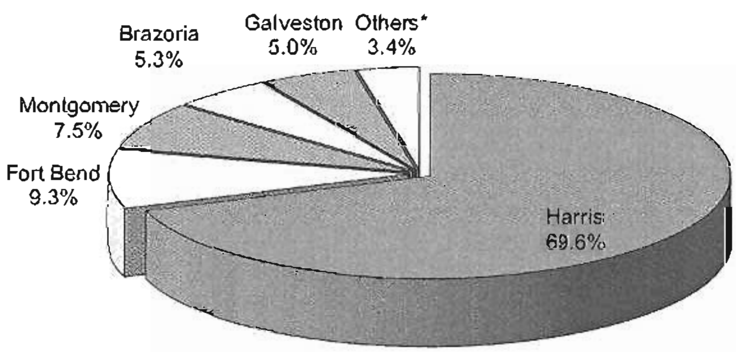
Source: Greater Houston Partnership.

Table II-1
POPULATION BY COUNTY
HOUSTON-SUGAR LAND-BAYTOWN, TX MSA
July 1998 and July 2008

County	Population Jul-98	Population Jul-08	Percent Change 1998-2008
Austin	23,401	26,851	14.7%
Brazoria	228,859	301,044	31.5%
Chambers	23,791	29,356	23.4%
Fort Bend	336,822	532,141	58.0%
Galveston	244,993	288,239	17.7%
Harris	3,202,021	3,984,349	24.4%
Liberty	65,154	75,333	15.6%
Montgomery	271,801	429,953	58.2%
San Jacinto	21,828	24,882	14.0%
Waller	27,248	35,995	32.1%
MSA	**4,445,918**	**5,728,143**	**28.8%**
Texas	19,712,389	24,326,974	23.4%
U.S	270,248,000	304,059,724	12.5%

Source: U.S. Bureau of the Census.
Details may not add to total due to rounding.

Figure II-3
HOUSTON-SUGAR LAND-BAYTOWN, TX MSA
POPULATION DISTRIBUTION BY COUNTY
July 2008



*Others - Liberty, 1.3%; Waller, 0.6%; Chambers, 0.5%; Austin, 0.5%; and San Jacinto, 0.4%.
Source: U.S. Bureau of the Census.

- Houston is among the fastest growing metropolitan areas in the United States. Between 1998 and 2008, the population of the Houston MSA increased at more than double the growth rate of the nation's population (**Table II-1**). The growth in Houston's population is due largely to net migration, attesting to the attractiveness of the area as a place to live and work. Approximately 49% of Houston's population growth since 2000 to mid-2008 is due to net migration, of which 58% is net migration from other countries.[8] Each of the ten counties

[8] Without the surge in domestic migration from southern Louisiana in the wake of Hurricane Katrina in 2005, international migration would account for approximately 70% of post-census net migration, and net migration would represent 45% of population change.

comprising the Houston MSA grew faster than the nation. Montgomery County in the north and Fort Bend in the southwest experienced the largest percentage population increases.

- Houston's racial and ethnic diversity is a source of strength in a global economy. No racial or ethnic group constitutes a majority of the area's population.

- Houston's median age of 32.9 in 2006 was among the lowest of the nation's major metropolitan areas. The U.S. median age was 36.4.

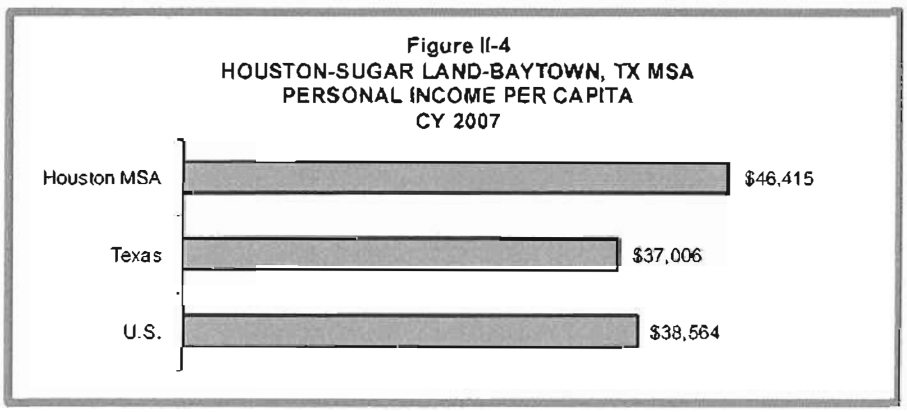
- Houston's population is well-educated—27.8% of population age 25 or more completed at least a bachelor's degree.[9]

INCOME

Houston residents have higher-than-U.S. average incomes, which have risen faster than the national average:

- In 2007, the average personal income per capita in the Houston MSA was 20% above the U.S. average and 25% above the Texas average **(Figure II-4)**.

- Between 1997 and 2007, Houston's personal income per capita increased 2.7% per year after inflation, faster than income growth in Texas and the United States **(Figure II-5)**.



Sources: U.S. Bureau of Economic Analysis for Texas and the United States, and Moody's economy.com for Houston MSA.

[9] U.S. Bureau of the Census and Greater Houston Partnership.

Figure II-5
HOUSTON-SUGAR LAND-BAYTOWN, TX MSA
ANNUAL REAL GROWTH RATE IN PERSONAL INCOME PER CAPITA
CY 1997 - 2007

Sources: U.S. Bureau of Economic Analysis for personal income per capita inTexas and the United States; Moody's economy.com for personal income per capita in the Houston MSA; and the U.S. Bureau of Labor Statistics for the Consumer Price Index..

EMPLOYMENT

The present state of the Houston economy is best understood by examining employment trends and structural changes since 1980 (**Figure II-6**). Hard times during the 1980s prompted a transformation in the Houston economy. Following an eight-year economic boom, Houston weathered two deep recessions during 1982-84 and 1986-87—due to the collapse of oil prices—that eliminated one in every seven jobs in less than five years. Those job losses occurred in upstream energy, then a dominant sector of the local economy. Houston's economy has since grown and recovered all the jobs lost in the mid-1980s—not in upstream energy, but in energy-independent industries such as engineering, medicine and health care, and computers and electronics. Diversity has strengthened the Houston economy, with energy-independent sectors now providing a buffer against major energy downturns. Energy-dependent sectors nonetheless continue to figure significantly in the Houston economy, and, until recent months, have cushioned the Houston economy from the national economic slowdown. With now falling energy prices, Houston cannot remain immune from the current national and global economic slowdown as seen from the steady decline in Houston's employment growth since peaking in June 2007.[10]

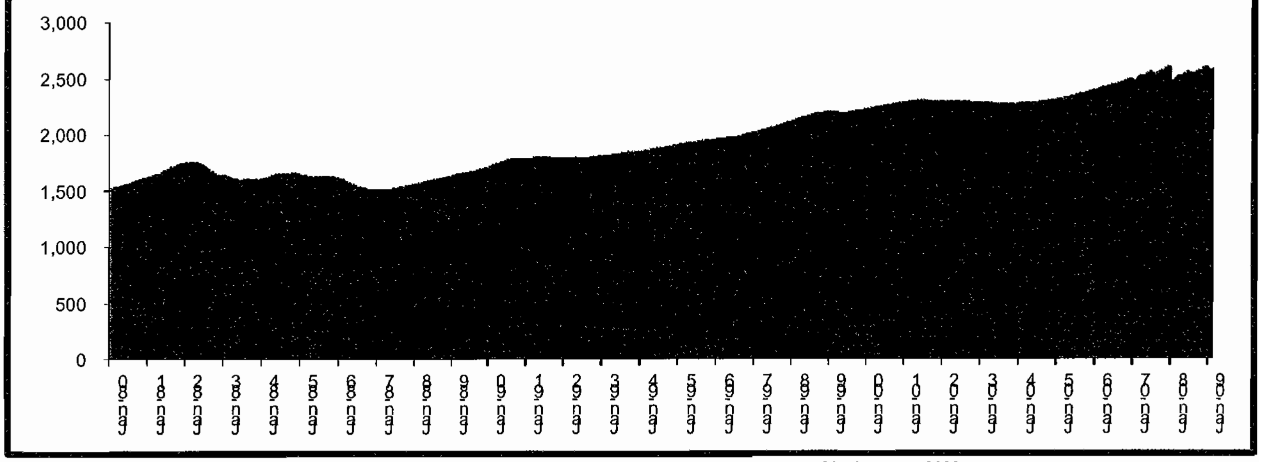
Three factors shape the Houston economy, namely, the national economy, energy prices, and the value of the dollar against foreign currency (**Table II-2**):

- The national economic expansion and renewed profitability in the energy sector stimulated the local economy during 1994-1997, overcoming the inhibiting effects of the strong dollar on Houston's exports. During 1998-1999, weak oil markets and the strong dollar slowed local employment growth, but Houston continued to benefit from the robust expansion of the national economy.

- Rising energy prices buoyed the Houston economy in 2000 despite the slowdown in national economic growth and the continued appreciation of the dollar inhibiting exports. Then oil prices fell in 2001. Yet with all three factors working against Houston, along with exacerbating events such as the terrorist attacks of September 11th, the significant layoffs at Continental Airlines and Enron, and the merger of Compaq Computer Corporation with Hewlett Packard Company, Houston ended 2001 with a positive—albeit small—job gain.

[10] This economic review is based on data and analyses from the following sources: Federal Reserve Bank of Dallas, Greater Houston Partnership, University of Houston Institute of Regional Forecasting, and news articles.

Figure II-6
HOUSTON-SUGAR LAND-BAYTOWN, TX MSA
NONFARM EMPLOYMENT (N THOUSANDS)
January 1980 - February 2009



Source: Moody's economy.com, January 1980-December 2006; and Texas Workforce Commission, January 2007-February 2009.

Table II-2
HOUSTON'S ECONOMIC DRIVERS: GROSS DOMESTIC PRODUCT, VALUE OF THE U.S. DOLLAR, AND OIL PRICE
1998-2008

Year	Real U.S. GDP (Percent Change from Preceding Year)	Value of Major Foreign Currencies Against the Dollar (Index: Jan 1991=100)	Real Oil Price (West Texas Intermediate, 2007 $/bbl)
1998	4.2	82.0	18.38
1999	4.5	82.3	23.92
2000	3.7	76.8	36.54
2001	0.8	71.6	30.52
2002	1.6	72.7	30.17
2003	2.5	82.1	35.09
2004	3.6	88.5	45.53
2005	3.0	86.7	59.90
2006	3.0	88.7	68.14
2007	2.8	93.0	72.50
2008	1.1	99.5	99.19

Sources: U.S. Bureau of Economic Analysis and U.S. Energy Information Agency, compiled by Greater Houston Partnership.

- All three factors moved positively for Houston in 2002 and job growth resumed in 2004. The value of the dollar declined in 2006-2007, oil prices soared in mid-2008, and the U.S. real GDP posted gains in 26 quarters.

- Since mid-2008, all three factors have moved against Houston: the economy contracted, the value of the U.S. dollar appreciated, and oil prices fell 70% in just over five months. And now a severe credit crunch is affecting all industries globally. Employment growth has already slowed down after peaking in June 2007,[11] and Houston is poised to experience lower total employment in 2009.

[11] Greater Houston Partnership, *External Economic Drivers*, March 26, 2009.

The following highlights key long-term employment trends in Houston:

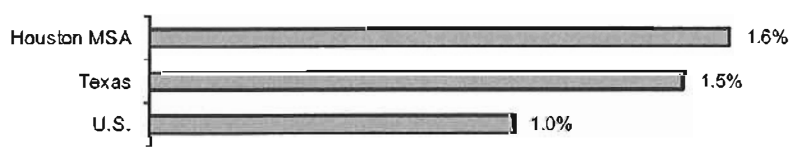
- Between 1998 and 2007, Houston's employment grew at the same rate as its labor force; in 2008, however, employment grew slower than the labor force (**Table II-3**).
- Houston created jobs faster than the nation and the state of Texas (**Figure II-7**).
- Houston's unemployment rate tracked that of Texas and the United States (**Figure II-8**), and was lower than U.S. unemployment rate in 2007 and 2008.

Table II-3
CIVILIAN LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT
HOUSTON-SUGAR LAND-BAYTOWN, TX MSA
CY 1998 - 2008

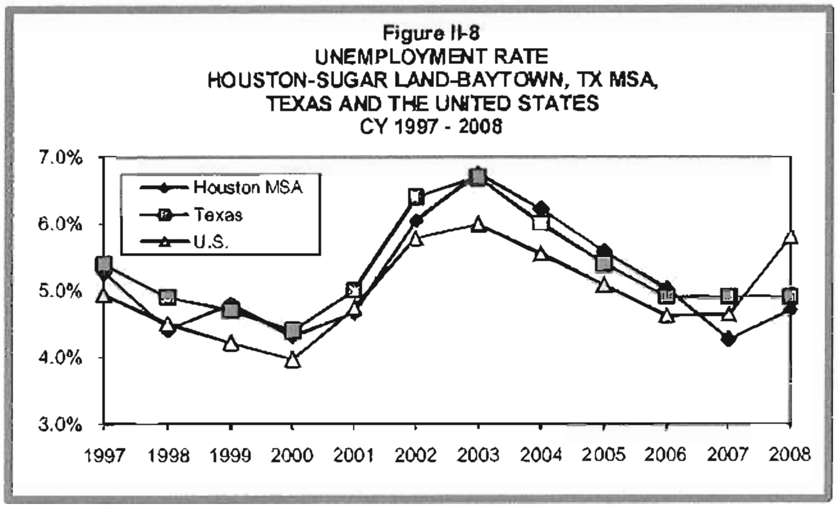
Year	Labor Force	Employment	Unemployment	Unemployment Rate
1998	2,372,839	2,268,023	104,816	4.4%
1999	2,405,568	2,290,155	115,413	4.8%
2000	2,386,593	2,283,609	102,984	4.3%
2001	2,435,761	2,322,135	113,626	4.7%
2002	2,519,885	2,367,554	152,331	6.0%
2003	2,557,767	2,385,219	172,548	6.7%
2004	2,581,848	2,421,267	160,581	6.2%
2005	2,619,915	2,473,664	146,251	5.6%
2006	2,681,358	2,546,719	134,639	5.0%
2007	2,733,141	2,616,677	116,464	4.3%
2008	2,794,751	2,661,832	132,920	4.8%
		Average Annual Growth Rate		
1998-2007	1.6%	1.6%	1.2%	
2007-2008	2.3%	1.7%	14.1%	
1998-2008	1.7%	1.6%	2.4%	-

Source: U.S. Bureau of Labor Statistics.

Figure II-7
AVERAGE ANNUAL EMPLOYMENT GROWTH RATE
HOUSTON-SUGAR LAND-BAYTOWN, TX MSA,
TEXAS AND THE UNITED STATES
CY 1998 - 2008

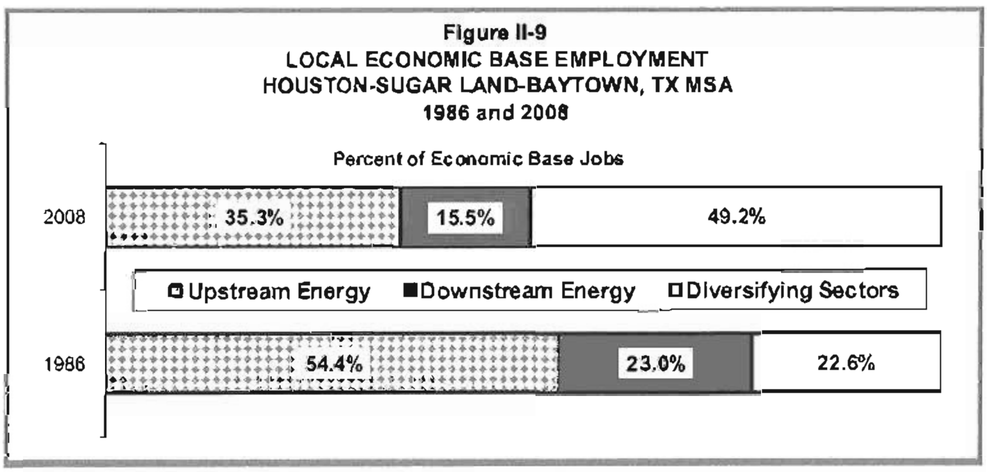


Source: U.S. Bureau of Labor Statistics.



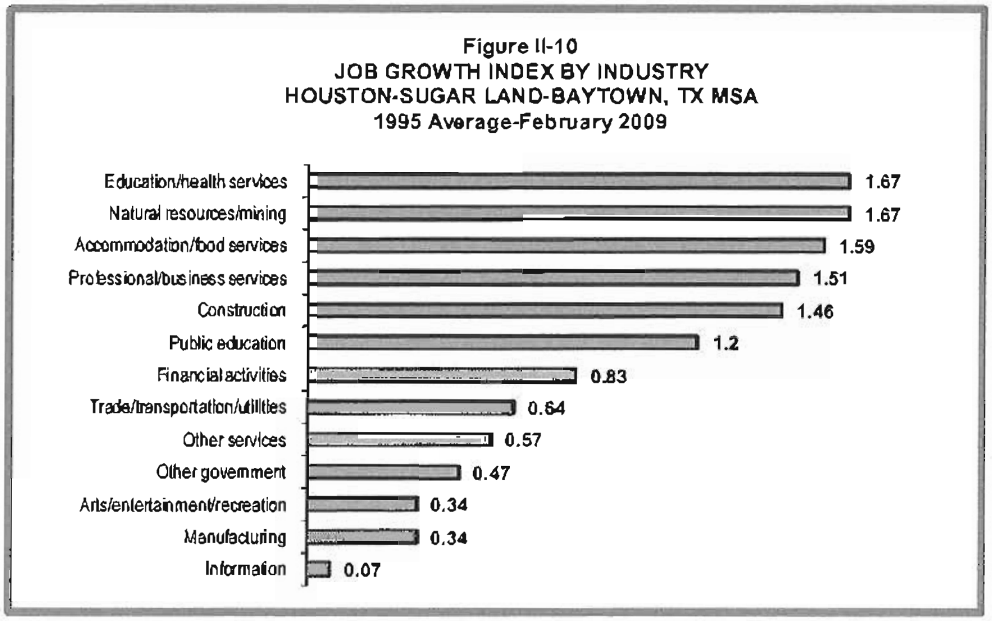
Sources: U.S. Bureau of Labor Statistics and Texas Workforce Commission.

- Once heavily dependent on upstream energy, Houston's economy has diversified—over 49% of jobs are now in energy-independent sectors (**Figure II-9**).



Upstream energy includes oil and gas exploration and production, oilfield equipment manufacturing and wholesaling, and pipeline transportation. Downstream energy includes refining and chemicals manufacturing. Source: Institute for Regional Forecasting, University of Houston, March 2009, compiled by Greater Houston Partnership.

- In addition to natural resources and mining, services-providing sectors lead Houston's job growth (**Figure II-10**).[12]



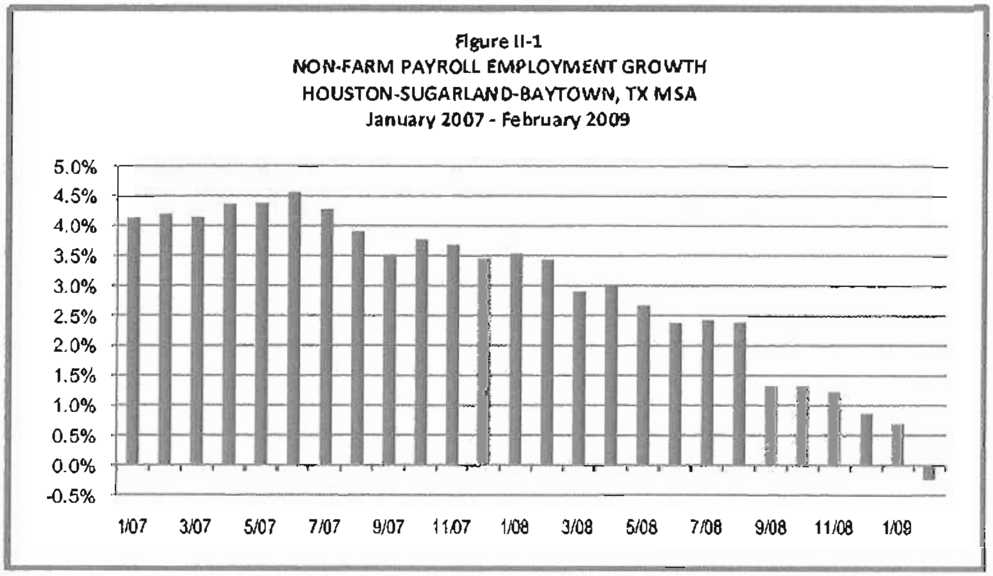
The Job Growth Index is the ratio of an industry's percentage change in jobs to the percentage change in total jobs within a region over a given period. It measures how fast a sector is growing relative to overall job growth in the area. Sectors that show a Job Growth Index greater than one are growing at an above-average rate and are increasing their share of total jobs.
Source: Texas Workforce Commission, October 2008; calculations by Greater Houston Partnership.

The past year showed slowing job growth in Houston; yet Houston continued to perform better than other major metropolitan areas:

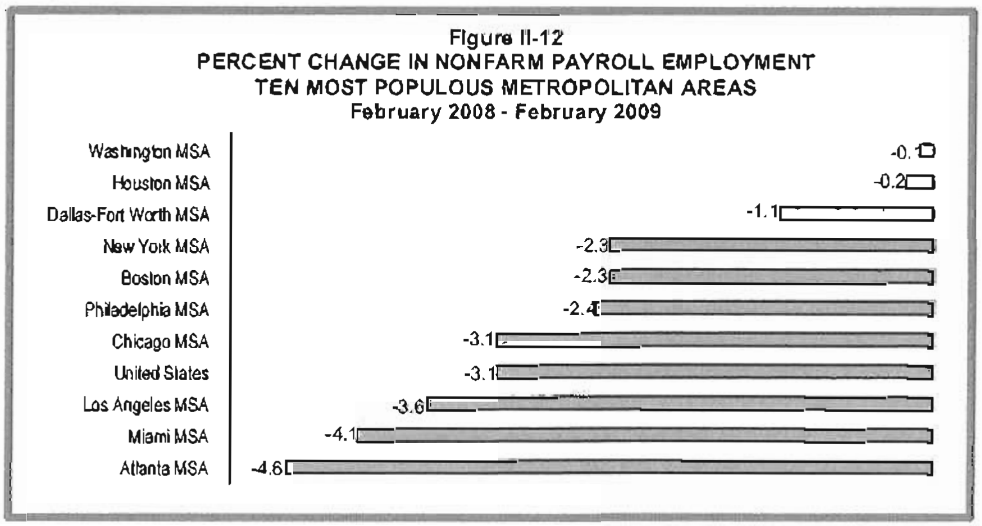
- Nonfarm payroll employment growth slowed in 2008 and turned negative for the first time in February 2009 since peaking at 4.8% in June 2007 (**Figure II-11**).

- Houston is among the major metropolitan areas least afflicted with job losses as of February 2009 (**Figure II-12**).

[12] Greater Houston Partnership.



Source: Texas Workforce Commission.



Source: U.S. Bureau of Labor Statistics, April 2009.

HOUSTON AS A WORLD-CLASS BUSINESS CENTER

Although Houston is undisputedly the "Energy Capital of the World", a diverse mix of industries contributes to the region's stronghold as an international business leader (**Table II-4**). Houston's top industries include: aerospace, alternative energy, biotechnology, education, energy, entrepreneurial enterprises, food processing, health care, information technology, manufacturing, nanotechnology, petrochemical, and telecommunications.[13]

A major corporate center, Houston is headquarters to 26 companies on the 2008 Fortune 500 list (**Table II-5**), ranking third among MSAs, behind New York and Chicago,in the number of Fortune 500 headquarters. Houston also has 16 companies on the 2008 Fortune 100 Fastest Growing Companies list (**Table II-6**), more than any other U.S. metropolitan area. All except one of these Fortune 100 companies are energy-related.

[13] Greater Houston Partnership.

Houston's international community includes 89 consulates, 23 foreign banks from 13 nations, more than 640 foreign-owned firms, more than 450 Houston area companies with offices in 129 foreign countries, and more than 3,300 firms, foreign government offices and non-profit organizations involved in international business.[14]

Table II-4
SELECTED EMPLOYERS WITH 1,000+ EMPLOYEES
HOUSTON-SUGAR LAND-BAYTOWN, TX MSA
2008

Academy Corp.	Deloitte & Touche LLP	Invesco Aim	Schlumberger
Accenture	Devon Energy Corporation	J. Ray McDermott, Inc.	Sears, Roebuck and Co.
AIG American General	Dillard's, Inc.	Jacobs Engineering	Sellers Bros., Inc.
Air Liquide America	Dow Chemical Company	JP Morgan Chase	Service Corporation Intl
Aker Solutions	El Paso Corporation	Katy ISD	Shell Oil Co.
Aldine ISD	Emerald Foods	KBR	Siemens
Alief ISD	Equistar Chemicals, LP	Kelsey-Seybold Clinic	Smith International, Inc.
Amegy Bank	Ernst & Young LLP	Kroger Company	Spring Branch ISD
American National Insurance	Exterran Holdings	Landry's Restaurants	St. Luke's Episcopal Health
Anadarko Petroleum Corp.	ExxonMobil	Lowe's Home Improvement	Stage Stores, Inc.
ARAMARK Corp.	Federal Express Corporation	Luby's Cafeterias, Inc.	Starbucks Coffee Company
AT&T	Fiesta Mart, Inc.	Lyondell Chemical Co.	Sterling Bank
Baker Hughes Incorporated	Five Star Restaurants, Inc.	Macy's	Stewart Title Company
Bank of America	Fluor Corporation	Marathon Oil Company	Sysco Corporation
BASF	FMC Technologies	Memorial Hermann Healthcare	Tenet Houston Health System
Bayer Material Science	GE	Methodist Health Care	Texas Children's Hospital
Baylor College of Medicine	Geotronics	Metropolitan Transit Authority	Texas Instruments, Inc.
Bayshore Medical Center	Gerland's Food Fair, Inc.	Mustang Engineering, Inc.	The Boeing Company
Bechtel Corporation	Goodman Manufacturing	NASA-Johnson Space Center	Toshiba International
Blockbuster Video	Group 1 Automotive Inc.	National Oilwell	United Parcel Service
BP America	H.E.B. Grocery Company	New Axia Holdings, Inc.	University of Houston
Cameron International	Halliburton	Oceaneering International	UT Houston Health Science Center
CDI International	Harris County	Office Max	UT MD Anderson Cancer Center
CEMEX US Operations	HCA	O'Reilly Auto Parts	UTMB Galveston
CenterPoint Energy	Hess Corporation	Pappas Restaurants, Inc.	Verizon
Chevron	Hewitt Associates LLC	Pizza Hut	Walgreens
City of Houston	Hewlett-Packard Co.	Prairie View A&M University	Wal-Mart Stores, Inc.
Clear Creek ISD	Home Depot	PricewaterhouseCoopers	Washington Mutual Bank
Coach USA	Houston Airport System	Randalls Food Market, Inc.	Waste Management, Inc.
Comcast Cable	Houston Chronicle	Reliant Energy	Wells Fargo Bank
ConocoPhillips	Houston Community College	Rice University	Whataburger, Inc.
Conroe ISD	Houston ISD	S&B Engineers	Williams Bros Construction
Continental Airlines	Humble ISD	San Jacinto College District	Wood Group
Cypress-Fairbanks ISD	IKON Office Solutions	Sanitors, Inc.	Workforce Solutions

Source: Greater Houston Partnership.

[14] Greater Houston Partnership.

Table II-5
2008 FORTUNE 500 COMPANIES HEADQUARTERED IN HOUSTON

Company (Rank)	Revenues ($million)	Company (Rank)	Revenues ($million)
ConocoPhillips (5)	$178,558.0	National Oilwell Varco (268)	$9,789.0
Marathon Oil (36)	60,044.0	Centerpoint Energy (271)	9,623.0
Sysco (70)	35,042.1	KBR (284)	9,194.0
Enterprise GP Holdings (90)	26,713.8	Smith International (302)	8,764.3
Plains All American Pipeline (121)	20,394.0	Enbridge Energy Partners (343)	7,282.6
Andarko (159)	15,916.0	Targa Resources (344)	7,269.7
Halliburton (167)	15,264.0	Group 1 Automotive (379)	6,393.0
Continental Airlines (178)	14,232.0	Frontier Oil (462)	5,188.7
Waste Management (199)	13,310.0	BJ Services (482)	4,802.4
Knight (230)	11,505.7	El Paso (486)	4,749.0
Reliant Energy (237)	11,208.7	Spectra Energy (487)	4,742.0
Baker Hughes (252)	10,428.2	Cameron International (490)	4,666.4
Apache (262)	9,977.9	FMC Technologies (498)	4,638.6

Source: Fortune, April 30, 2008; compiled by Greater Houston Partnership.

Table II-6
2008 FORTUNE 100 FASTEST GROWING COMPANIES HEADQUARTERED IN HOUSTON

Company (Rank)	Company (Rank)
T-3 Energy Services (2)	Oceaneering International (42)
Allis-Chalmers Energy (3)	Team (45)
DXP Enterprises (5)	Ion Geophysical (52)
National Oilwell Varco (6)	Rowan Cos. (55)
Atwood Oceanics (8)	Helix Energy Solutions Group (59)
Cameron International (34)	Gulfmark Offshore (69)
Dril-Quip (36)	Copano energy (71)
OYO Geospace (39)	Smith International (73)

Source: Fortune, September 17, 2008; compiled by Greater Houston Partnership.

COST OF LIVING

The fourth largest city in the country offers a low cost of living compared to most major metropolitan areas (**Table II-7**). In 2008, the overall cost of living in the Houston MSA was 9.3% below the national average. Housing cost in Houston is among the lowest at 24.2% below the national average.

Table II-7
ACCRA COST OF LIVING INDEX COMPARISON
2008 ANNUAL AVERAGE DATA
(U.S. Average = 100)

Metropolitan Area	All Items	Grocery Items	Housing	Utilities	Trans-portation	Health Care	Misc.
New York (Manhattan), NY	219.8	142.4	409.6	167.3	120.2	132.6	141.8
San Francisco, CA	172.1	128.6	292.9	98.6	113.4	120.3	130.5
New York (Queens), NY	156.0	130.1	232.0	146.3	110.0	106.3	123.4
Washington, DC	137.4	107.0	219.4	95.2	107.1	105.7	103.5
Boston, MA	133.6	115.9	156.7	140.6	108.1	133.6	126.4
Miami, FL	116.6	106.7	142.4	96.9	107.9	107.1	107.5
Denver, CO	105.0	108.5	110.3	96.3	97.2	105.8	104.0
Phoenix, AZ	101.1	103.4	100.1	90.9	100.2	99.4	104.8
Atlanta, GA	97.2	98.9	91.3	87.6	103.0	102.0	102.1
Dallas, TX	92.1	99.8	70.8	105.3	102.9	104.3	98.9
Houston, TX	**90.7**	**85.7**	**75.8**	**103.8**	**98.9**	**100.2**	**97.9**

Source: Council for Community and Economic Research, *ACCRA Cost of Living Index*, January 2009.

OUTLOOK FOR 2009 AND BEYOND

In November and December 2008, experts predicted that Houston's economic slowdown will continue and eventually result in job losses in 2009:

> "Evidence of a Houston slowdown is mounting, and the basic underpinnings of Houston's growth are threatened as the U.S. and global economy slow." – Dr. Robert W. Gilmer, Vice President and Senior Economist, Federal Reserve Bank of Dallas, *Houston Economy: Is the Commodity Boom Over?*, November 2008.

> "Houston is about to lose its energy cushion, according to Dr. Barton Smith, and when that happens, Houston will look more like the rest of the U.S. economy. Smith predicts the Houston area will lose jobs in 2009. How many will depend on the intensity of the economic slump." – L.M. Sixel, "Economist Sees a Harder Ride as Houston Loses "Energy Cushion," *Houston Chronicle*, November 14, 2008.

> "The primary force shaping the Partnership's forecast is the global recession – in particular, the global credit crisis, which is affecting all parts of the nation and virtually every industry. Houston isn't immune to this crisis. Signs of recession locally are already apparent, and job losses seem inevitable. But Houston's job losses probably won't be as severe as those in many other parts of the country; nor are likely to be as deep as those that occurred in the '80s energy bust...The Partnership's forecast (or best guess) is that the 10-county Houston metropolitan area will sustain a net loss of 45,700 jobs, or 1.7 percent, from December '08 to December '09. Like most forecasts that avoid the unthinkable, this one assumes that the credit markets thaw sufficiently to support normal business activity sometime before mid-year." – Greater Houston Partnership, *Economy at a Glance*, Volume 17, Number 12, December 2008.

Recent employment data updates from Texas Workforce Commission show that the Houston economy has indeed slowed down and job losses have begun to occur:

> "Recent revisions to Houston employment data show a 12-month change in job growth since January 2008 of only 0.7 percent, with jobs shrinking over the past six months at a seasonally adjusted 1.1 percent annual rate. Houston's growth advantage over the rest of the nation during the past five years – oil and natural gas – has not only evaporated in the face of a global commodity bust but has turned into a definite liability. The coming year will see significant job losses in Houston, led by the energy sector." – Federal Reserve Bank of Dallas, *Houston Economic Update*, February 2008.

> "The new re-benchmarked Texas Workforce Commission/Bureau of Labor Statistics data reveal that the Houston slowdown, which the IRF has been warning about for the past 6 months, is already here. Job growth that had peaked a year and a half ago at nearly 5½% annual pace has now fallen to only 0.7%. Growth in all sectors has declined... In light of the new employment numbers and worsening environment for energy, the IRF has just released its quarterly forecast update for the Houston region. This now shows that Houston will lose approximately 56,000 jobs over the next 2 years, much less than what was lost during the energy bust of the mid 80s, but the worse we've seen since then." – Dr. Barton Smith, Director, Institute for Regional Forecasting, Houston Update, March 13, 2009.

Even with an economic slowdown and near-term job losses, Houston is expected to fare better than most other U.S. metropolitan areas, and comparative data on percentage change in nonfarm employment among major metropolitan areas in **Figure II-12** support this claim. According to the Greater Houston Partnership:

> "...Houston's job losses probably won't be as severe as those in many parts of the country; nor are they likely to be as deep as those that occurred in the '80s energy bust. This region has grown and diversified since then. As a result, Houston remains one of the best places to ride out this recession, and Houston is well-positioned to return to growth once the global financial crisis subsides and economic recovery begins across the globe."

SUMMARY

The Houston MSA provides a large and diversified market for O&D air travel:

- Houston is the sixth largest metropolitan area in the United States and the fourth fastest growing. Houston's population is racially diverse, relatively young, and well-educated.
- Houston's residents enjoy above-average incomes, which have risen faster than the national average, and below-average cost of living.
- Houston has a large and diversified economy, which has shown strength in overcoming economic shocks, downturns in the energy sector, and contractions in the national and global economy.
- Houston is a world-class business center – home to a diverse mix of industries, Fortune 500 companies, Fortune 100 fastest growing companies, an international community consisting of numerous consulates, foreign banks, foreign-owned firms, and many other entities involved in international business.

While Houston has not been immune to the current economic recession and is predicted to lose jobs in 2009, Houston's location, educated population, and diverse economy should allow the metropolitan region to mitigate the effects of a global recession and position the region to return to growth once the global financial crisis subsides and economic recovery begins.

Section III

AVIATION ACTIVITY ANALYSIS AND FORECAST

Financial projections for an airport or airport system are driven in part by projections of air traffic activity. This section (1) presents an overview of aviation activity for the Airport System and a detailed analysis of activity at Intercontinental and Hobby for the period Fiscal Year (FY) 1999 through 2008, and (2) develops forecasts of enplanements, airline departures/arrivals, and landed weight for the seven-year period, FY 2009 through 2015.

AIRPORT SYSTEM OVERVIEW

The following tables and charts depict the historical trends in passenger enplanements at HAS from FY 1999 through FY 2008 and the first nine months of FY 2009:

- Total Airport System enplanements posted a moderate average annual growth rate (2.8%) over the 10-year study period, despite a sharp fall in FY 2002 due to the 2001 economic recession and the terrorist attacks of September 11, 2001, and continued decline in FY 2003 (**Table III-1**).

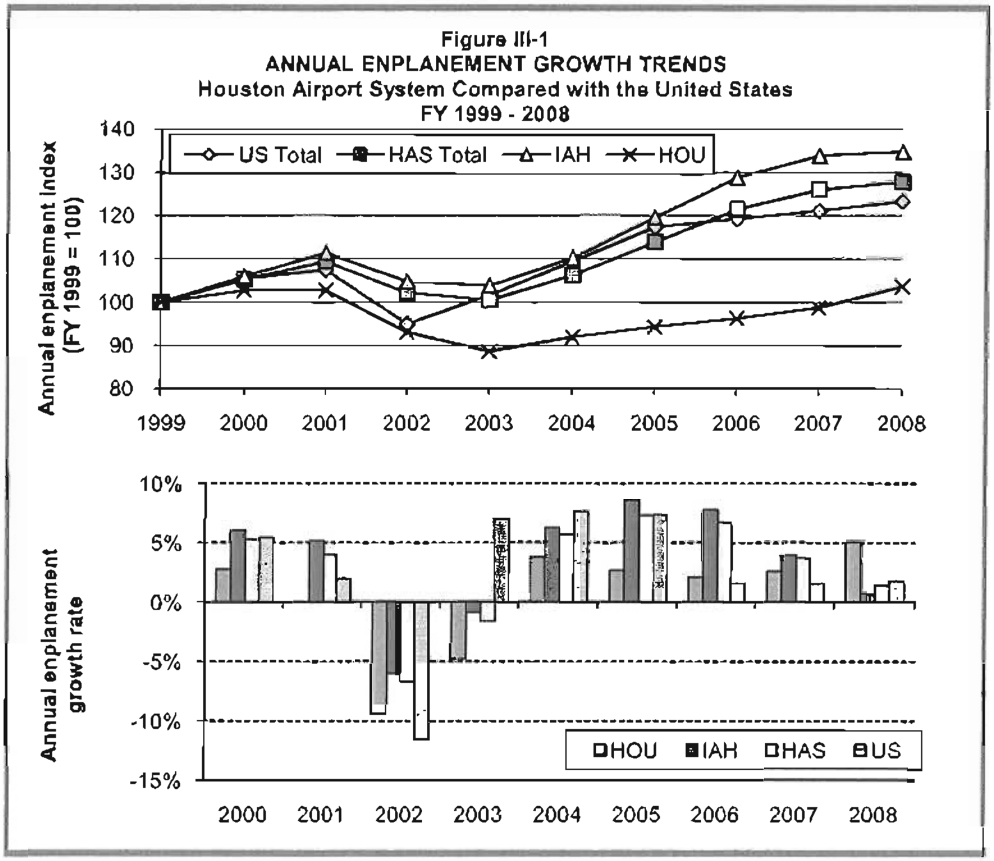
- Growth in total Airport System enplanements slightly outpaced growth in total U.S. enplanements over the entire period from FY 1999 through 2008. As a result, HAS' share of total U.S. enplanements increased slightly from 3.3% to 3.4% (**Table III-1** and **Figure III-1**).

Table III-1
HISTORICAL AIRLINE PASSENGER ENPLANEMENTS
Houston Airport System Compared with the United States
FY 1999 - 2008

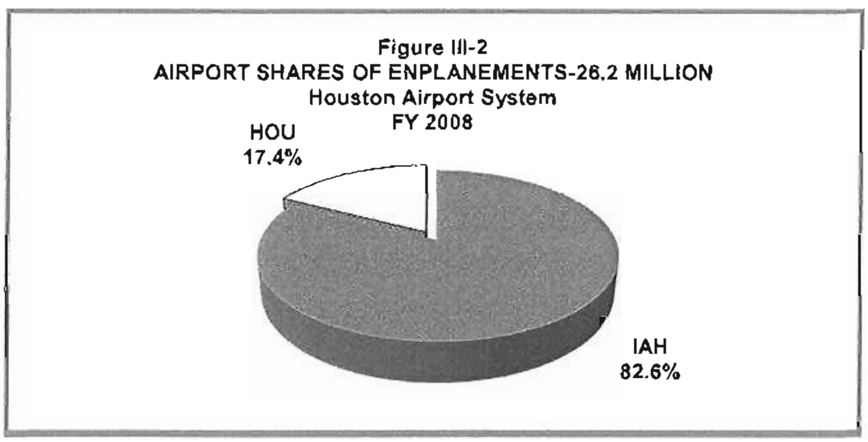
	Houston Airport System				United States	HAS
Fiscal Year	**IAH**	**HOU**	**EFD**	**Total**	**Total**	**Share**
1999	16,049,257	4,397,703	52,325	20,499,285	627,817,000	3.3%
2000	17,012,341	4,517,932	46,726	21,576,999	661,860,000	3.3%
2001	17,886,095	4,518,493	34,044	22,438,632	674,884,000	3.3%
2002	16,811,449	4,094,633	35,783	20,941,865	596,790,000	3.5%
2003	16,663,688	3,898,556	42,265	20,604,509	638,533,000	3.2%
2004	17,693,136	4,044,560	41,500	21,779,196	687,131,000	3.2%
2005	19,198,589	4,150,726	7,840	23,357,155	737,307,000	3.2%
2006	20,675,867	4,236,218	0	24,912,085	748,919,000	3.3%
2007	21,486,630	4,343,757	0	25,830,387	760,723,000	3.4%
2008	21,639,981	4,562,171	0	26,202,152	774,376,000	3.4%
Jul 2008-Apr 2009	16,337,476	3,403,688	0	19,741,164	-	-
			Average Annual Growth Rate			
1999-2008	3.4%	0.4%	-	2.8%	2.4%	-
Jul 2008-Apr 2009[1]	-8.3%	-8.4%	-	-8.3%	-	-

[1] Excluding September to control for the effects of Hurricane Ike, the year-over-year growth rates are as follows: IAH, -7.2%; HOU, -6.4%; and HAS, -7.1%.
Sources: Houston Airport System and Bureau of Transportation Statistics.

- Growth in HAS enplanements was driven mainly by growth at Intercontinental (**Figure III-1**), which accounts for a significant majority of total Airport System enplanements, increasing from 78% in FY 1999 to almost 83% in FY 2008 (**Figure III-2**).



Sources: Houston Airport System and Bureau of Transportation Statistics.



Source: Houston Airport System.

- According to the National Bureau of Economic Research (NBER) Business Cycle Dating Committee, a peak in economic activity occurred in the U.S. economy in December 2007, marking the end of the expansion that began in November 2001 and the beginning of a recession.[15] Although the slowdown in the U.S. economy has caused traffic levels to fall in the entire U.S. aviation system, HAS has fared somewhat better than the U.S. aviation system

[15] National Bureau of Economic Research Business Cycle Dating Committee, *Determination of the December 2007 Peak in Economic Activity*, December 11, 2008.

as a whole. From December 2007 through January 2009, HAS posted year-over-year growth rates in monthly enplanements better than those of the entire U.S. system except in September 2008 when Hurricane Ike hit Texas and in January 2009.

- During the first 10 months of FY 2009, passenger enplanements decreased at both Intercontinental and Hobby (**Table III-1**). Houston experienced travel disruptions in September 2008 caused by Hurricane Ike—the third most destructive hurricane to hit the United States16—making its final landfall in Baytown, Texas. At around the same time, airlines—including Continental and Southwest—also began implementing air service cuts nationwide as part of their continuing efforts to streamline operations and also as a response to weak travel demand due to the economic recession.With the exception of FY 2002, total Airport System air cargo grew every year from FY 1999 through FY 2008, from 921.9 million pounds to 940.6 million pounds. The sharp reduction in FY 2002 can be attributed to the overall decline in the aviation industry following the September 11, 2001 terrorist attacks. Total air cargo in FY 2008 remained lower than peak of 950.7 million pounds in FY 2001. For the first 10 months of FY 2009 total Airport System air cargo (enplaned and deplaned) decreased by 10.3%, reflecting the current economic recession.

- Intercontinental accounted for over 98% of Airport System air cargo volume in FY 2008.

INTERCONTINENTAL

Intercontinental is Houston's principal airport and the only airport in Houston that provides international service. Intercontinental serves as a major system hub for Continental Airlines and as an international gateway for flights between the United States and Latin America (as well as Europe and Asia). Based on preliminary CY 2008 traffic data collected by Airports Council International (ACI)[17], Intercontinental ranked 8th among U.S. airports by total passengers, 7th by total aircraft movements and 16th by total air cargo.

Intercontinental is attractive as an airline hub for a number of reasons:

- Houston is one of the largest O&D markets in the U.S. Intercontinental ranked 15th in terms of O&D passengers among U.S. airports between August 2006 and July 2007.[18]

- The generally mild weather of the Houston area allows airlines to conduct their operations with few weather-related disruptions—a critical factor to the success of airline hubs.

- The airfield capacity and physical expansion capabilities of Intercontinental should allow it to accommodate growth in air traffic activity well into the future. Among Continental's hubs, Intercontinental is the only one with the capability for significant airfield expansion.

- By virtue of its geographical location in the south-central United States, Houston is a "natural hub"—both for domestic connections and as a gateway for international flights to Mexico and Latin America. A study of natural hub airports in the U.S. over 25 years shows that despite

[16] Kleinberg, Eliot, "U.S. tracking tropical storms Hanna, Ike, Josephine. This was the first and only time the Atlantic name "Ike" was used.", *Palm Beach Post*, September 2, 2008.
[17] Airports Council International, *North American Airports Traffic,* preliminary, CY 2008.
[18] Airliners.net.

airline bankruptcies and airline acquisitions, natural hub airports have always found replacement carriers.[19]

- Continental has made a substantial investment in facilities at Intercontinental to support its hub operations—facilities that are relatively new and "state-of-the-art".

Intercontinental should continue to be a strategic choice for a hub airport even in the event of a Continental bankruptcy or the acquisition of, or merger with, Continental by another airline.

Table III-2 presents a list of air carriers that provided scheduled passenger and cargo service at Intercontinental as of April 2009. In addition to the scheduled passenger airlines listed below, American Eagle for American in April, and Compass for Northwest is scheduled to resume service in May.

Table III-2
SCHEDULED AIR CARRIERS SERVING IAH
As of April 2009

U.S. Majors	**Foreign Flag**	**All-Cargo**	**Regional/Commuters**	
American	AeroMexico	Air France Cargo	*Continental affiliates*	*Northwest affiliates*
Continental	Air France	BAX Global	Chautauqua	Mesaba
Delta	British Airways	CargoLux	Colgan	Pinnacle
Frontier	Emirates	Cathay Pacific Cargo	ExpressJet	
Northwest	Air Canada Jazz	China Airlines Cargo		
United	KLM	DHL Worldwide Express	*Delta affiliates*	*United affiliates*
US Airways	Lufthansa	Eva Airways	Atlantic Southeast	Mesa
	Qatar	FedEx	Comair	Shuttle America
	Singapore	Global Supply Systems	Skywest	Skywest
	Taca International	Korean Air Lines Cargo*	Freedom	
		Martinaire	Pinnacle	*US Airways affiliates*
		Saudi Arabian Airlines	Shuttle America	Mesa
		Southern Air*		Republic Airlines
		United Parcel Service		

* Ceased operations on June 28.
Source: Houston Airport System

Enplanements

U.S. airports and airlines faced major challenges over the past ten years: (1) a brief economic recession in 2001, which was followed by a very slow recovery; (2) the terrorist attacks of September 11, 2001; (3) a financial crisis in the airline industry that led to a number of bankruptcy filings and extreme cost-cutting measures that adversely affected airports; (4) the Iraq War; and (5) the end of economic expansion and the beginning of another economic recession in December 2007, prompted by the collapse in the housing and financial markets. Yet Intercontinental continued to demonstrate above-average growth in passenger traffic:

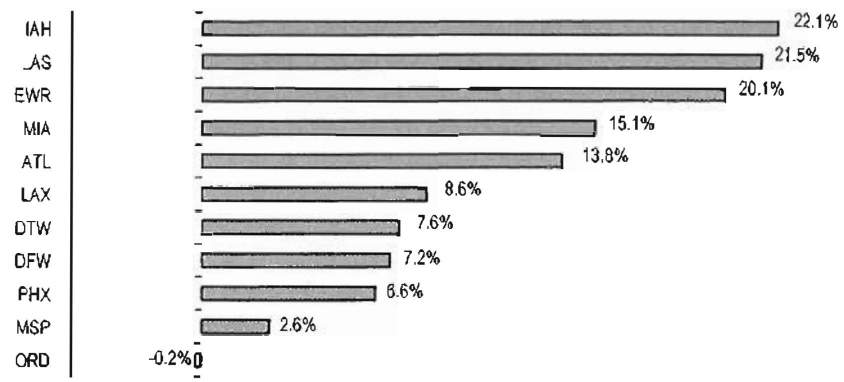
- Between FY 1999 and FY 2008, enplanements at Intercontinental grew at 3.4% per year, on average—outpacing the 2.3% average annual growth rate of total U.S. enplanements (**Table III-1**).

- The growth rate of enplanements at Intercontinental exceeded the growth rate for the entire nation in all but three years since FY 2000 (**Figure III-1**).

[19] Simat, Helliesen & Eichner, Inc.

- Intercontinental outpaced ten other major system hub airports in passenger growth between CY 2003 and CY 2007 (**Figure III-3**).

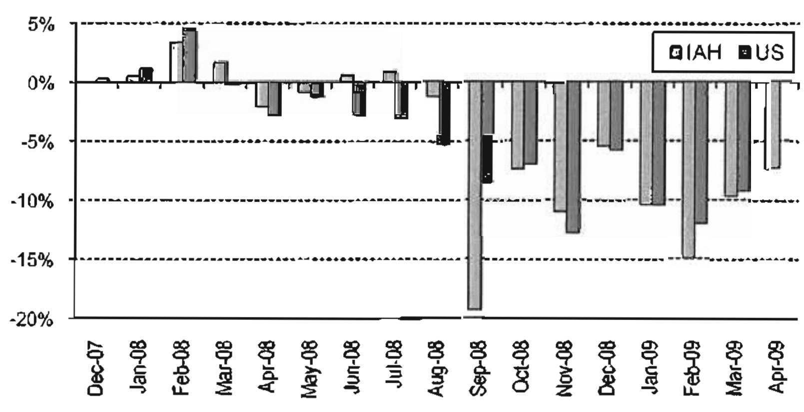
Figure III-3
PERCENT CHANGE IN TOTAL PASSENGERS
AT SELECTED MAJOR SYSTEM HUB AIRPORTS
CY 2003-CY 2008



Source: ACI Worldwide Airport Traffic Report, CY 2003 - 2008.

- From the beginning of the current recession in December 2007 through March 2009, IAH performed somewhat better than the entire U.S. aviation system with year-over-year growth rates in monthly enplanements that were better than the U.S. in nine out of 16 months (**Figure III-4**).

Figure III-4
YEAR-OVER-YEAR ENPLANEMENT GROWTH
IAH and the United States
December 2007 - April 2009



Sources: Houston Airport System and Bureau of Transportation Statistics (BTS). BTS data on U.S. system revenue enplanements are available only through January 2009 as of the report's date.

- Intercontinental's traffic fell in September due to Hurricane Ike, and has continued to fall as Houston began to feel the effects of the economic slowdown and the system-wide air service cuts. For the first 10 months of FY 2009, Intercontinental's enplanements were down 8.3% (**Table III-1**).

O&D and Connecting Enplanements

Originating (O&D) and connecting enplanements at Intercontinental exhibit different growth trends:

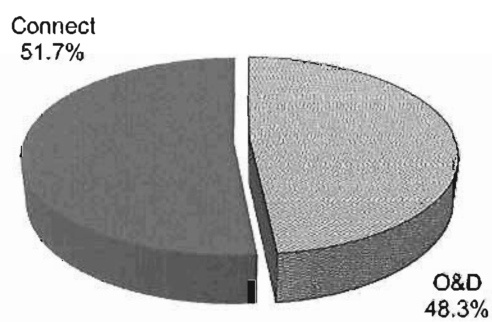
- Between FY 1999 and FY 2008, on average, O&D enplanements increased at a moderate average annual rate of 2.6% while connecting enplanements increased at an average annual rate of 4.2%, attesting to the growing success of Continental's Houston hub. During the first 10 months of FY 2009, both traffic segments posted a year-over-year decline, but O&D enplanements suffered a much larger percentage decline (12.3%) than connecting enplanements (4.5%) (**Table III-3**).

- Although connecting traffic has taken the slightly larger enplanement share since FY 2002, Intercontinental still enjoyed a fairly balanced split between O&D and connecting traffic as of FY 2008 (**Figure III-5**).

Table III-3
O&D AND CONNECTING ENPLANEMENTS AT IAH
FY 1999 - 2008

Fiscal Year	Enplanements (In Thousands) O&D	Connecting	Total
1999	8,324	7,725	16,049
2000	8,839	8,173	17,012
2001	9,140	8,746	17,886
2002	7,935	8,877	16,811
2003	7,821	8,843	16,664
2004	8,627	9,066	17,693
2005	9,326	9,872	19,199
2006	9,984	10,692	20,676
2007	10,478	11,009	21,487
2008	10,449	11,191	21,640
Jul 2008-Apr 2009	7,545	8,793	16,337
	Average Annual Growth Rate		
1999-2008	2.6%	4.2%	3.4%
Jul 2008-Apr 2009[1]	-12.3%	-4.5%	-8.3%

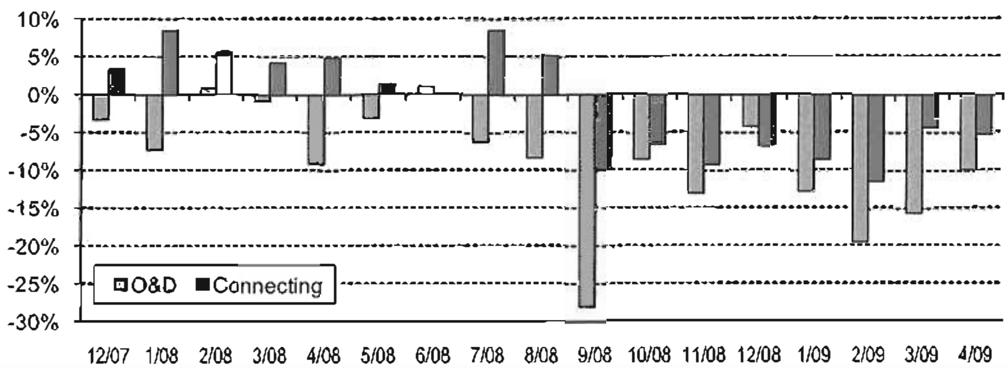
Figure III-5
SHARES OF O&D AND CONNECTING ENPLANEMENTS AT IAH
FY 2008



[1] Excluding September to control for the effects of Hurricane Ike, the year-over-year growth rates are as follows: O&D, -10.6%; connecting, -4.0%; and total, -7.2%.
Source: Houston Airport System.

- The economic recession, which began in December 2007, has affected O&D traffic more deeply than connecting traffic. Connecting traffic began to post year-over-year declines only beginning in August 2008 (**Figure III-6**). In September 2008, when Hurricane Ike hit Texas, O&D enplanements fell more sharply (-28.0%) than connecting enplanements (-10.1%), resulting in a 19.3% decrease overall. In September, airlines also began implementing air service cuts nationwide—including at Intercontinental—to streamline capacity further in response to the slow economy. The effect of the air service cuts can be seen more clearly in the trends from October 2008 through April 2009.

Figure III-6
YEAR-OVER-YEAR PERCENTAGE CHANGE IN O&D AND CONNECTING ENPLANEMENTS AT IAH
December 2007 - April 2009



* The large drop in September 2008 is due to flight disruptions caused by Hurricane Ike.
Source: Houston Airport System.

Domestic and International Enplanements

Table III-4 and **Figure III-7** present the historical trends in domestic and international enplanements at Intercontinental:

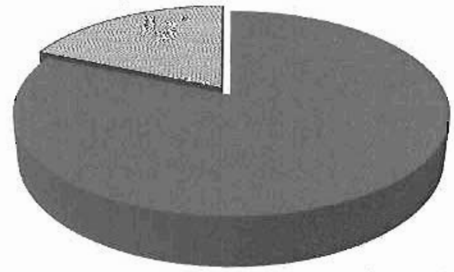
- Domestic enplanements posted moderate growth (2.9% per year on average) between FY 1999 and FY 2008. International enplanements grew nearly twice as fast, increasing their share from 15.1% in FY 1999 to 18.5% in FY 2008.

- The current economic recession which began in December 2007 and the air service cuts beginning in September 2008 have affected domestic traffic more significantly than international traffic. During the first 10 months of FY 2009, domestic enplanements posted a year-over-year decrease of 9.6%, while international enplanements decreased only 2.4%.

Table III-4
ENPLANEMENTS BY SEGMENT AT IAH
FY 1999 - 2008

Fiscal Year	Enplanements (In Thousands) Domestic	International	Total
1999	13,623	2,426	16,049
2000	14,335	2,678	17,012
2001	14,969	2,917	17,886
2002	14,007	2,804	16,811
2003	13,871	2,792	16,664
2004	14,665	3,028	17,693
2005	15,751	3,448	19,199
2006	17,061	3,615	20,676
2007	17,690	3,796	21,487
2008	17,633	4,007	21,640
Jul 2008-Apr 2009	13,167	3,171	16,337
	Average Annual Growth Rate		
1999-2008	2.9%	5.7%	3.4%
Jul 2008-Apr 2009[1]	-9.6%	-2.4%	-8.3%

Figure III-7
SHARES OF DOMESTIC AND INTERNATIONAL ENPLANEMENTS AT IAH
FY 2008



[1] Excluding September to control for the effects of Hurricane Ike, the year-over-year growth rates are as follows: domestic, -8.5%; international, -1.3%; and total, -7.2%.
Source: Houston Airport System.

Enplanements by Airline

The breakdown of enplanements by airline in **Table III-5** confirms Continental's strong competitive position at Intercontinental:

- Continental, including its regional affiliates ExpressJet, Chautauqua and Colgan, accounted for 87.5% of total enplanements in FY 2008, an increase from 83.3% in FY 2002.

- The increase in Continental's market share was realized mainly through the expansion of Continental's regional service (Continental Express by ExpressJet and Chautauqua, and Continental Connection by Colgan). The combined share of Continental's regional affiliates more than doubled from 10.9% in FY 2002 to 24.4% in FY 2008, while the share of Continental's mainline service decreased from 72.5% to 63.0%.

- Continental has the largest shares of both domestic and international enplanements at Intercontinental.

Table III-5
IAH ENPLANED PASSENGERS BY AIRLINE
FY 2002 and 2008

Airline	FY 2002 EP (000)	FY 2002 Share	FY 2008 EP (000)	FY 2008 Share	Average Annual Growth FY 2002-2008
Domestic					
Continental & affiliates	11,814.0	70.3%	15,641.6	72.3%	4.8%
American	471.2	2.8%	488.3	2.3%	0.6%
Northwest & affiliates	347.3	2.1%	282.7	1.3%	-3.4%
United & affiliates	351.4	2.1%	345.2	1.6%	-0.3%
US Airways & affiliates	461.7	2.7%	421.5	1.9%	-1.5%
Delta & affiliates	349.5	2.1%	351.1	1.6%	0.1%
Southwest	96.0	0.6%			-100.0%
Others	116.1	0.7%	102.7	0.5%	-2.0%
Subtotal-Domestic	**14,007.2**	**83.3%**	**17,633.1**	**81.5%**	**3.9%**
International					
Continental & affiliates	2,196.9	13.1%	3,283.2	15.2%	6.9%
Air France	73.9	0.4%	122.3	0.6%	8.8%
British Airways	91.6	0.5%	104.0	0.5%	2.1%
KLM	79.7	0.5%	100.6	0.5%	4.0%
Lufthansa	57.4	0.3%	100.2	0.5%	9.7%
AeroMexico	76.8	0.5%	78.7	0.4%	0.4%
Air Canada Jazz	71.9	0.4%	36.1	0.2%	-10.8%
Others	156.0	0.9%	181.8	0.8%	2.6%
Subtotal-International	**2,804.2**	**16.7%**	**4,006.9**	**18.5%**	**6.1%**
TOTAL	**16,811.4**	**100.0%**	**21,640.0**	**100.0%**	**4.3%**

Source: Houston Airport System.

Air Service Markets

Intercontinental experienced considerable expansion in air service from CY 2002 to 2008:

- The number of nonstop airport destinations served from Intercontinental increased from 158 to 189, and scheduled passenger aircraft departures increased from an average of 577 to 761 per day (**Table III-6**). Like other airports in the country, however, Intercontinental is also now experiencing cutbacks in air service as airlines continue to streamline operations and respond to weak travel demand during the current economic recession (**Figure III-8**). Between the fourth quarter of FY 2008 and the fourth quarter of FY 2009, scheduled departures at Intercontinental decreased 10.1 percent, year-over-year.

- Also shown on **Figure III-8**, the change in scheduled seats more accurately depicts the change in air service capacity. Between the fourth quarter of FY 2008 and the fourth quarter of FY 2009, scheduled seats decreased 6.9 percent year-over-year – less than the decrease in scheduled departures. Domestic destinations showed deeper cuts in scheduled seats (a year-over-year decrease of 8.4 percent) than international destinations (a year-over-year decrease of less than one percent) and the cuts were balanced between mainline service capacity (-6.9 percent) and regional service capacity (-6.8 percent).

- Intercontinental's major domestic O&D markets are geographically dispersed and represent mostly medium- and long-haul routes (i.e. greater than 500 aeronautical miles from Houston) (**Table III-7**).

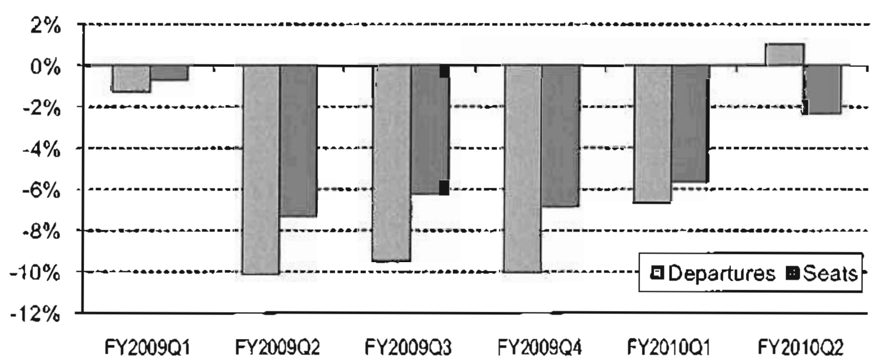
- Intercontinental has flights to the following international regions: Mexico, Asia/Africa/Australia, Canada, Europe, Central/South America, and the Caribbean. In FY 2008, Mexico was the largest international region based on its share of international passenger enplanements (**Figure III-9**). In FY 2008, 1.5 million enplaned passengers were destined for Mexico from Intercontinental.

Table III-6
STATUS OF AIR SERVICE AT IAH

	CY 2002	CY 2008	Average Annual Growth Rate CY 02-08
Domestic			
Number of Airport Destinations	111	121	1.4%
Avg. Daily Departures	503	641	4.1%
International			
Number of Airport Destinations	47	68	6.3%
Avg. Daily Departures	74	119	8.2%
Total			
Number of Airport Destinations	158	189	3.0%
Avg. Daily Departures	577	760	4.7%

Source: BACK Aviation Solutions OAG database.

Figure III-8
YEAR-OVER-YEAR PERCENTAGE CHANGE IN SCHEDULED PASSENGER AIRCRAFT DEPARTURES AND SEATS AT IAH
First Quarter FY 2009 - Second Quarter FY 2010



Source: BACK Aviation Solutions OAG database, downloaded on April 25, 2009.

Table III-7
TOP TWENTY DOMESTIC O&D MARKETS SERVED BY IAH
FY 2008

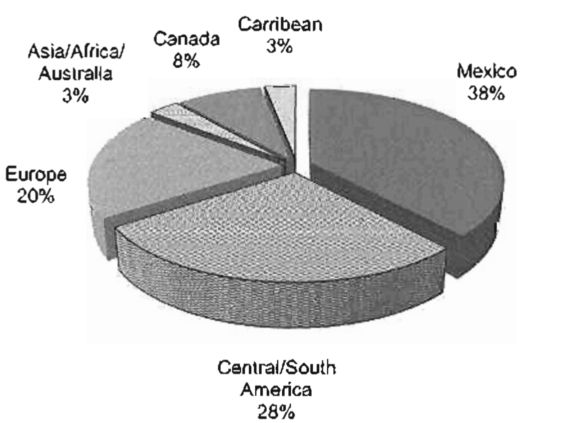
Rank	City	Airport(s)	Average Air Miles from IAH[1]	Share of Domestic O&D Passengers[2]	Avg. Nonstop Departures/Day as of June 2008[3]
1	New York, NY	EWR, LGA, JFK	1,444	8.3%	23.2
2	Los Angeles, CA	LAX, ONT, SNA	1,353	6.8%	20.2
3	Chicago, IL	ORD	925	4.9%	16.1
4	Denver, CO	DEN	861	4.9%	13.9
5	Washington, DC	DCA, IAD	1,199	4.8%	12.6
6	San Francisco, CA	SFO, OAK, SJC	1,533	4.3%	14.4
7	Las Vegas, NV	LAS	1,379	3.7%	7.3
8	Miami, FL	MIA, FLL	965	3.2%	12.8
9	Atlanta, GA	ATL	689	3.2%	16.1
10	Dallas/Fort Worth, TX	DFW, DAL	221	3.1%	25.7
11	Orlando, FL	MCO	853	2.8%	6.8
12	Philadelphia, PA	PHL	1,324	2.6%	8.1
13	New Orleans, LA	MSY	305	2.5%	11.6
14	Boston, MA	BOS	1,597	2.4%	5.0
15	Seattle, WA	SEA	1,874	2.0%	6.6
16	Detroit, MI	DTW	1,076	2.0%	8.7
17	Phoenix, AZ	PHX	1,008	2.0%	11.4
18	San Diego	SAN	1,303	1.9%	6.6
19	Minneapolis, MN	MSP	1,034	1.4%	9.4
20	Cleveland, OH	CLE	1,091	1.3%	5.9
Combined Share - Top Twenty Cities				**68.0%**	**199.2**
Total O&D Pax					

[1] Bureau of Transportation Statistics Inter-Airport Distance, December 2008.

[2] BACK Aviation Solutions OD1A database.

[3] BACK Aviations Solutions OAG database.

Figure III-9
INTERNATIONAL ENPLANEMENTS AT IAH BY REGION
FY 2008



Source: Houston Airport System.

Air Cargo Activity

Air cargo is a significant component of aviation activity at Intercontinental. The key trends are as follows:

- Air cargo increased from 785 million pounds in FY 1999 to 923 million pounds in FY 2008. The first 10 months of FY 2009 recorded an 8.7 percent decrease in total air cargo. A significant increase in mail offset some of the decrease in domestic air freight. Domestic air freight accounted for a little more than half of air freight at the Airport (**Table III-8**).

- Between FY 1999 and 2008, international air freight increased by more than 2.5 times the average growth rate of domestic air freight (**Table III-8**).

- Europe is the largest international market region for air freight in FY 2008.

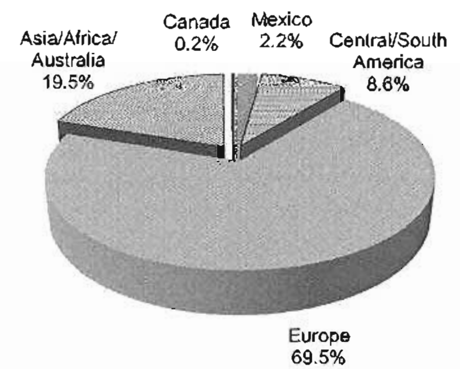
- In FY 2008, air cargo service is provided by both passenger (belly cargo) carriers (42%) and all-cargo carriers (58%), with Continental and FedEx accounting for the largest shares of air freight.

Table III-8
AIR CARGO ACTIVITY AT IAH
(In Thousand Pounds)
FY 1999 - 2008

	Freight				
Fiscal Year	**Domestic**	**International**	**Subtotal**	**Mail**	**Total**
1999	363,130	241,324	604,453	180,712	785,165
2000	346,858	259,116	605,973	198,227	804,201
2001	327,349	270,954	598,304	213,470	811,774
2002	323,044	249,298	572,342	140,484	712,825
2003	382,779	283,842	666,621	113,490	780,112
2004	436,772	321,848	758,620	112,554	871,174
2005	438,451	323,667	762,118	110,538	872,656
2006	432,810	337,987	770,798	98,574	869,371
2007	440,367	376,994	817,361	95,851	913,212
2008	446,912	399,306	846,218	77,081	923,298
Jul 2008-Apr 2009	325,342	305,725	631,067	69,587	700,654
		Average Annual Growth Rate			
1999-2008	2.3%	5.8%	3.8%	-9.0%	1.8%
Jul 2008-Apr 2009[1]	-13.6%	-7.5%	-10.7%	14.7%	-8.7%

[1] Excluding September to control for the effects of Hurricane Ike, the year-over-year growth rates are as follows: domestic freight, -13.7%; international freight, -7.1%; subtotal freight, -10.6%; mail, 15.5%; and total, -8.5%.
Source: Houston Airport System.

Figure III-10
INTERNATIONAL AIR FREIGHT BY REGION
FY 2008



Source: Houston Airport System.

Commercial Aircraft Landings and Landed Weight

Table III-9 presents the trends in commercial aircraft landings and landed weight at Intercontinental:

- Between FY 1999 and 2008, total commercial aircraft landings, which mirrors departures, increased at a slightly faster rate (3.6% per year) than enplanements (3.4% per year), and total landed weight increased at a slower rate (2.1% per year). These trends reflect the transfer of service from mainline to regional carriers that has taken place over the past 10 years.

- Consistent with the above trends, the average landed weight per aircraft gradually decreased, reflecting changes in aircraft fleet mix in favor of smaller aircraft.

- Both landings and landed weight were lower in the first 10 months of FY 2009 as compared to the same period in FY 2008, reflecting flight disruptions due to Hurricane Ike in September 2008 and industry-wide air service cuts implemented by airlines also beginning in September 2008.

- Continental and its regional affiliates accounted for 88% of commercial landings and 80% of total landed weight in FY 2008.

Table III-9
COMMERCIAL AIRCRAFT LANDINGS AND LANDED WEIGHT AT IAH
FY 1999 - 2008

	Commercial Only			
Fiscal Year	**Annual Landings[1]**	**Avg. Daily Landings**	**Landed Weight (1,000 lbs.)**	**Avg. Landed Weight per Landing**
1999	209,471	574	23,005,700	109,828
2000	220,475	602	24,217,179	109,841
2001	227,511	623	24,935,878	109,603
2002	212,087	581	23,839,763	112,406
2003	215,823	591	24,466,968	113,366
2004	237,523	649	25,175,003	105,990
2005	257,876	707	26,220,744	101,680
2006	279,890	767	26,702,657	95,404
2007	292,144	800	27,629,820	94,576
2008	288,765	789	27,628,252	95,677
Jul 2008-Apr 2009	220,535	1,199	21,499,094	97,486
	Average Annual Growth Rate			
1999-2008	3.6%	3.6%	2.1%	-1.5%
Jul 2008-Apr 2009[2]	-8.0%	-8.0%	-6.4%	1.8%

[1] Includes only revenue landings.
[2] Excluding September to control for the effects of Hurricane Ike, the year-over-year growth rates are as follows: landings, -7.3%; and landed weight, -5.3%.
Source: Houston Airport System.

Continental's Service at Intercontinental

Air traffic activity at the Airport is dominated by Continental which accounted for 87.5% of passenger enplanements in FY 2008. Continental operates its largest system hub at Intercontinental and its operations drive aviation activity trends at the Airport. Following are some important facts about Continental:

- Based in Houston since October 1982, Continental is the fourth largest airline in the United States based on revenue passenger miles.

- As of March 2009, Continental, along with Continental Express and Continental Connection, served 265 destinations worldwide, including 133 in the United States and 132 abroad. From Intercontinental, the airline served 162 nonstop destinations with 669 departures on a typical day. Continental served more destinations with more flights from Intercontinental than any other airport.

- As of March 2009, Continental operated a fleet of 351 mainline jets on a Flexible Fleet Plan, allowing the airline to adjust fleet to meet market demands. ExpressJet and Chautauqua operate the airline's regional jet service, Continental Express. ExpressJet operates the 50-seat ERJ-145 and is one of the world's largest regional airlines. Chautauqua operates 50-seat ERJ-145 and CRJ-200 aircraft. Colgan Air operates Continental Connection at Intercontinental using the 34-seat SAAB-340 turboprop aircraft.

- In June 2008 Continental announced reductions to its capacity, eliminating 67 mainline aircraft from its fleet and 3,000 positions from its staff. This eventually resulted in air service cuts system-wide including at Intercontinental.

- Continental is currently a member of the SkyTeam alliance. However, on April 7, 2009, Continental received tentative approval from the U.S. Department of Transportation (DOT) to join existing antitrust immunized alliance between United Airlines and eight other Star Alliance member carriers effective October 24, 2009, and for Continental to enter into an integrated worldwide alliance. "Continental's entrance into Star Alliance will provide substantial benefits for consumers worldwide while preserving domestic competition and jobs," according to Larry Kellner, Continental's Chairman and CEO. "In addition, a timely final approval will allow Continental to provide a seamless transition for its customers from the SkyTeam alliance to Star Alliance this fall."[20] Because United does not have a major presence in Latin American markets, the new alliance could provide substantially increased domestic feed to Continental on its Latin American routes at Intercontinental.

Table III-10 and **Figure III-11** present the trends in Continental's operations at Intercontinental since FY 2004 in terms of actual enplanements and aircraft departures:

- Between FY 2004 and 2008, total enplanements and aircraft departures by Continental and its regional operators grew at robust rates of 6.2% and 6.7% per year, respectively, on average.

- Growth came to a halt in FY 2008 with the slowing down of the U.S. economy. For the first 10 months of FY 2009, enplanements were down 9.0% and aircraft departures were down 8.7% compared to the first 10 months of FY 2008, reflecting the effects of Hurricane Ike in September 2008, weak travel demand due to the current economic recession and system-wide air service cuts beginning in September 2008.

- Much of the growth in Continental's traffic was achieved by expanding Continental Express and Continental Connection service, resulting in an increase in their combined share of Continental's activity at the Airport.

- The average number of enplanements per departure increased over time for each type of service. Overall the average decreased because of the more rapid expansion of regional service relative to mainline.

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[20] Continental Airlines, "Continental Airlines Receives Tentative DOT Approval to Join Antitrust Immunized Alliance With Star Carriers," *News Releases*, April 7, 2009.

Table III-10

ACTUAL ENPLANEMENTS AND AIRCRAFT DEPARTURES BY CONTINENTAL AT IAH

FY 2004 - 2008

Fiscal Year	CO Mainline	CO Express[1]	CO Connection[2]	Total
		Enplanements (EP)		
2004	11,672,460	3,084,171	135,165	14,891,796
2005	12,162,320	3,867,499	176,075	16,205,894
2006	12,765,570	4,897,573	251,909	17,915,052
2007	13,480,160	5,121,482	272,597	18,874,239
2008	13,641,798	4,968,870	314,059	18,924,727
Jul 2008-Apr 2009	10,303,480	3,682,277	213,562	14,199,319
		Average Annual Growth Rate		
2004-2008	4.0%	12.7%	23.5%	6.2%
Jul 2008-Apr 2009[4]	-8.3%	-10.1%	-17.7%	-9.0%
		Departures[3]		
2004	102,151	85,447	8,791	196,389
2005	102,486	101,191	11,445	215,122
2006	105,069	122,782	13,944	241,795
2007	110,924	131,060	14,403	256,387
2008	111,687	125,764	16,776	254,227
Jul 2008-Apr 2009	83,084	96,221	13,440	192,745
		Average Annual Growth Rate		
2004-2008	2.3%	10.1%	17.5%	6.7%
Jul 2008-Apr 2009[4]	-10.5%	-7.8%	-3.1%	-8.7%
		EP per Departure		
2004	114.3	36.1	15.4	75.8
2005	118.7	38.2	15.4	75.3
2006	121.5	39.9	18.1	74.1
2007	121.5	39.1	18.9	73.6
2008	122.1	39.5	18.7	74.4
Jul 2008-Apr 2009	124.0	38.3	15.9	73.7
		Average Annual Growth Rate		
2004-2008	1.7%	2.3%	5.0%	-0.5%
Jul 2008-Apr 2009	2.4%	-2.5%	-15.1%	-0.3%

[1] CO Express was operated by ExpressJet only from FY 2004 through 2006, and by both ExpressJet and Chautauqua from FY 2007 through 2009.

[2] CO Connection was operated by Colgan only, except in FY 2004 when it was operated by both Colgan and Skywest.

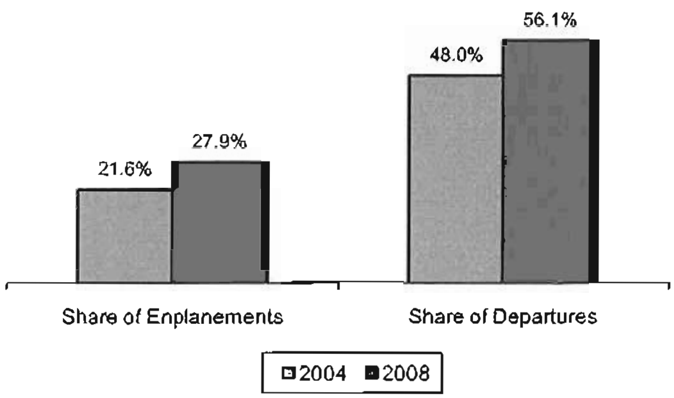
[3] Based on Airport management record of commercial aircraft landings.

[4] Excluding September to control for the effects of Hurricane Ike, the year-over-year growth rates in enplanements are as follows: CO mainline, -7.2%; CO Express, -9.4%; CO Connection, -17.2%; and total, -7.9%.

[5] Excluding September to control for the effects of Hurricane Ike, the year-over-year growth rates in departures are as follows: Continental, -9.3%; CO Express, -7.4%; CO Connection, -3.1%; and total, -7.9%.

Source: Houston Airport System.

Figure III-11
CO EXPRESS AND CO CONNECTION SHARE OF CONTINENTAL'S TRAFFIC AT IAH
FY 2004 and 2008



Source: Houston Airport System.

Table III-11 presents the trends in Continental's domestic and international traffic:

- From FY 2004 to 2008, international enplanements increased at a faster rate than domestic enplanements.
- Continental used Continental Express to expand in international markets—international enplanements by Continental Express nearly doubled from FY 2004 to 2008.
- During the first 10 months of FY 2009, Continental's domestic enplanements decreased 10.4% year over year, while international enplanements decreased 2.0%.

Table III-11
DOMESTIC AND INTERNATIONAL ENPLANEMENTS BY CONTINENTAL AT IAH
FY 2004 - 2008

	Domestic				International		
Fiscal Year	CO Mainline	CO Express[1]	CO Connection[2]	Total	CO Mainline	CO Express[3]	Total
2004	9,610,237	2,740,389	135,165	12,485,791	2,062,223	343,782	2,406,005
2005	9,935,416	3,339,940	176,075	13,451,431	2,226,904	527,559	2,754,463
2006	10,491,349	4,247,720	251,909	14,990,978	2,274,221	649,853	2,924,074
2007	11,057,677	4,448,017	272,597	15,778,291	2,422,483	673,465	3,095,948
2008	11,042,767	4,284,736	314,059	15,641,562	2,599,031	684,134	3,283,165
Jul 2008-Apr 2009	8,197,254	3,169,735	213,562	11,580,551	2,106,226	512,542	2,618,768
			Average Annual Growth Rate				
2004-2008	3.5%	11.8%	23.5%	5.8%	6.0%	18.8%	8.1%
Jul 2008-Apr 2009[1]	-10.2%	-10.3%	-17.7%	-10.4%	-0.3%	-8.7%	-2.0%

[1] Includes activity of regional jet operators, Chautauqua and ExpressJet.
[2] Includes activity of turboprop operator, Colgan.
[3] Includes activity of ExpressJet only.
[4] Excluding September to control for the effects of Hurricane Ike, the year-over-year growth rates are as follows: domestic enplanements, -9.4%; and international enplanements, -1.1%.
Source: Houston Airport System

Table III-12 summarizes the status of Continental's air carrier and regional service at Intercontinental for CY 2002 and 2008:

- Between CY 2002 and 2008, the number of destinations and nonstop daily departures from Intercontinental increased significantly, especially international departures.
- Almost all of the growth is due to the expansion of regional service through Continental Express and Continental Connection.

Table III-12
PUBLISHED NON-STOP DEPARTURES BY CONTINENTAL FROM IAH
CY 2002 - 2008

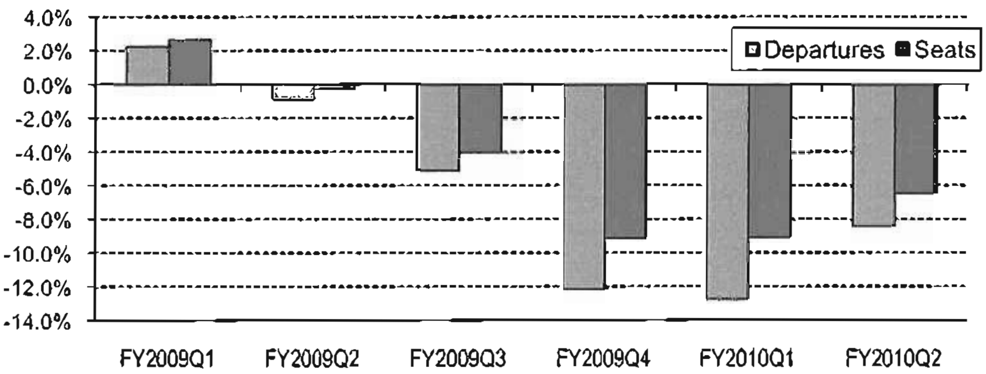
	CO Mainline		CO Express		CO Connection		Total	
	CY 2002	CY 2008	CY 2002	CY 2008	CY 2002	CY 2008	CY 2002	CY 2008
DOMESTIC NON-STOP DEPARTURES								
No. of Airport Destinations	78	68	62	116	0	15	140	199
Scheduled Nonstop Daily Departures from IAH	254	231	160	291	0	47	413	569
INTERNATIONAL NON-STOP DEPARTURES								
No. of Airport Destinations	36	46	13	28	0	0	49	74
Scheduled Nonstop Daily Departures from IAH	53	61	12	48	0	0	64	109
TOTAL NON-STOP DEPARTURES								
No. of Airport Destinations	**114**	**114**	**75**	**144**	**0**	**15**	**189**	**273**
Scheduled Nonstop Daily Departures from IAH	**307**	**292**	**171**	**339**	**0**	**47**	**478**	**678**

Source: BACK Aviation Solutions OAG database.

Figure III-12 presents the trends in scheduled aircraft departures and seats by Continental from Intercontinental for the period from the first quarter of FY 2009 through the second quarter of FY 2010:

- Continental began to implement material cuts in air service in September 2008 and has since been aggressively cutting capacity in response to the current economic slowdown. For FY 2009, scheduled aircraft departures and seats are lower than previous year's schedules by 8.4% and 5.9%, respectively.
- Continental implemented cuts in all types of service, but the largest cuts were in mainline service.

Figure III-12
YEAR-OVER-YEAR PERCENTAGE CHANGE IN SCHEDULED AIRCRAFT DEPARTURES AND SEATS BY CONTINENTAL AIRLINES* AT IAH
First Quarter FY 2009 - Second Quarter FY 2010



*Includes CO mainline, CO Express and CO Connection.
Source: BACK Aviation Solutions OAG database, downloaded on April 25, 2009.

HOBBY

Hobby provides domestic passenger service primarily to short- and medium-haul destinations and serves as the principal general aviation airport in the Houston region. Based on preliminary traffic data for CY 2008, ACI ranked Hobby 42nd in terms of passengers and 43rd in terms of aircraft operations among airports in the United States. Three major air carriers and six regional carriers provided scheduled commercial service at Hobby as of April 2009 (**Table III-13**).

Table III-13
SCHEDULED AIR CARRIERS SERVING HOBBY
As of April 2009

Major Air Carriers	Regional/Commuters
AirTran	American Eagle (AA affiliate)
JetBlue	Atlantic Southeast (DL affiliate)
Southwest	Comair (DL affiliate)
	Pinnacle Airlines (DL affiliate)
	Shuttle America (DL affiliate)
	Skywest (DL affiliate)

Source: Houston Airport System.

Enplanements

Historically passenger traffic at Hobby has grown relatively slowly due to airfield and terminal capacity constraints. In addition, over the past two decades, Southwest, the principal air carrier at Hobby, has chosen to expand in other markets faster than at Hobby. And, in the early 2000s, Hobby experienced declines in traffic—like Intercontinental and other airports in the country—due to the 2001 economic recession, aggravated by the September 11, 2001 terrorist attacks. The following summarizes the key trends in enplanements at Hobby over the past 10 years:

- As noted in **Table III-1**, enplanement growth at Hobby was nearly flat—averaging 0.4% per year from FY 1999 through 2008. (During much of this period, Hobby was undergoing major terminal expansion and gate-constrained.) For the first 10 months of FY 2009, enplanements at Hobby fell by 8.4% due to flight cancellations during Hurricane Ike in September 2008, weak demand due to the economic slowdown, and air service cuts.

- Connecting enplanements increased at a slightly faster rate than O&D enplanements between FY 1999 and 2008. During the first 10 months of FY 2009, however, connecting enplanements at Hobby decreased more sharply than O&D enplanements (**Table III-14**). Connecting enplanements constitute a small minority of traffic at Hobby, which serves primarily O&D traffic (**Figure III-13**).

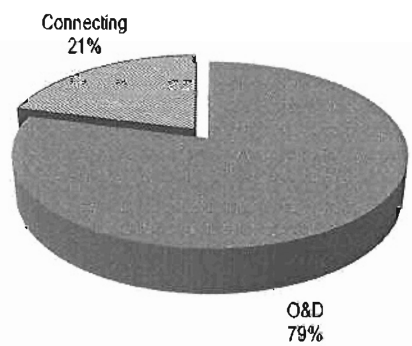
- Southwest is the largest airline operating at Hobby, with 89% of the total enplanements in FY 2008.

Table III-14
O&D AND CONNECTING ENPLANEMENTS AT HOU
FY 1999 - 2008

	Enplanements (In Thousands)		
Fiscal Year	**O&D**	**Connecting**	**Total**
1999	3,514	884	4,398
2000	3,585	933	4,518
2001	3,565	953	4,518
2002	3,167	928	4,095
2003	2,994	905	3,899
2004	3,104	941	4,045
2005	3,237	914	4,151
2006	3,314	922	4,236
2007	3,396	948	4,344
2008	3,606	957	4,562
Jul 2008-Apr 2009	2,726	677	3,404
	Average Annual Growth Rate		
1999-2008	0.3%	0.9%	0.4%
Jul 2008-Apr 2009[1]	-6.9%	-13.9%	-8.4%

[1] Excluding September to control for the effects of Hurricane Ike, the year-over-year growth rates are as follows: O&D, -5.0%; connecting, -11.9%; and total, -6.4%.
Source: Houston Airport System.

Figure III-13
SHARES OF O&D AND CONNECTING ENPLANEMENTS AT HOU
FY 2008



Air Service Markets

The following summarizes the medium-term and short-term trends in air service at HOU:

- Air service at Hobby did not change significantly between CY 2002 and 2008. The number of destinations from HOU increased by only three between CY 2002 and 2008, while the average number of daily departures decreased by nine (**Table III-15**).

- Like Intercontinental, Hobby faces cuts in scheduled air service in FY 2009 as follows: scheduled departures, -3.7%; and scheduled seats, -4.1%. Further capacity cuts are scheduled in FY 2010 (**Figure III-14**).

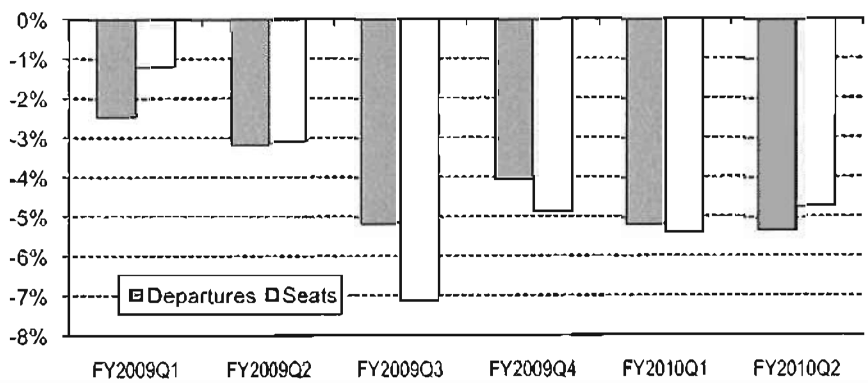
- **Table III-16** presents the top 20 O&D markets served by Hobby during FY 2008—eight short-haul, seven medium-haul, and five long-haul markets. Southwest serves all top 20 O&D markets.

Table III-15
STATUS OF AIR SERVICE AT HOU
CY 2002 and CY 2008

	CY 2002	CY 2008	Avg. Annual Growth Rate CY 02-08
Number of Airport Destinations	30	33	1.6%
Avg. Daily Departures	164	155	-1.0%
Avg. Daily Seats	17,343	18,071	0.7%

Source: BACK Aviation Solutions OAG database.

Figure III-14
YEAR-OVER-YEAR PERCENTAGE CHANGE IN SCHEDULED PASSENGER AIRCRAFT DEPARTURES AND SEATS AT HOU
First Quarter FY 2009 - Second Quarter FY 2010



Source: BACK Aviation Solutions OAG database, downloaded on April 25, 2009.

Table III-16
TOP TWENTY DOMESTIC O&D MARKETS SERVED BY HOU
FY 2008

Rank	City	Airport(s)	Average Air Miles from HOU[1]	OD1A PAX	Share of Domestic O&D Passengers[2]	Avg. Nonstop Departures/Day as of June 2008[3]
1	Dallas/Fort Worth, TX	DFW, DAL	243	111,234	16.3%	33.5
2	New Orleans, LA	MSY	303	39,908	5.8%	10.2
3	Los Angeles, CA	LAX	1,389	29,198	4.3%	3.9
4	Chicago, IL	MDW	937	26,189	3.8%	5.6
5	Las Vegas, NV	LAS	1,235	24,972	3.7%	4.0
6	Atlanta, GA	ATL	696	24,691	3.6%	11.6
7	Orlando, FL	MCO	848	18,764	2.7%	4.8
8	New York, NY	JFK	1,428	18,707	2.7%	2.6
9	Harlingen, TX	HRL	276	17,940	2.6%	8.1
10	San Antonio, TX	SAT	192	17,515	2.6%	7.0
11	Tulsa, OK	TUL	453	16,598	2.4%	3.6
12	Austin, TX	AUS	148	16,563	2.4%	6.3
13	St. Louis, MO	STL	687	16,543	2.4%	3.7
14	Nashville, TN	BNA	670	15,353	2.2%	4.1
15	Oakland, CA	OAK	1,642	14,538	2.1%	2.0
16	Phoenix, AZ	PHX	1,019	14,520	2.1%	4.7
17	Denver, CO	DEN	882	14,415	2.1%	2.9
18	Oklahoma City, OK	OKC	419	14,323	2.1%	3.7
19	Midland/Odessa, TX	MAF	441	12,504	1.8%	1.9
20	El Paso, TX	ELP	677	11,559	1.7%	2.8
Combined Share - Top Twenty Cities					**69.7%**	**127.1**

[1] Bureau of Transportation Statistics Inter-Airport Distance, December 2008.
[2] BACK Aviation Solutions OD1A database.
[3] BACK Aviations Solutions OAG database.

Commercial Aircraft Landings and Landed Weight

Table III-17 presents the trends in commercial aircraft landings and landed weight at Hobby:

- Between FY 1999 and 2008, both landings and landed weight decreased gradually, while the average landed weight per landing increased as larger aircraft were introduced into the fleet. During the first 10 months of FY 2009, landings and landed weight decreased relatively more significantly due to cancelled flights in September and scheduled air service cuts in the second quarter of FY 2009.

- Southwest accounted for the large majority shares: 86.4% of landings and 90.7% of landed weight in FY 2008.

Table III-17				
COMMERCIAL AIRCRAFT LANDINGS AND LANDED WEIGHT AT HOU				
FY 1999 - 2008				
	Commercial Only			
Fiscal Year	**Landings[1]**	**Avg. Daily Landings**	**Landed Weight (1,000 lbs.)**	**Avg. Landed Weight per Landing**
1999	65,771	180	6,731,524	102,348
2000	67,611	185	6,898,457	102,032
2001	65,309	179	6,792,641	104,008
2002	59,541	163	6,292,432	105,682
2003	57,714	158	6,105,683	105,792
2004	57,924	158	6,205,317	107,129
2005	57,459	157	6,312,018	109,853
2006	55,177	151	6,105,000	110,644
2007	55,986	153	6,300,562	112,538
2008	56,924	156	6,468,370	113,632
Jul 2008-Apr 2009	44,530	242	5,060,034	113,632
	Average Annual Growth Rate			
1999-2008	-1.6%	-1.6%	-0.4%	1.2%
Jul 2008-Apr 2009[1]	-6.1%	-6.1%	-5.9%	0.2%

[1] Excluding September to control for the effects of Hurricane Ike, the year-over-year growth rates are as follows: landings, -4.7%; and landed weight, -4.7%.
Source: Houston Airport System.

Southwest's Service at Hobby

Southwest provides primarily short-haul, high-frequency, point-to-point, low-fare service to 65 airports with over 500 Boeing 737 aircraft. The airline has the lowest operating cost structure in the domestic airline industry and consistently offers the lowest and simplest fares. Southwest also has one of the best overall Customer Service records.

Following are some facts about Southwest's operations at Hobby:

- Hobby is a principal station in Southwest's route system, ranking sixth in terms of number of daily departures among the 65 airports served by Southwest as of May 2009.[21] Southwest also operates one of its six reservation centers in Houston.

- Southwest's enplanements at Hobby increased each year during the last five fiscal years, offsetting decreases in enplanements by other airlines. Southwest aircraft departures increased at a slower rate than enplanements, as the number of passenger boardings per departure increased (**Table III-18**).

- Southwest's enplanements and departures were down in the first nine months of FY 2009, affected by Hurricane Ike, the economic slowdown, and air service cuts.

- **Table III-19** compares the status of Southwest's service at HOU in CY 2002 and 2008. Over this period, Southwest added only three destinations and two flights a day. Southwest reduced flights to short- and long-haul destinations, and increased flights to medium-haul destinations.

[21] Southwest Airlines, Inc.

Table III-18			
ACTUAL ENPLANEMENTS AND AIRCRAFT DEPARTURES BY SOUTHWEST AT HOU			
FY 2004 - 2008			
Fiscal Year	**Enplanements**	**Departures[1]**	**Enplanements per Departure**
2004	3,461,308	46,732	74.1
2005	3,589,823	47,286	75.9
2006	3,733,575	46,058	81.1
2007	3,773,330	47,289	79.8
2008	4,052,583	49,207	82.4
Jul 2008-Apr 2009	3,005,225	38,086	78.9
	Average Annual Growth Rate		
2004-2008	4.0%	1.3%	2.7%
Jul 2008-Apr 2009[2]	-8.9%	-7.1%	-2.0%

[1] Based on Airport management record of commercial aircraft landings.
[2] Excluding September to control for the effects of Hurricane Ike, the year-over-year growth rates are as follows: enplanements, -7.0%; and departures, -5.9%.
Source: Houston Airport System.

Table III-19 PUBLISHED NON-STOP DEPARTURES BY SOUTHWEST FROM HOU CY 2002 and 2008		
	CY2002	**CY 2008**
Short-Haul Markets (>= 500 air miles)		
No. of Airport Destinations	9	9
Scheduled Nonstop Daily Departures from HOU[1]	81	67
Medium-Haul Markets (> 500 air miles and <= 1,000 air miles)		
No. of Airport Destinations	10	12
Scheduled Nonstop Daily Departures from HOU[1]	16	36
Long-Haul Markets (> 1,000 air miles)		
No. of Airport Destinations	7	8
Scheduled Nonstop Daily Departures from HOU[1]	35	31
All Markets		
No. of Airport Destinations	26	29
Scheduled Nonstop Daily Departures from HOU[1]	132	134

Source: BACK Aviation Solutions OAG database.

Figure III-15 shows the year-over-year percentage change in scheduled departures and seats by Southwest from Hobby from the first quarter of FY 2009 through the second quarter of FY 2010. This shows that the air service cuts at Hobby are driven mainly by Southwest. For the entire FY 2009, scheduled departures are down 5.2%, and scheduled seats are down 4.8%. The capacity cuts are scheduled to continue through FY 2010.

ELLINGTON

A joint use civil/military airport, Ellington Airport was acquired by the City of Houston in 1984 and now supports the operations of the United States military, NASA, and a variety of general aviation tenants and users. Continental Express provided commuter service between Ellington and Intercontinental from August 1990 through September 2004. Currently no commercial airline service is provided at Ellington.

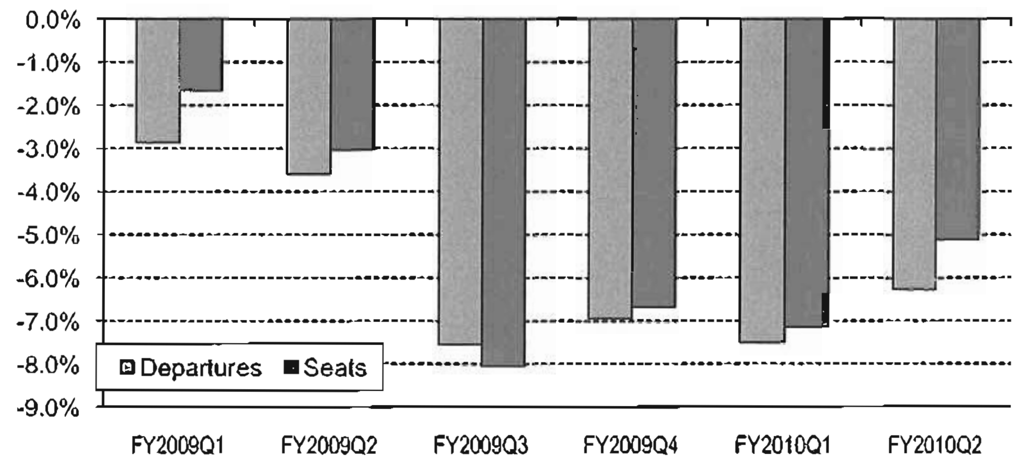


Figure III-15
YEAR-OVER-YEAR PERCENTAGE CHANGE IN SCHEDULED AIRCRAFT DEPARTURES AND SEATS BY SOUTHWEST AT HOU
First Quarter FY 2009 - Second Quarter FY 2010

Source: BACK Aviation Solutions OAG database, downloaded on April 25, 2009.

FACTORS AFFECTING AVIATION ACTIVITY

The forecasts of aviation activity at HAS have been developed based on specific assumptions about the availability and characteristics of airline service at each airport, key measurable factors that drive demand for air travel, and information available at the time of the analysis. There are broader factors affecting the entire aviation industry that influence traffic at HAS and introduce risk and uncertainty into the forecasts. Some of these factors are discussed below.

Economic Conditions

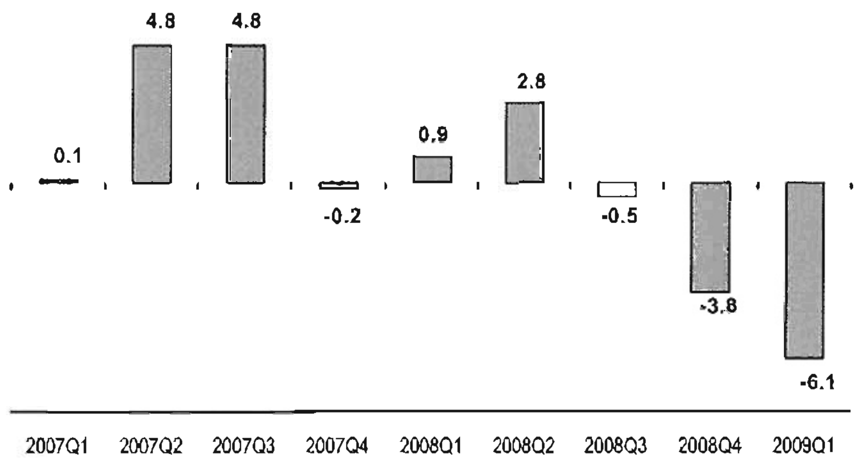
Air travel demand is affected by prevailing economic conditions. At a major hub airport like Intercontinental, air travel demand can be affected by local, national and global economic conditions. Local economic conditions have been discussed in detail in Section II. National and global economic conditions affect air travel to Houston directly as they affect U.S. domestic and international passenger traffic, and indirectly through their effects on the Houston economy as discussed in Section II.

Economic expansion increases income, boosts consumer confidence, stimulates business activity, and increases air travel demand. In contrast, economic recession reduces income, diminishes consumer confidence, dampens business activity, and weakens air travel demand. The NBER Business Cycle Dating Committee, responsible for keeping a chronology of the beginning and ending dates of U.S. recessions, determined that the U.S. economy peaked in December 2007 and entered another period of recession.[22] Compared to the 2001 recession, which was mild and brief, the present recession is predicted to be deeper and longer, lasting through 2009. **Figure III-16** shows the actual percent changes in U.S. real Gross Domestic Product (GDP), a broad measure of economic activity, from the first quarter of CY 2007 through the first quarter of CY 2009. Economic forecasts by independent sources are consistent in the expectation that the recession will continue to deepen at least through the end of the second quarter of

[22] National Bureau of Economic Research Business Cycle Dating Committee, *Determination of the December 2007 Peak in Economic Activity*, December 11, 2008.

CY 2009; subsequent recovery will be sluggish through CY 2010; and the economy will return to moderate growth beginning in CY 2011 (**Table III-20**).

Figure III-16
PERCENT CHANGE IN U.S REAL GROSS DOMESTIC PRODUCT*
First Quarter 2007 - First Quarter 2009



* GDP percent change based on chained 2000 dollars.
Source: U.S. Bureau of Economic Analysis.

Table III-20
FORECAST PERCENT CHANGE IN REAL GDP
CY 2009 - 2014

Source	2009	2010	2011	2012	2013	2014
Economic Report of the President, January 2009	0.6	5.0	5.0	3.4	2.7	2.7
Congressional Budget Office Budget and Economic Outlook: FY 2009 to 2019, January 2009	-2.2	1.5	4.2	4.4	4.2	3.5
Federal Reserve Bank of Philadelphia Survey of Professional Forecasters, February 2009	-2.2	2.2				
Wachovia Economics Group Monthly Outlook, February 2009	-2.7	1.1				

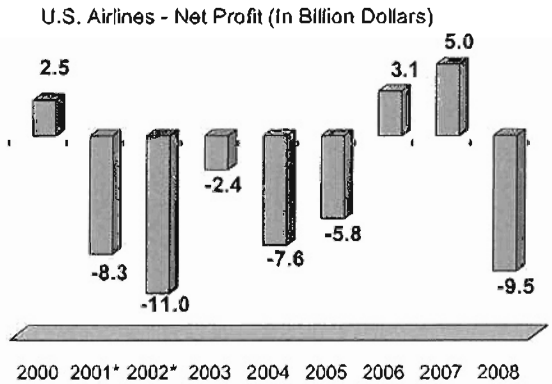
The slowdown in economic activity has spread globally with the continued deleveraging of the financial sector—putting an end to the commodity boom that had cushioned the Houston economy from effects of the U.S. economic recession. Sources such as the International Monetary Fund, the World Bank and the United Nations all predict a global recession in CY 2009, led by a contraction in advanced economies.[23]

[23] International Monetary Fund, *World Economic Outlook Update*, November 6, 2008; The World Bank, *Global Economic Prospects*, December 9, 2008; and The United Nations, *World Economic Situation and Prospects*, 2009.

U.S. Airlines' Financial Performance

Financial weakness and volatility have characterized the U.S. airline industry especially over the past decade. As shown in **Figure III-17**, U.S. airlines posted net losses during five consecutive years from 2001 through 2005, with cumulative losses totaling $35.1 billion. The industry's financial results began to improve in 2006, and U.S. airlines realized a net profit of $3.1 billion in 2006 and $5.0 billion in 2007, despite record high fuel prices. However, jet fuel prices continued to escalate through June 2008, forcing some airlines—including a few that operated at Intercontinental and Hobby—into bankruptcy and liquidation, and others into reducing staff and seat capacity nationwide, including at Intercontinental and Hobby. Jet fuel prices have since fallen significantly providing airlines with cost relief, but the demand for air travel has continued to weaken with the national and global economic slowdown. Consequently all U.S. major airlines but Southwest reported losses for 2008. Continental, the hub carrier at Intercontinental, reported a 2008 net loss of $585 million.[24] Southwest, the dominant carrier at Hobby, reported a full year 2008 net income of $178 million, marking its 36th consecutive year of profitability.[25] All U.S. airlines posted a combined loss of $9.5 billion in CY 2008. In 2009 U.S. airlines face another year of financial uncertainty as the U.S. economic recession deepens.

Figure III-17
U.S. AIRLINES FINANCIAL RESULTS
CY 2000-2008



*2001 and 2002 results include 9/11/01-related compensation, and 2003 results include security cost reimbursements remitted to carriers.
Source: Air Transport Association.

National Security and Threat of Terrorism

Terrorism remains the greatest risk to achieving forecast aviation demand, as stated by the FAA. The government has implemented tighter security measures with the creation of the Department of Homeland Security. The potential, however, remains for terrorists to disrupt economic and social activities severely, including air travel. The U.S. Department of Homeland Security periodically issues updates of their assessment of intelligence regarding potential threats against the United States, including threats that may target the national aviation system. The U.S. involvement in Iraq and in international coalition efforts aimed at dismantling terrorist networks worldwide will continue to have implications for domestic

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[24] Continental Airlines, "Continental Airlines Annnounces 2008 Full Year and Fourth Quarter Loss," *News Release*, January 29, 2009.
[25] Southwest Airlines, "Southwest Airlines Reports 36th Consecutive Year of Profitability and Fourth Quarter Results," *News Release*, January 22, 2009.

security. Travel restrictions imposed pursuant to increased airport security may have a dampening effect on travel demand.

Price of Jet Fuel

The financial health of the airline industry is affected by the price of jet fuel. Volatile fuel prices increased airline costs dramatically during the first seven months of 2008 and contributed to airline industry losses for that year. The price of fuel has begun to drop since July 2008, providing airlines substantial cost relief during the second half of the year.

From 2000 to 2008, the price of jet fuel more than tripled, while the U.S. Consumer Price Index – the price of a representative basket of U.S. goods and services – increased only 25.0 percent (**Table III-21**). As a result, according to the Air Transport Association (ATA), fuel expenses, which historically ranged from 10 to 15 percent of U.S. passenger airline operating costs, now run between 30 and 50 percent. Fuel prices have fallen dramatically since July 2008 (**Figure III-18**).

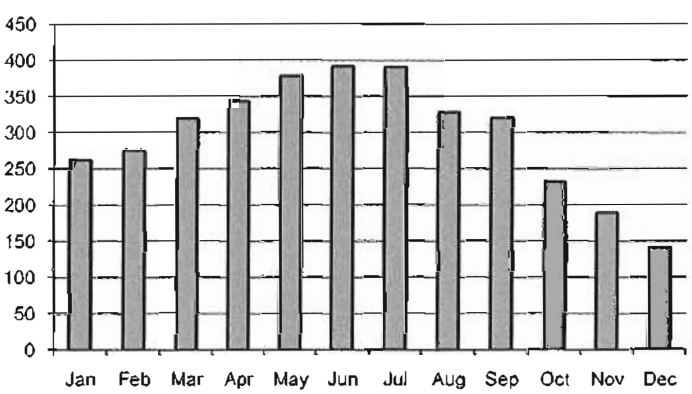
Fuel price volatility can work both ways in affecting airlines' financial results. Some airlines have protected themselves from sharp fuel price increases by the practice of hedging. The practice of price hedging, however, can work against an airline's beneficial interest in times of sharply declining fuel prices.

Table III-21
U.S. AVERAGE JET FUEL PRICE AND THE U.S. CONSUMER PRICE INDEX
2000-2008

Year	U.S. Jet Fuel Price (Cents per gallon)	U.S. CPI (1982-84=100)
2000	90.1	172.2
2001	74.7	177.1
2002	70.9	179.9
2003	85.7	184.0
2004	120.8	188.9
2005	172.7	195.3
2006	197.0	201.6
2007	216.5	207.3
2008	298.0	215.3
	Percent Change	
2000-2008	230.7%	25.0%

Sources: Energy Information Administration and Bureau of Labor Statistics, compiled by Air Transport Association.

Figure III-20
U.S. JET FUEL PRICE (CENTS PER GALLON)
January-December 2008



Sources: Energy Information Administration, compiled by Air Transport Association.

Structural Changes in the Travel Market

Many factors have combined to alter consumer travel patterns. The various security measures now in place at airports have resulted in new passenger fees and longer security processing lines, adding to the cost of air travel. The ATA observes a disproportionate decline in short-haul air travel and a consistent rise in automobile travel. Leisure and business travelers alike have become more sensitive to price. Efforts of airlines to stimulate traffic with fare discounts have changed consumer expectations, in which consumers have now come to expect low fares. In addition, the availability of fully transparent price information on the Internet has also made it easy to compare fares across airlines. Most consumers now bypass travel agencies altogether and purchase tickets online. This has made pricing and marketing even more competitive. Finally, corporate cost cutting has made business customers more amenable to communication substitutes such as tele-conferencing and video-conferencing.

The Mexican Swine Flu Outbreak

Mexico is the largest international market for Intercontinental, and the current outbreak of H1N1 (or "swine") flu, originating from Mexico, presents a concern for near-term international traffic trends at Intercontinental. On April 27, the World Health Organization (WHO) declared a Phase 4 pandemic alert for swine flu and, on June 12, 2009, that alert was raised to Phase 6, the highest level on the WHO's rating scale, indicating a global pandemic outbreak. In an article published on that date, it was noted that,

> "...W.H.O. officials are expected to include the caveat that the flu, which has resulted in mostly mild cases, is not more deadly now that it has been declared a pandemic. Rather, the announcement reflects the global spread of the disease, not an increase in its severity...The declaration of a pandemic will trigger drug makers to speed up production of a swine flu vaccine and prompt governments to devote more money to containing the virus. While international health officials have said the flu appears to be less deadly than the annual bouts of seasonal flu that sweep the globe each year, they warned that virus could mutate into a more lethal strain during the Southern Hemisphere's coming winter flu season."[26]

As was experienced in 2003 with the outbreak of severe acute respiratory syndrome (SARS), the effect of the swine flu outbreak on international traffic should be transitory.

AIR TRAFFIC FORECASTS

The general methodology for developing air traffic forecasts can be described as follows:

- The methodology adopts a hybrid modeling approach: capacity-driven in the near term and demand-driven in the long term.

- The near-term projections for the second half of FY 2009 and, to a certain extent, the entire FY 2010 are based on the most recently published airline schedules of aircraft departures and seats at Intercontinental and Hobby. The airline schedules reflect airlines' expectations about, and their responses to, near-term demand and economic conditions. Scheduled seat capacity determines enplanement levels, in addition to assumptions with respect to the typical flight cancellation rate (the difference between actual and scheduled departures) and trends in boarding load factors. Aircraft departures serve as proxy for landings used as basis for projecting landed weight.

- The projections for FY 2011 and subsequent years are driven by forecast growth in enplanements, based on regression models that relate enplanements to key demand drivers such as price, income, and local economic trends. Forecast annual enplanement levels serve as the basis for projecting annual passenger aircraft operations, which in turn serve as the basis for projecting commercial passenger aircraft landed weight. Assumptions regarding changes in boarding load factors, aircraft gauge (seats per aircraft), and average aircraft landed weight follow FAA projections of industry-wide trends.

- Given the uncertain economic outlook in the short-term, two sets of forecasts are presented for each airport: base case and sensitivity case. The sensitivity case assumes no change in activity levels from FY 2010 through FY 2015.

[26] Nick Cumming-Bruce and Andrew Jacob, "W.H.O. Raises Alert Level as Flu Spreads to 74 Countries", June 12, 2009.

- Forecasts of aircraft departures (= landings) and airline landed weight are then developed by extrapolating historical trends in two key statistics: enplanements per departure and average weight per landing.

The forecasts are based on the following general assumptions with respect to key demand drivers and air service attributes:

- The U.S. economic recession will continue to deepen through 2009 but then moderate in 2010. Moderate economic growth will follow and be sustained through the end of the forecast period. (The forecast recovery in passenger traffic is based in part on (1) the anticipated positive effect that the recently-enacted "stimulus" legislation, the American Recovery and Reinvestment Act of 2009, should have on the general economy and (2) patterns observed in previous major recessions. Nonetheless it should be recognized that there are significant uncertainties regarding the depth and breadth of the current recession as well as the timing and pace of recovery from the recession—uncertainties that will have a major effect on future levels of air traffic activity at the two airports.)

- Houston MSA will experience losses in employment in the near-term and growth over the long-term.

- The price of air travel will continue its declining trend, in real terms, helping to stimulate growth in air travel demand.

- The mix of airlines and the level and character of airline service at Intercontinental and Hobby will not change materially over the forecast period. Continental will continue growing its hub operations at Intercontinental, and Southwest will maintain its strong presence at Hobby.

- Infrastructure capacity will not constrain growth in air traffic activity at Intercontinental and Hobby over the forecast period.

Table III-22 and **Table 111-23** present the base forecasts for Intercontinental and Hobby, respectively.

Table III-24 and **Table 111-25** present the sensitivity forecasts for Intercontinental and Hobby, respectively.

The forecast average annual growth rates in passenger enplanements for the five-year period, FY 2010-FY 2015 (which use the FY 2010 forecast as a base) are summarized as follows:

	Base Case	Sensitivity Case
Intercontinental	3.2%	0.0%
Hobby	0.7%	0.0%

Table III-22
BASE FORECAST OF AIR TRAFFIC ACTIVITY AT INTERCONTINENTAL
FY 2008-2015

	Actual	Estimate	Forecast						Annual Growth Rate		
	2008	2009	2010	2011	2012	2013	2014	2015	2008-09	2009-10	2010-15
Enplanements											
Continental											
Domestic	11,042,767	9,696,000	9,137,000	9,184,000	9,541,000	9,866,000	10,245,000	10,548,000	-12.2%	-5.8%	2.9%
International	2,599,031	2,622,000	2,471,000	2,481,000	2,630,000	2,757,000	2,906,000	3,030,000	0.9%	-5.8%	4.2%
Continental Express											
Domestic	4,284,736	3,863,000	3,905,000	3,925,000	4,077,000	4,216,000	4,378,000	4,508,000	-9.8%	1.1%	2.9%
International	684,134	660,000	688,000	691,000	733,000	768,000	810,000	844,000	-3.5%	4.2%	4.2%
Continental Connection	314,059	276,000	289,000	291,000	302,000	312,000	324,000	334,000	-12.1%	4.7%	2.9%
Other											
Domestic	1,989,422	1,960,000	1,982,000	1,992,000	2,069,000	2,140,000	2,222,000	2,288,000	-1.5%	1.1%	2.9%
Foreign Flag	707,654	710,000	765,000	768,000	814,000	854,000	900,000	938,000	0.3%	7.7%	4.2%
Charter	18,178	20,000	19,000	20,000	21,000	21,000	23,000	23,000	10.0%	-5.0%	3.9%
Total[1]	**21,639,981**	**19,807,000**	**19,256,000**	**19,352,000**	**20,187,000**	**20,934,000**	**21,808,000**	**22,513,000**	**-8.5%**	**-2.8%**	**3.2%**
Annual percent change		*-8.5%*	*-2.8%*	*0.5%*	*4.3%*	*3.7%*	*4.2%*	*3.2%*			
Enplanements per Departure											
Continental											
Domestic	122.9	123.5	115.4	114.9	115.2	115.3	114.7	114.9			
International	119.2	123.7	122.9	123.4	124.1	124.8	125.3	125.7			
Continental Express											
Domestic	39.8	38.9	39.2	39.7	40.4	41.0	41.6	42.2			
International	37.9	38.2	38.2	38.6	39.2	39.6	40.1	40.6			
Continental Connection	18.7	16.8	16.4	16.7	17.0	17.2	17.5	17.9			
Other											
Domestic	84.9	86.0	85.1	85.1	85.9	86.3	86.5	86.7			
Foreign Flag	111.2	116.4	115.9	116.4	116.3	117.0	116.9	118.7			
Charter	71.6	66.7	63.3	66.7	70.0	52.5	57.5	57.5			
Departures (=Arrivals)											
Continental											
Domestic	89,881	78,500	79,200	79,900	82,800	85,600	89,300	91,800	-12.7%	0.9%	3.0%
International	21,806	21,200	20,100	20,100	21,200	22,100	23,200	24,100	-2.8%	-5.2%	3.7%
Continental Express											
Domestic	107,727	99,200	99,700	98,800	101,000	102,800	105,300	106,700	-7.9%	0.5%	1.4%
International	18,037	17,300	18,000	17,900	18,700	19,400	20,200	20,800	-4.1%	4.0%	2.9%
Continental Connection	16,776	16,400	17,600	17,400	17,800	18,100	18,500	18,700	-2.2%	7.3%	1.2%
Other											
Domestic	23,426	22,800	23,300	23,400	24,100	24,800	25,700	26,400	-2.7%	2.2%	2.5%
Foreign Flag	6,362	6,100	6,600	6,600	7,000	7,300	7,700	7,900	-4.1%	8.2%	3.7%
Charter	254	300	300	300	300	400	400	400	18.1%	0.0%	5.9%
Cargo	4,610	4,500	4,500	4,500	4,600	4,700	4,800	4,900	-2.4%	0.0%	1.7%
Total[1]	**288,879**	**266,300**	**269,300**	**268,900**	**277,500**	**285,200**	**295,100**	**301,700**	**-7.8%**	**1.1%**	**2.3%**
Annual percent change		*-7.8%*	*1.1%*	*-0.1%*	*3.2%*	*2.8%*	*3.5%*	*2.2%*			

Table III-22 (Continued)
BASE FORECAST OF AIR TRAFFIC ACTIVITY AT INTERCONTINENTAL
FY 2008-2015

	Actual	Estimate	Forecast						Annual Growth Rate		
	2008	2009	2010	2011	2012	2013	2014	2015	2008-09	2009-10	2010-15
Avg. Aircraft Landed Weight (lbs.)											
Continental											
Domestic	138,301	142,650	135,581	135,419	135,411	135,350	135,286	135,272			
International	168,532	171,274	170,050	170,498	171,132	171,357	171,422	171,286			
Continental Express											
Domestic	43,342	43,760	44,233	44,747	45,356	44,008	43,989	44,011			
International	42,845	43,642	44,556	44,693	45,080	44,742	44,752	44,808			
Continental Connection	28,508	28,537	28,523	28,851	29,213	29,669	30,216	30,749			
Other											
Domestic	100,556	102,412	101,845	102,051	102,656	102,702	102,802	102,462			
Foreign Flag	254,573	277,541	276,667	277,424	276,857	276,986	275,844	279,114			
Charter	404,258	333,333	336,667	336,667	350,000	272,500	285,000	295,000			
Cargo	330,714	331,556	331,556	354,444	370,652	387,872	406,042	425,102			
Landed Weight (1,000 lbs.)											
Continental											
Domestic	12,430,605	11,198,000	10,738,000	10,820,000	11,212,000	11,586,000	12,081,000	12,418,000	-9.9%	-4.1%	2.9%
International	3,675,006	3,631,000	3,418,000	3,427,000	3,628,000	3,787,000	3,977,000	4,128,000	-1.2%	-5.9%	3.8%
Continental Express											
Domestic	4,669,115	4,341,000	4,410,000	4,421,000	4,581,000	4,524,000	4,632,000	4,696,000	-7.0%	1.6%	1.3%
International	772,801	755,000	802,000	800,000	843,000	868,000	904,000	932,000	-2.3%	6.2%	3.1%
Continental Connection	478,249	468,000	502,000	502,000	520,000	537,000	559,000	575,000	-2.1%	7.3%	2.8%
Other											
Domestic	2,355,615	2,335,000	2,373,000	2,388,000	2,474,000	2,547,000	2,642,000	2,705,000	-0.9%	1.6%	2.7%
Foreign Flag	1,619,591	1,693,000	1,826,000	1,831,000	1,938,000	2,022,000	2,124,000	2,205,000	4.5%	7.9%	3.8%
Charter	102,682	100,000	101,000	101,000	105,000	109,000	114,000	118,000	-2.6%	1.0%	3.2%
Cargo	1,524,589	1,492,000	1,492,000	1,595,000	1,705,000	1,823,000	1,949,000	2,083,000	-2.1%	0.0%	6.9%
Total[1]	**27,628,252**	**26,013,000**	**25,662,000**	**25,885,000**	**27,006,000**	**27,803,000**	**28,982,000**	**29,860,000**	**-5.8%**	**-1.3%**	**3.1%**
Annual percent change		*-5.8%*	*-1.3%*	*0.9%*	*4.3%*	*3.0%*	*4.2%*	*3.0%*			

[1] Details may not add to total due to rounding.

Table III-23
BASE FORECAST OF AIR TRAFFIC ACTIVITY AT HOBBY
FY 2008-2015

	Actual	Estimate	Forecast						Annual Growth Rate		
	2008	2009	2010	2011	2012	2013	2014	2015	2008-09	2009-10	2010-15
Enplanements											
Southwest	4,052,583	3,611,000	3,566,000	3,561,000	3,572,000	3,613,000	3,670,000	3,697,000			
Others-Scheduled	508,148	504,000	449,000	448,000	450,000	455,000	462,000	465,000	-0.8%	-10.9%	0.7%
Charter	1,440	2,188	2,000	2,000	2,000	2,000	2,000	2,000	51.9%	-8.6%	0.0%
Total[1]	**4,562,171**	**4,117,000**	**4,017,000**	**4,011,000**	**4,024,000**	**4,070,000**	**4,134,000**	**4,164,000**	**-9.8%**	**-2.4%**	**0.7%**
Annual percent change		*-9.8%*	*-2.4%*	*-0.1%*	*0.3%*	*1.1%*	*1.6%*	*0.7%*			
Enplanements per Departure											
Southwest	82.4	79.2	79.6	79.3	79.4	79.6	79.1	79.3			
Others-Scheduled	66.3	63.0	57.6	57.4	58.4	59.1	59.2	59.6			
Charter	55.4	44.3	41.1	41.2	41.1	40.6	40.0	39.7			
Departures (=Arrivals)											
Southwest	49,207	45,600	44,800	44,900	45,000	45,400	46,400	46,600	-7.3%	-1.8%	0.8%
Others-Scheduled	7,663	8,000	7,800	7,800	7,700	7,700	7,800	7,800	4.4%	-2.5%	0.0%
Charter	26	49	49	49	49	49	50	50	90.1%	-1.6%	0.7%
Cargo	28	17	17	17	17	17	17	17	-41.1%	0.0%	0.0%
Total[1]	**56,924**	**53,700**	**52,700**	**52,800**	**52,800**	**53,200**	**54,300**	**54,500**	**-5.7%**	**-1.9%**	**0.7%**
Annual percent change		*-5.7%*	*-1.9%*	*0.2%*	*0.0%*	*0.8%*	*2.1%*	*0.4%*			
Avg. Aircraft Landed Weight (lbs.)											
Southwest	119,226	120,263	121,629	121,604	121,289	121,189	120,862	120,815			
Others-Scheduled	77,988	75,625	71,538	71,410	72,338	72,987	73,205	73,590			
Charter	131,843	95,164	95,164	95,164	95,164	95,164	95,164	95,164			
Cargo	20,939	16,092	16,092	16,092	16,092	16,092	16,092	16,092			
Landed Weight (1,000 lbs.)											
Southwest	5,866,734	5,484,000	5,449,000	5,460,000	5,458,000	5,502,000	5,608,000	5,630,000			
Others-Scheduled	597,622	605,000	558,000	557,000	557,000	562,000	571,000	574,000	1.2%	-7.8%	0.6%
Charter	3,428	4,703	4,626	4,618	4,633	4,686	4,760	4,796	37.2%	-1.6%	0.7%
Cargo	586	266	266	266	266	266	266	266	-54.7%	0.0%	0.0%
Total[1]	**6,468,370**	**6,094,000**	**6,012,000**	**6,022,000**	**6,020,000**	**6,069,000**	**6,184,000**	**6,209,000**	**-5.8%**	**-1.3%**	**0.6%**
Annual percent change		*-5.8%*	*-1.3%*	*0.2%*	*0.0%*	*0.8%*	*1.9%*	*0.4%*			

[1] Details may not add to total due to rounding.

Table III-24
SENSITIVITY FORECAST OF AIR TRAFFIC ACTIVITY AT INTERCONTINENTAL
FY 2008-2015

	Actual	Estimate	Forecast						Annual Growth Rate		
	2008	2009	2010	2011	2012	2013	2014	2015	2008-09	2009-10	2010-15
Enplanements											
Continental											
Domestic	11,042,767	9,696,000	9,137,000	9,137,000	9,137,000	9,137,000	9,137,000	9,137,000	-12.2%	-5.8%	0.0%
International	2,599,031	2,622,000	2,471,000	2,471,000	2,471,000	2,471,000	2,471,000	2,471,000	0.9%	-5.8%	0.0%
Continental Express											
Domestic	4,284,736	3,863,000	3,905,000	3,905,000	3,905,000	3,905,000	3,905,000	3,905,000	-9.8%	1.1%	0.0%
International	684,134	660,000	688,000	688,000	688,000	688,000	688,000	688,000	-3.5%	4.2%	0.0%
Continental Connection	314,059	276,000	289,000	289,000	289,000	289,000	289,000	289,000	-12.1%	4.7%	0.0%
Other											
Domestic	1,989,422	1,960,000	1,982,000	1,982,000	1,982,000	1,982,000	1,982,000	1,982,000	-1.5%	1.1%	0.0%
Foreign Flag	707,654	710,000	765,000	765,000	765,000	765,000	765,000	765,000	0.3%	7.7%	0.0%
Charter	18,178	20,000	19,000	19,000	19,000	19,000	19,000	19,000	10.0%	-5.0%	0.0%
Total[1]	**21,639,981**	**19,807,000**	**19,256,000**	**19,256,000**	**19,256,000**	**19,256,000**	**19,256,000**	**19,256,000**	**-8.5%**	**-2.8%**	**0.0%**
Annual percent change		*-8.5%*	*-2.8%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*			
Enplanements per Departure											
Continental											
Domestic	122.9	123.5	115.4	115.4	115.4	115.4	115.4	115.4			
International	119.2	123.7	122.9	122.9	122.9	122.9	122.9	122.9			
Continental Express											
Domestic	39.8	38.9	39.2	39.2	39.2	39.2	39.2	39.2			
International	37.9	38.2	38.2	38.2	38.2	38.2	38.2	38.2			
Continental Connection	18.7	16.8	16.4	16.4	16.4	16.4	16.4	16.4			
Other											
Domestic	84.9	86.0	85.1	85.1	85.1	85.1	85.1	85.1			
Foreign Flag	111.2	116.4	115.9	115.9	115.9	115.9	115.9	115.9			
Charter	71.6	66.7	63.3	63.3	63.3	63.3	63.3	63.3			
Departures (=Arrivals)											
Continental											
Domestic	89,881	78,500	79,200	79,200	79,200	79,200	79,200	79,200	-12.7%	0.9%	0.0%
International	21,806	21,200	20,100	20,100	20,100	20,100	20,100	20,100	-2.8%	-5.2%	0.0%
Continental Express											
Domestic	107,727	99,200	99,700	99,700	99,700	99,700	99,700	99,700	-7.9%	0.5%	0.0%
International	18,037	17,300	18,000	18,000	18,000	18,000	18,000	18,000	-4.1%	4.0%	0.0%
Continental Connection	16,776	16,400	17,600	17,600	17,600	17,600	17,600	17,600	-2.2%	7.3%	0.0%
Other											
Domestic	23,426	22,800	23,300	23,300	23,300	23,300	23,300	23,300	-2.7%	2.2%	0.0%
Foreign Flag	6,362	6,100	6,600	6,600	6,600	6,600	6,600	6,600	-4.1%	8.2%	0.0%
Charter	254	300	300	300	300	300	300	300	18.1%	0.0%	0.0%
Cargo	4,610	4,500	4,500	4,500	4,500	4,500	4,500	4,500	-2.4%	0.0%	0.0%
Total[1]	**288,879**	**266,300**	**269,300**	**269,300**	**269,300**	**269,300**	**269,300**	**269,300**	**-7.8%**	**1.1%**	**0.0%**
Annual percent change		*-7.8%*	*1.1%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*			

Table III-24 (continued)
SENSITIVITY FORECAST OF AIR TRAFFIC ACTIVITY AT INTERCONTINENTAL
FY 2008-2015

	Actual	Estimate	Forecast						Annual Growth Rate		
	2008	2009	2010	2011	2012	2013	2014	2015	2008-09	2009-10	2010-15
Avg. Aircraft Landed Weight (lbs.)											
Continental											
Domestic	138,301	142,650	135,581	135,581	135,581	135,581	135,581	135,581			
International	168,532	171,274	170,050	170,050	170,050	170,050	170,050	170,050			
Continental Express											
Domestic	43,342	43,760	44,233	44,233	44,233	44,233	44,233	44,233			
International	42,845	43,642	44,556	44,556	44,556	44,556	44,556	44,556			
Continental Connection	28,508	28,537	28,523	28,523	28,523	28,523	28,523	28,523			
Other											
Domestic	100,556	102,412	101,845	101,845	101,845	101,845	101,845	101,845			
Foreign Flag	254,573	277,541	276,667	276,667	276,667	276,667	276,667	276,667			
Charter	404,258	333,333	336,667	336,667	336,667	336,667	336,667	336,667			
Cargo	330,714	331,556	331,556	331,556	331,556	331,556	331,556	331,556			
Landed Weight (1,000 lbs.)											
Continental											
Domestic	12,430,605	11,198,000	10,738,000	10,738,000	10,738,000	10,738,000	10,738,000	10,738,000	-9.9%	-4.1%	0.0%
International	3,675,006	3,631,000	3,418,000	3,418,000	3,418,000	3,418,000	3,418,000	3,418,000	-1.2%	-5.9%	0.0%
Continental Express											
Domestic	4,669,115	4,341,000	4,410,000	4,410,000	4,410,000	4,410,000	4,410,000	4,410,000	-7.0%	1.6%	0.0%
International	772,801	755,000	802,000	802,000	802,000	802,000	802,000	802,000	-2.3%	6.2%	0.0%
Continental Connection	478,249	468,000	502,000	502,000	502,000	502,000	502,000	502,000	-2.1%	7.3%	0.0%
Other											
Domestic	2,355,615	2,335,000	2,373,000	2,373,000	2,373,000	2,373,000	2,373,000	2,373,000	-0.9%	1.6%	0.0%
Foreign Flag	1,619,591	1,693,000	1,826,000	1,826,000	1,826,000	1,826,000	1,826,000	1,826,000	4.5%	7.9%	0.0%
Charter	102,682	100,000	101,000	101,000	101,000	101,000	101,000	101,000	-2.6%	1.0%	0.0%
Cargo	1,524,589	1,492,000	1,492,000	1,492,000	1,492,000	1,492,000	1,492,000	1,492,000	-2.1%	0.0%	0.0%
Total[1]	**27,628,252**	**26,013,000**	**25,662,000**	**25,662,000**	**25,662,000**	**25,662,000**	**25,662,000**	**25,662,000**	**-5.8%**	**-1.3%**	**0.0%**
Annual percent change		*-5.8%*	*-1.3%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*			

[1] Details may not add to total due to rounding.

Table III-25
SENSITIVITY FORECAST OF AIR TRAFFIC ACTIVITY AT HOBBY
FY 2008-2015

	Actual	Estimate	Forecast						Annual Growth Rate		
	2008	2009	2010	2011	2012	2013	2014	2015	2008-09	2009-10	2010-15
Enplanements											
Southwest	4,052,583	3,611,000	3,566,000	3,566,000	3,566,000	3,566,000	3,566,000	3,566,000			
Others-Scheduled	508,148	504,000	449,000	449,000	449,000	449,000	449,000	449,000	-0.8%	-10.9%	0.0%
Charter	1,440	2,188	2,000	2,000	2,000	2,000	2,000	2,000	51.9%	-8.6%	0.0%
Total[1]	**4,562,171**	**4,117,000**	**4,017,000**	**4,017,000**	**4,017,000**	**4,017,000**	**4,017,000**	**4,017,000**	**-9.8%**	**-2.4%**	**0.0%**
Annual percent change		*-9.8%*	*-2.4%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*			
Enplanements per Departure											
Southwest	82.4	79.2	79.6	79.6	79.6	79.6	79.6	79.6			
Others-Scheduled	66.3	63.0	57.6	57.6	57.6	57.6	57.6	57.6			
Charter	55.4	44.3	41.1	41.1	41.1	41.1	41.1	41.1			
Departures (=Arrivals)											
Southwest	49,207	45,600	44,800	44,800	44,800	44,800	44,800	44,800	-7.3%	-1.8%	0.0%
Others-Scheduled	7,663	8,000	7,800	7,800	7,800	7,800	7,800	7,800	4.4%	-2.5%	0.0%
Charter	26	49	49	49	49	49	49	49	90.1%	-1.6%	0.0%
Cargo	28	17	17	17	17	17	17	17	-41.1%	0.0%	0.0%
Total[1]	**56,924**	**53,700**	**52,700**	**52,700**	**52,700**	**52,700**	**52,700**	**52,700**	**-5.7%**	**-1.9%**	**0.0%**
Annual percent change		*-5.7%*	*-1.9%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*			
Avg. Aircraft Landed Weight (lbs.)											
Southwest	119,226	120,263	121,629	121,629	121,629	121,629	121,629	121,629			
Others-Scheduled	77,988	75,625	71,538	71,538	71,538	71,538	71,538	71,538			
Charter	131,843	95,164	95,164	95,164	95,164	95,164	95,164	95,164			
Cargo	20,939	16,092	16,092	16,092	16,092	16,092	16,092	16,092			
Landed Weight (1,000 lbs.)											
Southwest	5,866,734	5,484,000	5,449,000	5,449,000	5,449,000	5,449,000	5,449,000	5,449,000			
Others-Scheduled	597,622	605,000	558,000	558,000	558,000	558,000	558,000	558,000	1.2%	-7.8%	0.0%
Charter	3,428	4,703	4,626	4,626	4,626	4,626	4,626	4,626	37.2%	-1.6%	0.0%
Cargo	586	266	266	266	266	266	266	266	-54.7%	0.0%	0.0%
Total[1]	**6,468,370**	**6,094,000**	**6,012,000**	**6,012,000**	**6,012,000**	**6,012,000**	**6,012,000**	**6,012,000**	**-5.8%**	**-1.3%**	**0.0%**
Annual percent change		*-5.8%*	*-1.3%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*			

[1] Details may not add to total due to rounding.

Section IV

THE CURRENT CIP AND THE PLAN OF FINANCE

THE CURRENT CIP

HAS maintains a rolling five-year Capital Improvement Program for the Airport System. The new CIP encompasses the five-year period FY 2010-FY 2014. In addition to the FY 2010-FY 2014 CIP, we have included certain major ongoing projects started in FY 2008 and all other projects started or to be started in FY 2009. Collectively, the capital program presented in the report is referred to as the Current CIP. The total estimated cost of the Current CIP is estimated by HAS to be $1,021 million.

For reference purposes, the Current CIP has been subdivided into three components as follows:

• Major projects started prior to FY 2009	$ 164 million
• 2009-2010 Projects	$ 513 million
• 2011-2014 Projects	$ 344 million
	$1,021 million

The 2009-2010 Projects are projects that have already started or are programmed to be started in 2009 and 2010—projects that HAS believes need to be undertaken notwithstanding the recent downturn in traffic and the uncertainties of the current economic environment. The 2011-2014 Projects are projects planned for future implementation, the timing of which is uncertain given current economic conditions.

The financial projections presented in the Report address the entire Current CIP (both the near-term 2009-2010 Projects and the longer-term 2011-2014 Projects). HAS continues to evaluate capital needs and priorities, and the extent and timing of projects in the Current CIP could change as economic conditions and facility requirements at IAH and HOU unfold.

CIP Funding Sources

Funding sources for Airport System capital improvements include:

- **Prior Bond Proceeds** – remaining proceeds of the Series 2000 and Series 2002 Bonds (moneys accumulated largely as a result of excess interest earnings in the Bond Fund and projects closed out at less than the amount originally appropriated).

- **Commercial Paper** – funds appropriated from the HAS commercial paper lines.[1] The City has issued $87 million of AMT commercial paper notes and $6 million of Non-AMT commercial paper notes which are currently outstanding.[2] It has been the practice of the City to periodically take out the outstanding CP Notes and appropriations with new Airport System Revenue Bonds--one of the objectives of the 2009 financing.

[1] The commercial paper program had two components: senior lien commercial paper (in the authorized amount of $150 million) and inferior lien commercial paper (also in the authorized amount of $150 million), for a total authorized amount to $300 million. HAS has been unable to issue additional commercial paper notes at current market rates with the liquidity provider in place.

[2] The CP lines were used as a basis for appropriating funds for certain ongoing and planned projects, but with limited access to the CP lines of credit, total CP funding is now restricted to the amount of the outstanding CP Notes, all of which has now been expended. As a result, HAS has had to borrow internally from the Airports Improvement Fund to continue paying for certain projects originally funded with CP appropriations. These interim borrowings will be repaid once the AMT Notes are refunded.

Table IV-1

SUMMARY OF CURRENT CAPITAL IMPROVEMENT PROGRAM (FY 2009 - FY 2014)
Houston Airport System
(in thousands)

	Total	2000 Bonds	2002 Bonds	Future Bonds	PFCs	Comm'l Paper	R&R Fund	Airport Imp Fund	Other	AIP Grants
INTERCONTINENTAL										
Projects in Process Prior to 2009										
Airfield	$8,678	$0	$1,400	$0	$0	$0	$0	$1,819	$0	$5,459
Parking	45,980	0	0	0	0	0	0	45,980	0	0
Airport People Mover (APM)	94,518	0	0	0	0	84,116	0	10,168	0	234
	$149,176	$0	$1,400	$0	$0	$84,116	$0	$57,967	$0	$5,693
2009-2010 Projects										
Airfield	$3,091	$75	$0	$0	$0	$0	$1,100	$1,916	$0	$0
Terminals	0	0	0	0	0	0	0	0	0	0
Terminal A	13,192	0	0	0	0	0	0	13,192	0	0
Terminal B	62,450	0	0	**51,200**	0	1,250	0	(57)	0	10,057
Terminal C	79,212	0	0	0	0	0	0	79,212	0	0
Terminal D	101,123	0	0	**56,948**	0	0	10,150	17,584	16,441	0
Central FIS	8,142	0	0	0	0	0	0	8,142	0	0
Central Plant	26,904	1,000	0	**16,000**	0	0	0	3,904	0	6,000
Parking (FIS Garage)	13,644	0	0	**12,896**	0	0	0	748	0	0
Airport People Mover (APM)	39,849	0	0	0	0	39,214	0	635	0	0
Airport Support Facilities	3,187	0	0	0	0	0	187	3,000	0	0
	$350,794	$1,075	$0	**$137,044**	$0	$40,464	$11,437	$128,276	$16,441	$16,057
2011-2014 Projects										
Airfield	$95,953	$0	$3,500	$0	$0	$0	$2,400	$57,753	$20,000	$12,300
Terminals										
Terminal A	7,225	0	0	0	0	0	0	7,225	0	0
Terminal B	0	0	0	0	0	0	0	0	0	0
Terminal C	0	0	0	0	0	0	0	0	0	0
Terminal D	115,171	0	0	0	0	0	0	105,171	0	10,000
Other	1,000	0	0	0	0	0	0	250	750	0
Inter-Terminal Train	814	0	0	0	0	0	0	814	0	0
Parking	1,500	0	0	0	0	0	1,500	0	0	0
Remote Security Screening	600	0	0	0	0	0	0	600	0	0
Airport Support Facilities	58,516	0	0	0	0	0	0	37,270	12,246	9,000
	$280,779	$0	$3,500	$0	$0	$0	$3,900	$209,083	$32,996	$31,300
Total - Intercontinental	$780,749	$1,075	$4,900	$137,044	$0	$124,580	$15,337	$395,326	$49,437	$53,050

Table IV-1, page 2 of 2

SUMMARY OF CURRENT CAPITAL IMPROVEMENT PROGRAM (FY 2009 - FY 2014)
Houston Airport System
(in thousands)

	Total	2000 Bonds	2002 Bonds	Future Bonds	PFCs	Comm'l Paper	R&R Fund	Airport Imp Fund	Other	AIP Grants
HOBBY										
2009-2010 Projects										
Airfield	$13,763	$2,017	$2,596	$0	$0	$0	$550	($1,150)	$8,600	$1,150
Terminals	108,156	0	0	**77,318**	0	14,190	5,100	11,548	0	0
Parking	2,000	0	0	0	0	0	0	2,000	0	0
In-Line Baggage Screening	5,347	0	0	0	0	0	0	347	5,000	0
	$129,266	$2,017	$2,596	**$77,318**	$0	$14,190	$5,650	$12,745	$13,600	$1,150
2011-2014 Projects										
Airfield	$4,700	$0	$0	$0	$0	$0	$1,100	$976	$2,624	$0
Terminal Infrastructure	11,432	0	0	0	0	0	0	11,245	187	0
Airport Infrastructure	5,559	0	0	0	0	0	0	5,559	0	0
	$21,691	$0	$0	$0	$0	$0	$1,100	$17,780	$2,811	$0
Total - Hobby	$150,957	$2,017	$2,596	$77,318	$0	$14,190	$6,750	$30,525	$16,411	$1,150
ELLINGTON										
2009-2010 Projects	$10,050	$0	$0	$0	$0	$0	$2,850	$550	$6,650	$0
2011-2014 Projects	17,746	0	0	0	0	0	500	9,446	7,800	0
	$27,796	$0	$0	$0	$0	$0	$3,350	$9,996	$14,450	$0
SYSTEM-WIDE										
Projects in Process Prior to 2009	$14,633	$0	$650	$0	$0	$0	$0	$13,983	$0	$0
2009-2010 Projects	23,181	0	0	0	0	0	0	23,181	0	0
2011-2014 Projects	23,459	0	0	0	0	0	0	23,459	0	0
	$61,273	$0	$650	$0	$0	$0	$0	$60,623	$0	$0
TOTAL AIRPORT SYSTEM CIP	**$1,020,775**	**$3,092**	**$8,146**	**$214,362**	**$0**	**$138,770**	**$25,437**	**$496,470**	**$80,298**	**$54,200**
SUMMARY BY GROUPING:										
Projects in Process Prior to 2009	$163,809	$0	$2,050	$0	$0	$84,116	$0	$71,950	$0	$5,693
2009-2010 Projects	513,291	3,092	2,596	**$214,362**	0	54,654	19,937	164,752	36,691	17,207
2011-2014 Projects	343,675	0	3,500	0	0	0	5,500	259,768	43,607	31,300
	$1,020,775	**$3,092**	**$8,146**	**$214,362**	**$0**	**$138,770**	**$25,437**	**$496,470**	**$80,298**	**$54,200**

Source: Houston Airport System, June 2009.

- **Future Bonds** – the net proceeds of planned future bond issues.

- **PFCs –** passenger facility charge (PFC) resources applied on a pay-as-you-go basis to fund the costs of capital projects. (Most PFC resources are programmed to be used to pay debt service on Bonds.) The current HAS PFC program is discussed immediately below.

- **R&R Fund** – the Renewal & Replacement Fund which is maintained with a balance of $10 million and, when used, is replenished in the following year from Net Revenues (and, where applicable, the replenishment is funded through charges to the airline rate base).

- **Airports Improvement Fund** – the Airports Improvement Fund or "AIF" which is the repository of Airport System Net Revenues. HAS accumulates moneys in the AIF for the primary purpose of funding Airport System capital improvements. As of May 31, 2009, the unappropriated balance of funds in the AIF was $190 million of which $115 million is held as an operating and capital reserve.[3]

- **AIP Grants-in-Aid** – grants-in-aid under the FAA's Airport Improvement Program, primarily for airfield improvements.

- **Other** – grant funding from the Transportation Security Administration (TSA), Federal Emergency Management Administration (FEMA), and funding not yet determined or designated.

The HAS PFC Program

The City has received approval from the FAA to impose and use PFCs at both Hobby and Intercontinental and is currently collecting PFCs.

On August 10, 2006, the City received FAA approval to impose and use the proceeds of a $3.00 PFC at Hobby. The Hobby PFC program has four principal elements:

- To pay (i.e., "*leverage*") debt service on outstanding bonds previously issued for certain completed Hobby projects;

- To *reimburse* HAS for the unamortized cost of certain other Hobby projects that were originally funded from the Airport Improvement Fund; and

- To provide *pay-as-you-go* PFC funding of the local (HAS) share of the costs of certain Airfield projects.

- To *pay debt service* on new bonds to be issued to finance certain planned Hobby projects

The City is authorized to collect a total of $163 million of PFC revenues for these purposes.

[3] HAS plans to increase this reserve to the previously targeted level of $190 million. To date, HAS is authorized to loan $75 million from the AIF to cover costs of ongoing projects that were initially funded with commercial paper appropriations. These moneys will be restored to the AIF once the 2009 Bonds are issued. In addition, $85 million of AIF funding for projects will be replaced with proceeds from the 2009 Bonds.

On October 29, 2008, the City received FAA approval to impose and use the proceeds of a $3.00 PFC at Intercontinental. PFC resources generated at IAH will be used:

- To pay (i.e., "leverage") debt service on outstanding bonds previously issued for certain completed projects at Intercontinental—namely, the completed links of the APM, certain completed terminal apron projects, the new Central FIS Facility, the new north parallel runway, and the recently completed Terminal A/B ramp expansion / south taxiways;

- To pay debt service on new bonds to be issued to finance construction of the APM Extension to Terminal A and the City Project elements of the Terminal B Expansion Program (see discussion below);

- To reimburse HAS for the unamortized portion of completed project costs originally funded from the Airport Improvement Fund (AIF);

- To reimburse HAS for design costs of the A-B Link of the APM that was funded from the AIF; and

- To fund the local (non-federal) HAS share of the cost of planned apron improvements at Terminal D.

The City is authorized to collect a total of $1,372 million of PFC revenues for these purposes, most of which will be applied to pay debt service on outstanding and future series of Bonds (including the Proposed Bonds).

PFC revenues are not formally pledged to pay debt service but have been approved by the FAA for such purpose and will be transferred periodically by HAS to the Senior Lien and Subordinate Lien Bond Interest and Sinking Funds to pay debt service attributable to approved PFC projects.

Overview of the Current CIP

Major capital development initiatives in the Current CIP include:

Intercontinental

- Terminal B Expansion Program
- APM Extension to Terminal A
- Terminal D Remodeling and Expansion
- Central Plant Expansion, Phases II and III

Hobby

- Completion of the Terminal Expansion and Renovation

These initiatives are briefly discussed below.

Terminal B Expansion Program. In March 2008, the City and Continental executed a Term Sheet setting forth the terms and conditions under which the parties would carry out a major expansion and redevelopment of Terminal B at Intercontinental. Terminal B is one of the two original terminals at the Airport, and it has been in service since 1969. Continental uses Terminal B primarily for its "Continental Express" regional jet operations. The intent of the Terminal B Expansion Program is to (1) consolidate regional jet operations into a new concourse facility (central holdroom and three linear piers) on the south side of the terminal complex, with a total of 30 regional jet aircraft parking positions and (2) develop three new concourses on the north side of the terminal complex for mainline jet operations, with a total of 34 gates for both domestic and international flights. The project also envisions a renovated central landside terminal, a new parking structure, a second Federal Inspection Services (FIS) building to process arriving international passengers and associated utilities and infrastructure.

The Terminal B Expansion Program is illustrated in Figure IV-1 on the following page.

In the Term Sheet, the elements of the Terminal B Expansion Program were divided into two groupings:

- The *Continental Project* consists primarily of the terminal elements of the program.

- The *City Project* consists primarily of the airfield, apron, fuel system, parking, roadway, HVAC and other site infrastructure elements of the program.

The Term Sheet defined the APM Extension to Terminal A [see further discussion below] as part of the Terminal B Expansion Program. However, for the purposes of this Report and the 2009 financing, the APM Extension is addressed as a separate project. In the Term Sheet, the cost of the Continental Project was estimated at $675 million, and the cost of the City Project (net of the APM Extension) was estimated at $334 million, for a total estimated program cost (net of the APM Extension) of $1,009 million.

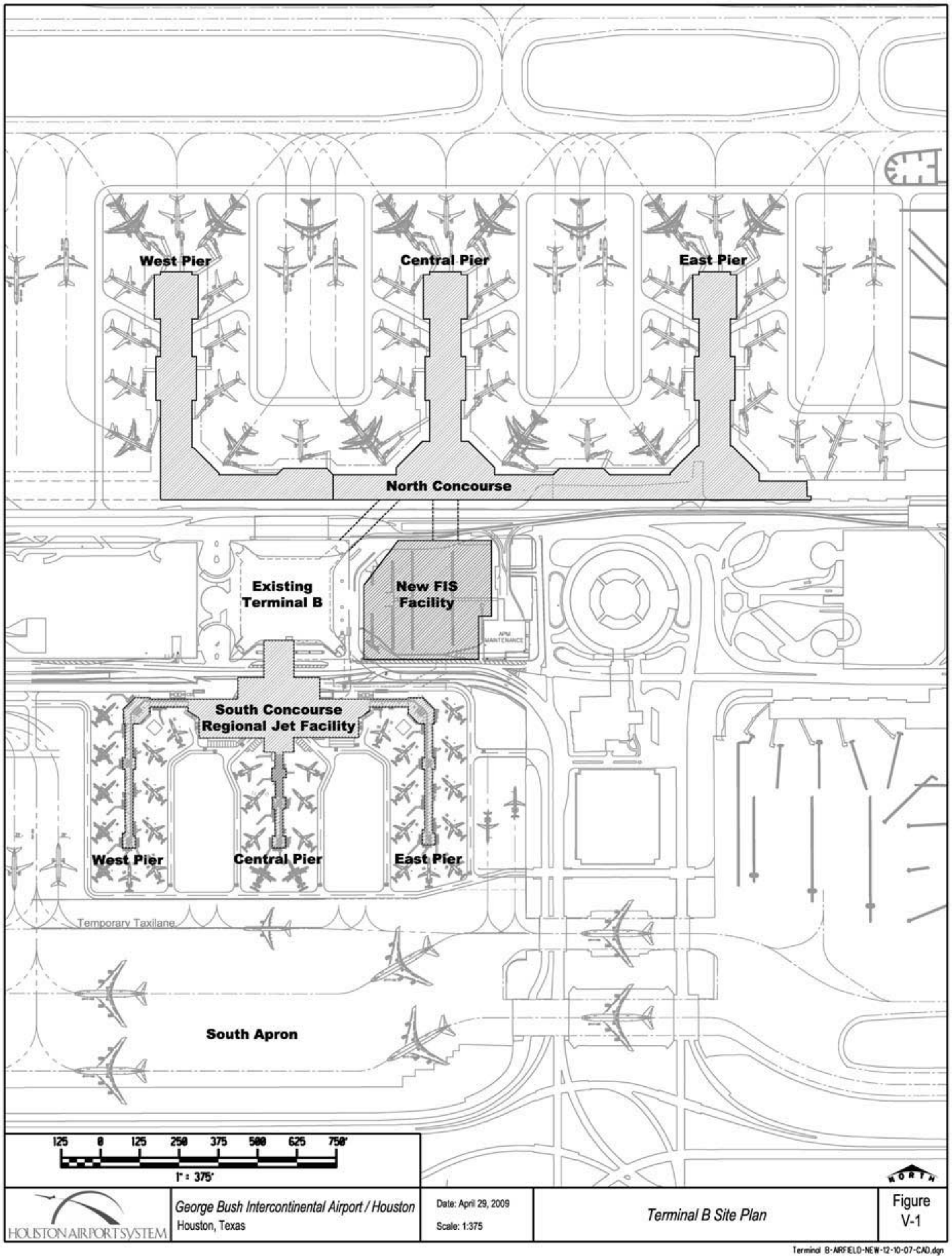
The City Project is anticipated to be financed by the City from a combination of sources including AIF moneys, PFC resources, and Airport System Revenue Bonds. As discussed earlier in this section, the City has received approval to impose and use PFC resources to pay debt service on Bonds to be issued for the airfield, apron and fuel system elements of the Terminal B Expansion Program, and PFC collections for this purpose have begun.

The Continental Project is anticipated to be financed by Continental through the issuance of Continental Special Facility Revenue Bonds (SFRBs) backed by Continental. In the Term Sheet the parties agreed that, in conjunction with implementing the Terminal B Expansion Program, Continental will assume responsibility for operating and maintaining all of Terminal B under a new Special Facility Lease. The Term Sheet anticipates that the Terminal B Expansion Program will be financed with several issues of SFRBs over a period of years as the program was implemented in phases, and establishes a timetable that called for completion of the entire program in five years (by FY 2013)—a schedule that has been slipping and no longer can be achieved.

Because of current economic and market conditions, it is unlikely the City and Continental can issue Continental SFRBs at reasonable interest rates at the present time. As a result, Continental has requested that the Terminal B Expansion Program be deferred until market conditions allow the issuance of Continental SFRBs at reasonable interest rates.

Phase 1 of the Terminal B Expansion Program (the B-South Regional Jet Facility) includes:

1. **Terminal B South Concourse** - a new regional jet South Concourse building, consisting of a single centralized hold-room and three ground-loaded piers to accommodate at least thirty (30) regional jet aircraft and replacing the existing flight stations seven and eight.
2. **Terminal B South Concourse Ramp** - the aircraft apron and fuel distribution system associated with the Terminal B South Concourse, including all required utilities.



West Pier
Central Pier
East Pier
North Concourse
Existing Terminal B
New FIS Facility
South Concourse Regional Jet Facility
West Pier
Central Pier
East Pier
Temporary Taxilane
South Apron
125 0 125 250 375 500 625 750'
1" = 375'
HOUSTON AIRPORT SYSTEM
George Bush Intercontinental Airport / Houston
Houston, Texas
Date: April 29, 2009
Scale: 1:375
Terminal B Site Plan
Figure V-1
Terminal B-AIRFIELD-NEW-12-10-07-CAD.dgn

The total cost of the City's portion of the B-South Regional Jet Facility is estimated to be approximately $62 million, as follows:

Preliminary Planning/Design Services	643	$5.450	million
PM / CM Services	643B	2.000	million
Apron / Fuel System / Utilities	643	55.000	million
Total		$62.450	million

The City anticipates applying $10 million of AIP grant funding toward the costs of the project.

Design of the B-South Regional Jet Facility is essentially complete. For the purposes of this report, it is assumed that construction of Phase 1 of the Terminal B Expansion Program will begin in the fall of 2010 and will be undertaken over a two-year construction period, and that all of the non-federal share ($51 million) of the City's portion of Phase 1 (Terminal B South Ramp and Utilities) will be financed with the 2010 Bonds. However, the timing of the remaining phases of the Terminal B Expansion Program is uncertain, and the City's portion of the costs of these phases has not been included in the Current CIP.

Under the Term Sheet, the operation of Terminal B will transition from the City to Continental under a net lease arrangement that will phase in as major portions of the new facilities are completed and placed in service. For the purposes of this report, it is assumed that the B South Regional Jet Facility will be fully operational, and the net lease arrangement fully in place, by FY 2013.

APM Extension to Terminal A. This project involves the third and final phase of the Automated People Mover (APM) System. The initial phase of the APM—the link connecting Terminals B and C (the B-C Link)—was constructed by Continental (1997-1998) using the proceeds the Series 1997A Continental SFRBs. The second phase, connecting Terminal C to the new International Terminal Complex (Terminal D and E and the Central FIS), was constructed by the City (2003-2005) in conjunction with development of the International Services Expansion Program. Upon completion of the second phase, the City assumed the APM obligations of Continental with respect to the B-C Link under the Series 1997A Special Facilities Lease and the Trust Indenture for the Series 1997A Continental SFRBs, and HAS now operates and maintains the APM system. The third and final phase—the link connecting Terminal B to Terminal A is currently under construction, having been financed on a temporary basis with commercial paper and advances from the AIF. This final phase includes: (a) the guideway and tracks connecting Terminal B and Terminal A, (b) a new APM station at Terminal A, (c) power distribution and control systems, and (d) additional rolling stock.

The total cost of the APM Extension to Terminal A is estimated (based on actual bids) to be $134 million, as follows:

Design	8.897	million
Construction Services	4.800	million
CM Services	6.991	million
Utility Relocation	2.455	million
Guideway	24.552	million
System (Rails / Electrical / Vehicles)	45.318	million
Stations / Platforms / Connector Concourse	39.849	million
Art	1.505	million
	$134.367	million

The major portion of the APM was begun prior to FY 2009 and largely funded with commercial paper appropriations. A small portion ($4.8 million) of the APM Extension to Terminal A is being funded with pay-as-you-go PFC resources; the balance is included in the 2009 financing.

Terminal D Remodeling and Expansion. Terminal D opened in 1991 and now faces the need for major renovation and utility systems upgrades. In addition, Emirates Airlines and Singapore Airlines recently instituted service at Intercontinental and have plans to fly wide-body aircraft on Houston routes. Terminal D requires additional passenger processing and gate capacity to handle an increasing mix of wide-body aircraft—capacity that can best be accommodated by building a new concourse to the north of the existing terminal into the area presently occupied by the existing remote parking apron. The Terminal D Remodeling and Expansion Program, illustrated in Figure IV-2 on the following page, is being developed in response to these needs. The major elements of the program are:

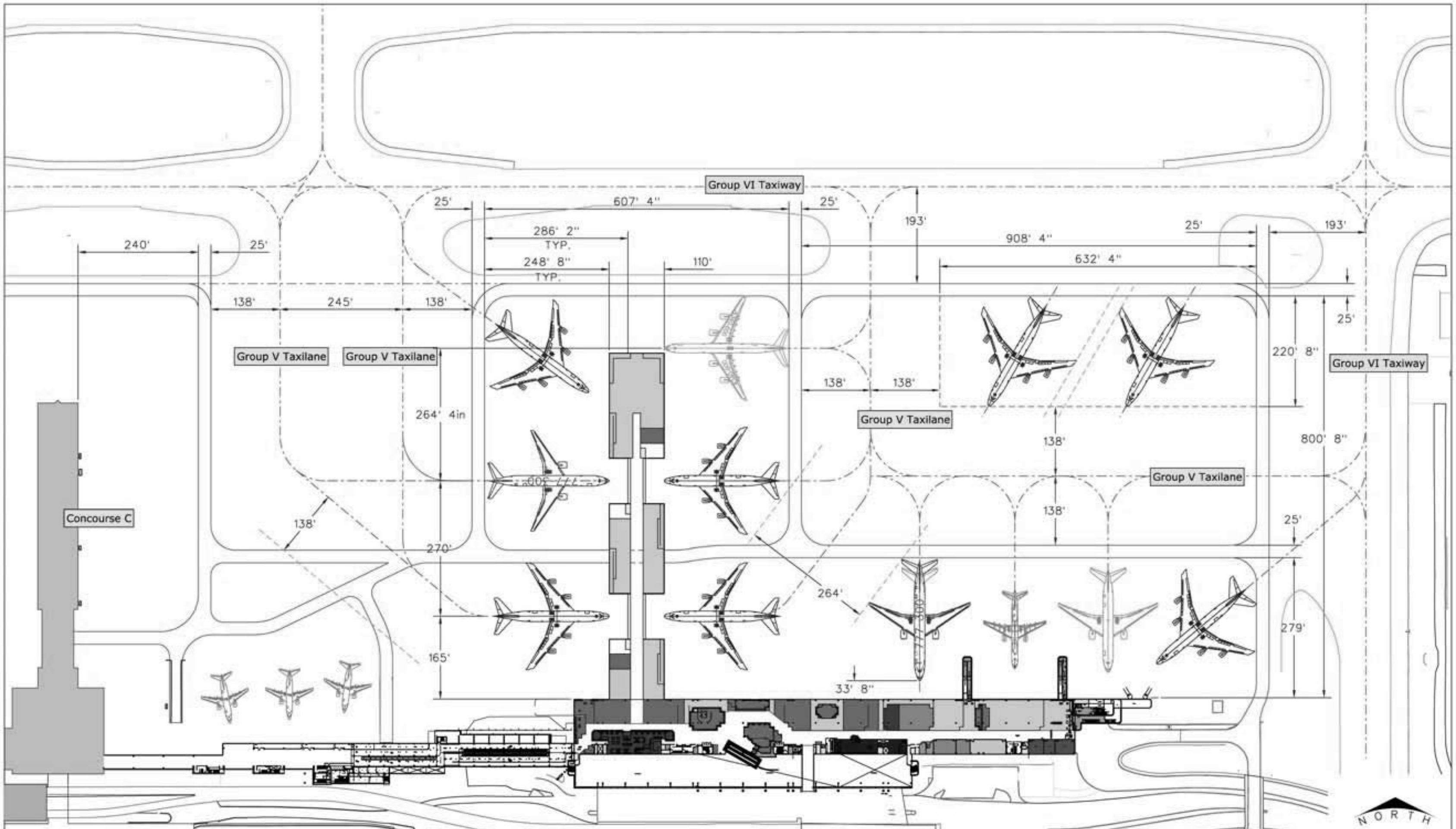
- **Utility and Code Upgrades (500N)** – This project involves a major upgrading and replacement of building utility systems and other improvements to comply with current City building codes. the acquisition of seven loading bridges to replace bridges that are near the end of their useful lives. The new bridges will be designed to accommodate flights by A-380 and B-748 series aircraft.

- **Apron Pavement (500R)** – This project provides the pavement repairs and replacement required to accommodate the planned new concourse including the installation of hydrant fueling at the new concourse gates.

- **New Concourse (500N) -** This project involves the construction of a new linear concourse to the north.

The total cost of Terminal D projects in the CIP is estimated to be $216 million, as follows:

2009-2010 Projects			
Replace Loading Bridges	500N	$4.200	million
Temporary Repairs (Hurricane Ike)	500H	10.100	million
Miscellaneous Improvements	500L	6.192	million
Utilities and Code Upgrades	500N	56.722	million
In-Line EDS	612K	22.334	million
Other	636A	1.575	million
		$101.123	million
2011-2014 Projects			
New Concourse	500N	93.610	million
Apron	500R	21.561	million
		$115.171	million
Total		$216.294	million



Conway Consulting, Ltd.
Airports and Aviation
Chicago - Marco Island

Scale: 1:175
Date: 4/29/09

Terminal D
Remodeling And Expansion Plan
George Bush Intercontinental Airport

HOUSTON AIRPORT SYSTEM

Figure
V-2

The City has deferred implementation of the New Concourse and Apron improvements until FY 2011 (although it does intend to proceed with design at this time). All of the other Terminal D Remodeling and Expansion Program projects are included with the 2009-2010 Projects.

Central Plant Expansion. The new Central Plant Expansion project (referred to as "Phases II and III" of a multi-phased long-term program) represents improvements to increase chilled and hot water generating capacity and, most significantly, reduce air emissions, using more efficient equipment that employ new technologies. The project includes four principal elements: (1) the acquisition and installation of ultra-low nitrogen oxide (NOx) burners, (2) the upgrading of existing electric chillers and the cooling tower, (3) the addition of solar panels, and (4) the addition of new hot water heaters. The project is estimated by HAS consultants to reduce permitted NOx emissions by 84%. The project will also reduce greenhouse gas emissions and eliminate the need for a federal air pollution control Title V operating permit.

The project is estimated by HAS consultants to increase total cooling capacity by 17% and heating capacity by 84%. The large increase in heating capacity results from the conversion from a steam-based heating system to new hot water heater technology. The steam-based system will remain available for use. The project will allow HAS simultaneously to (1) reduce fuel consumption, (2) minimize air emissions and (3) provide added cooling and heating capacity.

The project is estimated to cost $25.9 million, including $3.9 million for design and $22 million for construction. Design is now complete and was funded from the AIF. HAS anticipates receiving approximately $6 million of AIP funding for the project under the FAA's Voluntary Airport Low Emissions (VALE) grant program. The balance, $16 million, is to be financed with the 2009 Bonds.

Hobby Terminal Expansion and Renovation. This project represents the final phase of the Hobby Terminal Expansion Program that was begun in the late 1990s. To date, the City has invested approximately $275 million in the Hobby Terminal Expansion Program.

The program has included construction of a new Central Concourse for Southwest, design of a new East Concourse for the other airlines serving the Airport, and—following the decision by the City to defer construction of the East Concourse indefinitely—construction of an extension to the Central Concourse to accommodate airlines other than Southwest. The final phase of work—the phase included in the Current CIP—is the renovation and expansion of the main terminal to provide expanded ticketing, baggage claim and baggage make-up capacity and additional facilities and services for the public and the other airlines.

The total cost of the terminal improvements currently being undertaken at Hobby is estimated to be approximately $108 million, as follows:

Terminal Expansion Program		
Main Terminal Renovations	417F	$78.881 million
Apron/Taxiway/Other	417F	14.190 million
Terminal Expansion - Hurricane Ike Repairs	417F	2.500 million
Loading Bridges	417T	9.985 million
Hurricane Ike Permanent Repairs	630	2.600 million
Total		$108.156 million

Most of the cost of the Main Terminal Renovations ($77 million) is to be funded with the 2009 Bonds.

PLAN OF FINANCE FOR THE PROPOSED BONDS

For the purposes of the Report, it is assumed that the City will issue the Proposed Bonds in two series for the following purposes:

- **Series 2009** – To (1) refund on a current basis $87.0 million of the City's outstanding Airport System Senior Lien AMT Commercial Paper Notes (the AMT Notes), (2) to fund $136.9 million of unfunded project costs originally appropriated from commercial paper but for which the City has not issued commercial paper notes (the unfunded CP appropriations), and (3) to provide new money financing for approximately $119.4 million of capital projects—projects programmed to start in calendar year 2009.

- **Series 2010** – To (1) refund on a current basis $92.9 million of outstanding City of Houston, Texas, Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005A (AMT), and (2) to provide new money financing for approximately $95.0 million of capital projects—projects programmed to start in calendar year 2010.

The $136.9 million of unfunded commercial paper appropriations to be funded with the 2009 Bonds are shown in Table IV-2. Approximately $13.4 million of the unfunded commercial paper appropriations are for approved PFC projects and will be paid down from PFC resources as funds become available; the balance will be financed with the 2009 Bonds.

The new money projects to be financed with the 2009 Bonds and 2010 Bonds are shown in Table IV-3.

Bond Sizing / Sources and Uses of Funds

Table IV-4 is a summary of the bond sizing analysis (sources and uses of funds) prepared by First Southwest Company, the City's financial advisor for the Airport System. For illustrative purposes, the bond sizing analysis breaks down the planned financings by principal components. Interest on the "new money" projects will be capitalized through the estimated completion date of each project. For each series of bonds, a debt service reserve fund will be funded from bond proceeds in the aggregate amount of the Reserve Fund Requirement for each series.

The 2009 financing is estimated to require the issuance of $409 million of Bonds to refund the AMT commercial paper notes, fund the unfunded commercial paper appropriations, and fund new money projects. The 2010 financing is estimated to require the issuance of $217 million of bonds to refund the 2005A Bonds and fund the balance of the new money projects.

Annual Debt Service

Table IV-5 summarizes the annual debt service requirements associated with the 2009 Bonds and the 2010 Bonds. In sizing the bonds and estimating debt service requirements, First Southwest assumed an average coupon rate on the Proposed Bonds of approximately 5.7%. The debt service requirements for the subcomponents of each issue are shown for illustrative purposes only.

As mentioned earlier in this section, a significant portion of the bonds being refunded was expended for approved PFC projects, and certain of the new money projects are approved PFC projects. As a result, about 43% of the future debt service resulting from the 2009 Bonds and 2010 Bonds will be payable from PFC resources, as shown in Table IV-6. The balance of the project costs addressed in the 2009 and 2010 financings will be rate based and recovered from airline rates and charges and other Airport System Gross Revenues.

Table IV-2

FUNDING OF PROJECTS INITIALLY FUNDED WITH COMMERCIAL PAPER APPROPRIATIONS
Houston Airport System
(All figures in thousands)

Project Description	Project Number	Status	PFC Project?	Total Comm Paper Appropriation	less: Amount Funded with: Commercial Paper Notes: Current AMT ($87 million)	Current Non-AMT ($6 million)	Pay-As-You-Go PFCs	Balance = Unfunded Cost
AMT CP Appropriations--APM Extension								
Intercontinental:								
APM Extension to Terminal A	536	ongoing	Yes	$123,096			$4,800	$118,296
				$123,096	**$0**	**$0**	**$4,800**	**$118,296**
AMT CP Appropriations--Other								
Intercontinental:								
Terminal C Electrical Vault Expansion	490P	completed	No	2,332	2,332		0	
PM Contract Amendment #5	569	completed	No	2,544	2,544		0	
FIS Building and APM Station Amendment	500F	completed	Partial	6,597	6,597		0	
International Services Expansion Program Management	500A	completed	Partial	6,766	6,766		0	
Hobby:								
Access Controls and Electrical Duct Bank	576A	ongoing	Yes	3,985	0		1,101	2,884
Terminal Expansion and Renovation - Phase 1 - Y Concourse Expansion	417F	completed	No	57,899	57,899		0	0
Terminal Expansion and Renovation - Phase 2 - Apron/Taxiway/Other	417F	ongoing	Yes	14,190	10,862		0	3,328
				$94,313	**$87,000**	**$0**	**$1,101**	**$6,212**
Non-AMT CP Appropriations								
Intercontinental:								
Upgrade Runway 8-26	491B	completed	No	0				0
Terminal A/B Ramp Widening	558B	completed	Yes	0				0
Rehabilitation of Runway 9-27	423	ongoing	No	9,218				9,218
Terminal B Expansion Program - Phase 1 South Apron and Fuel System - Design	643	ongoing	Yes	1,250				1,250
Hobby:								
Perimeter Fencing and Obstruction Removal	576	completed	Yes	3,389		1,465	0	1,924
Overlay of Runway 12R-30L	619	completed	Yes	6,034		4,535	1,499	0
				$19,891	**$0**	**$6,000**	**$1,499**	**$12,392**
Total - Projects Initially Funded with Commercial Paper Appropriations				**$237,300**	**$87,000**	**$6,000**	**$7,400**	**$136,900**
					To be refunded with 2009 Bonds	To be paid down with PFCs	To be paid down with PFCs	To be funded with 2009 Bonds

Source: Houston Airport System records.

Table IV-3

"NEW MONEY" CIP PROJECTS TO BE FUNDED WITH BONDS

Houston Airport System

(All figures in thousands)

Project Description	Project Number	Status	PFC Project?	Total Bond-Funded Project Costs		Series 2009 Bonds	Series 2010 Bonds
Intercontinental							
Terminal D / Miscellaneous Improvements							
Moving Walkways	500L	new	No	1,148		1,148	
VIP Lounge Bar & Equipment	500L	new	No	37		37	
Temporary Repairs	500L	new	No	13		13	
FIS / Garage							
FIS Garage Escalators	500L	new	No	12,896		12,896	
Terminal D Remodeling							
Design and CM Services	500N	new	Yes	11,500		11,500	
Utilities & Code Upgrades	500N	new	Yes	44,000			44,000
Weatherproofing Floor in Bag Make-up	500N	new	Yes	250			250
New Concourse	500N	new	Yes		Note 1		0
Terminal D Apron							
Design and Construction Services	500R	new	Yes		Note 1	0	
Construction	500R	new	Yes		Note 1		0
Terminal B Expansion Program (South)							
Design and Construction Services	643/643A	new	Yes	450		450	
PM / CM Services	643B	new	Yes	2,000			2,000
South Ramp and Utilities - Phase 1	643	new	Yes	23,750			23,750
South Ramp and Utilities - Phases 2 and 3	643	new	Yes	25,000			25,000
Central Plant Expansion (Phases II and III)	621	new	No	16,000		16,000	
Hobby							
Terminal Expansion and Renovation							
Main Terminal Renovations	417F	new	Yes	77,318		77,318	
Total				**$214,362**		**$119,362**	**$95,000**

1. The Terminal D concourse and apron work (design and construction) have been deferred until FY 2011.

Source: HAS records.

Table IV-4

SUMMARY OF BOND SIZING ANALYSIS
(Sources and Uses of Funds)
Series 2009 and Series 2010 Bonds
Houston Airport System
(All figures in thousands)

	Series 2009 Bonds			Series 2010 Bonds			
	APM Extension	Other Projects	Series 2009 Bonds	Refunding 2005A Bonds	Terminal B Apron	Other Projects	Series 2010 Bonds
Sources of Funds							
Par amount of bonds	$135,740	$273,725	**$409,465**	$101,030	$62,260	$53,850	**$217,140**
Net premium	4,155	(2,443)	1,712	1,787	1,061	234	3,082
Interest income							
Construction funds	362	986	1,348	0	280	239	519
Capitalized interest	96	418	514	0	90	53	144
Total Sources of Funds	$140,353	$272,686	$413,039	$102,817	$63,691	$54,376	$220,885
Uses of Funds							
Refunding elements							
Take out of Commercial Paper Notes		**$87,000**	**$87,000**				
Deposit to Refunding Escrow -- 2005A Bonds				**$92,900**			**$92,900**
Other escrow requirements				187			187
"New Money" elements							
Unfunded CP Appropriations	**$118,296**	**$18,604**	**$136,900**				
CIP Projects		**$119,362**	**$119,362**		**$50,750**	**$44,250**	**$95,000**
Costs of issuance / underwriter's discount	1,493	3,011	4,504	1,111	685	592	2,389
Capitalized interest	10,229	23,873	34,101	0	6,942	4,939	11,881
Debt service reserve	10,332	20,835	31,167	8,619	5,311	4,594	18,524
Rounding amount	3	1	4		3	1	4
Total Uses of Funds	$140,353	$272,686	$413,039	$102,817	$63,691	$54,376	$220,885

Source: First Southwest Company, June 2, 2009.

Table IV-5

ESTIMATED ANNUAL DEBT SERVICE REQUIREMENTS
Series 2009 and Series 2010 Bonds
Houston Airport System
(All figures in thousands)

Series 2009 Bonds			
	APM	Other Projects	Total
Capitalized Interest			
2010	7,135	8,060	15,195
2011	3,093	7,746	10,839
2012	0	5,826	5,826
2013	0	2,241	2,241
Total	**$10,229**	**$23,873**	**$34,101**
Annual Debt Service			
2010	0	6,980	6,980
2011	4,331	7,902	12,233
2012	7,424	9,823	17,247
2013	7,424	13,407	20,832
2014	7,424	15,648	23,073
2015	13,039	18,123	31,163
2016	13,043	18,120	31,163
2017	13,038	18,125	31,163
2018	13,039	18,128	31,167
2019	13,039	18,125	31,164
2020	13,043	18,124	31,167
2021	13,043	18,121	31,164
2022	13,042	18,122	31,165
2023	13,038	18,129	31,167
2024	13,041	18,125	31,165
2025	13,042	18,124	31,167
2026	13,042	18,122	31,164
2027	13,043	18,123	31,166
2028	13,038	18,129	31,167
2029	13,039	18,124	31,163
2030	13,039	18,128	31,167
2031		31,165	31,165
2032		31,165	31,165
2033		31,163	31,163
2034		31,164	31,164
2035		31,166	31,166
2036		31,167	31,167
2037		31,164	31,164
2038		31,163	31,163
2039		31,163	31,163
2040			
Total	**$235,253**	**$624,235**	**$859,488**

Series 2010 Bonds				
	Refunding 2005A Bonds	Terminal B Apron	Other Projects	Total
Capitalized Interest				
2010				
2011	0	3,901	3,422	7,323
2012	0	2,604	1,517	4,121
2013	0	437	0	437
Total	**$0**	**$6,942**	**$4,939**	**$11,881**
Annual Debt Service				
2010				n.a.
2011	6,445	0	0	6,445
2012	5,714	856	1,517	8,087
2013	5,714	3,022	3,034	11,771
2014	5,714	3,459	3,034	12,208
2015	5,714	3,459	3,034	12,208
2016	5,744	5,274	4,099	15,118
2017	5,713	5,274	4,096	15,083
2018	5,713	5,278	4,100	15,092
2019	5,713	5,273	4,097	15,083
2020	5,713	5,278	4,100	15,091
2021	5,783	5,278	4,100	15,161
2022	5,769	5,275	4,101	15,145
2023	5,751	5,275	4,097	15,123
2024	5,743	5,274	4,099	15,115
2025	5,706	5,274	4,101	15,081
2026	24,146	5,276	4,098	33,520
2027	23,841	5,274	4,101	33,216
2028	23,508	5,274	4,097	32,879
2029	23,580	5,275	4,099	32,954
2030	23,492	5,275	4,099	32,866
2031		5,273	4,097	9,370
2032		5,274	4,097	9,371
2033		5,277	4,100	9,377
2034		5,275	4,100	9,375
2035		5,274	4,096	9,370
2036			4,097	4,097
2037			4,097	4,097
2038			4,098	4,098
2039			4,097	4,097
2040			4,100	4,100
Total	**$205,218**	**$116,297**	**$113,081**	**$434,597**

Source: First Southwest Company, June 2009.

Table IV-6

DEBT SERVICE PAYABLE FROM PFC RESOURCES
Series 2009 and 2010 Bonds
Houston Airport System
(All Figures in thousands)

	Projected FY 2015		
	Projected Annual Debt Service	Percentage of PFC Projects1	Debt Service Recoverable from PFC Resources
2009 Bonds			
APM	$13,039	100.0%	$13,039
Other Projects	18,123	12.0%	2,178
2010 Bonds			
Refunding of 2005A Bonds	5,714	0.0%	0
Terminal B South Apron	3,459	100.0%	3,459
Other Projects	3,034	0.0%	0
Total	**$43,371**		**$18,677**
Percentage of new debt service payable from PFC resources			**43.1%**

[1] Represents the percentage of total project costs being funded by each series that is attributable to approved PFC projects.

Section V

FINANCIAL ANALYSIS AND FORECAST

This section reviews the framework for the financial operation of the Airport System (including key provisions of the Bond Ordinances and the airline use and lease agreements); discusses the recent historical financial performance of the Airport System; discusses the information and assumptions underlying the forecasts of Airport System Operation and Maintenance Expenses, Gross Revenues, Net Revenues, and debt service coverage; and presents the financial forecasts that are set forth in a series of exhibits accompanying the report.

FRAMEWORK FOR THE FINANCIAL OPERATION OF THE AIRPORT SYSTEM

The Bond Ordinances

The Proposed Bonds will be issued pursuant to a master Senior Lien Bond Ordinance for the 2009 and 2010 Bonds. The Senior Lien Bond Ordinance and the other outstanding bond ordinances are collectively referred to in this report as the Bond Ordinances. Major provisions of the Bond Ordinances include the flow of funds (i.e., application of revenues) to various funds and accounts established under the Bond Ordinances, the Rate Covenant, and the provisions for the issuance of additional Bonds.

Application of Revenues. The application of revenues to funds and accounts established under the Bond Ordinances is illustrated in **Figure V-1** and described in greater depth elsewhere in the official statement for the 2009 Bonds. Net Revenues remaining after paying debt service on the Senior Lien Bonds, the Subordinate Lien Bonds, and any Inferior Lien Bonds, flow first to replenish the Operation and Maintenance Reserve Fund and the Renewal and Replacement Fund and then to the credit of the Airports Improvement Fund (AIF). Moneys in the AIF represent a significant source of equity capital for financing Airport System capital improvements.

In addition to the funds established under the Bond Ordinances, the City has established PFC Funds for both Intercontinental and Hobby to account for PFC revenues being collected and used to fund approved PFC projects at each airport pursuant to FAA-approved PFC applications. Certain moneys in the PFC Funds are to be applied toward debt service on outstanding Bonds, pursuant to the approved PFC applications, as also illustrated in **Figure V-1**.

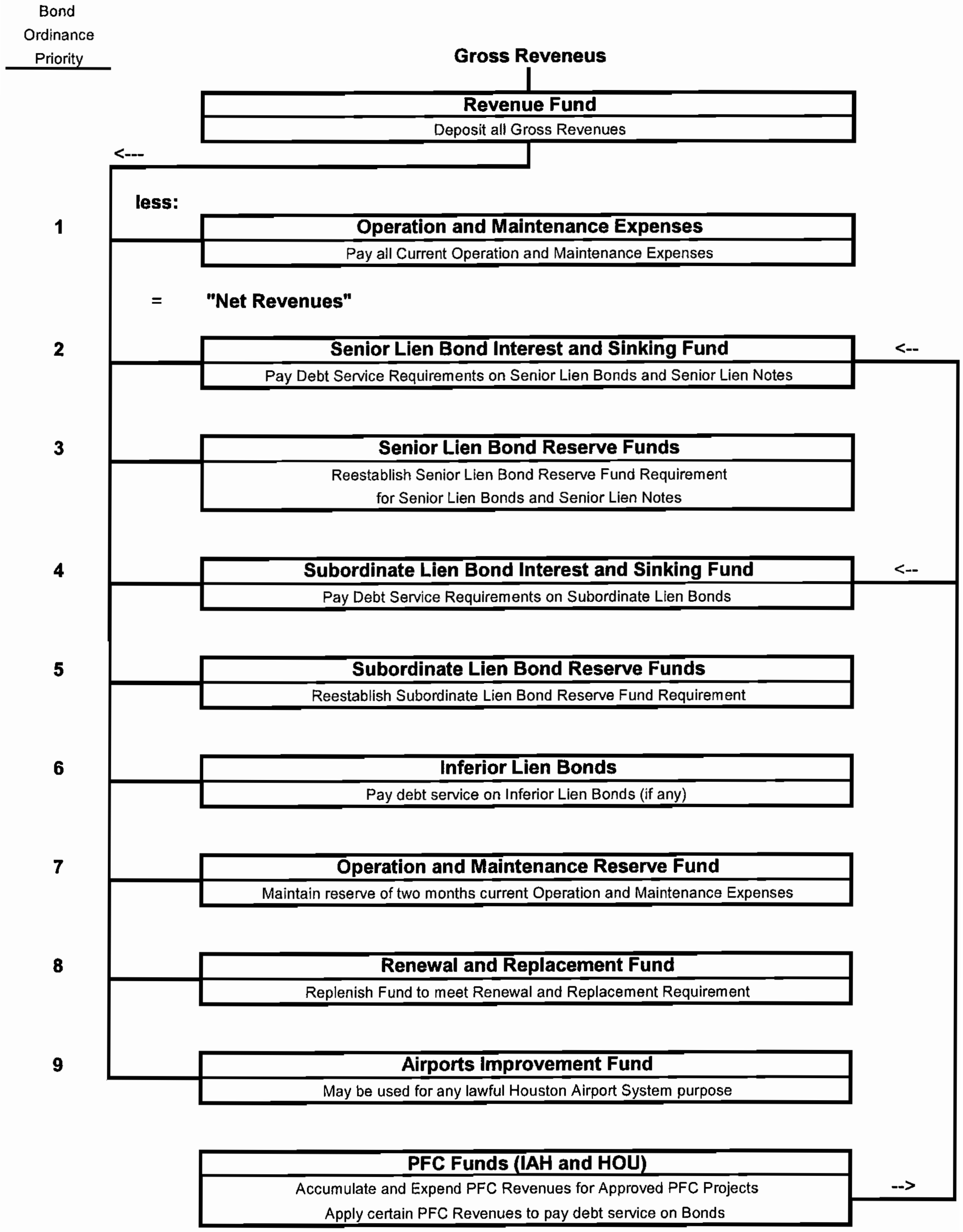
Rate Covenant. The City covenants in the Bond Ordinances that it will:

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

This provision is referred to as the Rate Covenant.

Figure V-1

APPLICATION OF GROSS REVENUES
Under Provisions of the Bond Ordinances
Houston Airport System



Note: PFC revenues are not formally pledged to pay debt service on any Houston Airport System Bonds or notes but have been approved by the Federal Aviation Administration for such purpose and will be transferred periodically by HAS to the Senior Lien and Subordinate Lien Bond Interest and Sinking Funds or such other accounts dedicated to pay debt service attributable to approved PFC projects.

Additional Bonds Test. As a condition of issuing additional Senior Lien Bonds or Subordinate Lien Bonds, the Bond Ordinances require, among other provisions, that either:

(a) An Airport Management Consultant provides a written report setting forth projections which indicate that the estimated Net Revenues of the Airport System for each of the three consecutive fiscal years beginning with the earlier of (i) the first Fiscal Year following the estimated date of completion and initial use of all revenue-producing facilities to be financed with such series of Bonds, based upon a certified written estimated completion date by a consulting engineer for such facility or facilities, or (ii) the first Fiscal Year in which the City will have scheduled payments of interest on or principal of the series of Bonds to be issued for the payment of which provision has not been made as indicated in the report of such Airport Management Consultant from proceeds of such series of Bonds, investment income thereon or from other appropriated sources (other than Net Revenues) are equal to at least (A) 125% of the Debt Service Requirements on all Senior Lien Obligations plus (B) 110% of the Debt Service Requirements on all Subordinate Lien Bonds scheduled to occur during each such respective Fiscal Year after taking into consideration the additional Debt Service Requirements for the series of Bonds to be issued [the Future Earnings Test]; or

(b) In lieu of the certification described in (a), the City Controller may provide a certificate showing that, for either the City's most recent complete Fiscal Year or for any consecutive 12 out of the most recent 18 months, the Net Revenues of the Airport System were equal to at least (i) 125% of the maximum Debt Service Requirements on all Senior Lien Obligations plus (ii) 110% of the maximum Debt Service Requirements on all Subordinate Lien Bonds scheduled to occur in the then current or any future Fiscal Year after taking into consideration the issuance of the series of Bonds proposed to be issued [the Historical Earnings Test].

This report has been prepared in part to respond to the requirements of the Future Earnings Test provision of the Bond Ordinances.

Airline Use and Lease Agreements

Most of the airlines operating at Intercontinental and Hobby have entered into use and lease agreements with the City. Those airlines that do not operate under use and lease agreements generally operate under agreements or arrangements on a month-to-month basis or under a City ordinance. For a discussion of the various use and lease agreements, see the "Use and Lease Agreements" section of the Official Statement.

Five different agreements govern airline use and occupancy of the airports and terminal facilities at Intercontinental and Hobby:

1. ***Continental Use and Lease Agreement*** *– regarding Continental's use and occupancy of Terminals B and C at Intercontinental;*

2. ***Terminal A Use and Lease Agreement*** *– regarding the use of the Airport and use and occupancy of Terminal A by Continental and the other domestic airlines serving Intercontinental;*

3. ***International Facilities Agreements** (IFA) – regarding the use of the Airport and the use and occupancy of Terminal D and the Central FIS by Continental and foreign flag carriers serving Intercontinental; and*

4. ***Continental Terminal E Special Facility Lease** – regarding Continental's lease of ground and the financing, development and operation of Terminal E, Continental's international terminal at Intercontinental;*

5. ***Hobby Use and Lease Agreement** – regarding the use of the airport and use and occupancy of terminal facilities by Southwest and the other domestic airlines at Hobby.*

In addition, as discussed in Section IV, the City and Continental have entered into a Term Sheet with respect to the planned Terminal B Expansion Program.

***Continental Use and Lease Agreement**. Under the Continental Use and Lease Agreement, the term of Continental's lease of Terminal C premises is 20 years from January 1, 1998 to December 31, 2017. The original term of Continental's lease for Terminal B was 10 years, effective from January 1, 1998 through December 31, 2007; Continental exercised its option on the Terminal B space to extend the term of the lease for an additional 10 years to December 31, 2017. To facilitate Continental's hub operations at Intercontinental, Continental has the preferential right to use all of the apron area and exclusive right to use of all of the holdrooms and other airline space in Terminals B and C for the duration of the lease term, subject to the City's right under certain conditions[30] to require Continental to relinquish under-utilized space in Terminal B.*

The Continental Use and Lease Agreement provides for a continuation of the "compensatory" rate-making approach for terminal building rental rates that has been in effect since the Airport opened in 1969, with certain modifications. In concept, each terminal at Intercontinental is a separate cost center, and each terminal is further divided into two sub-cost centers: "Airline Area" and "Public/Concession Area." Costs are allocated to each sub-cost center. The total costs of the airline area sub-cost center are then divided by the square footage of airline space to determine the rate per square foot that is charged to airline tenants.

In Terminals B and C, the terminal rental rate base includes the following cost elements:

1. Direct and indirect Operation and Maintenance Expenses allocable to the terminal's Airline Area

2. A Base Capital Charge per square foot times the terminal's Airline Area31

3. Amortization of the net cost of each Capital Improvement placed in service in the terminal's Airline Area on or after July 1, 1998, together with amortization of the net costs of certain Capital Improvements placed in service prior to July 1, 1998

4. Interest on the cost of land allocable to the terminal's Airline Area computed at City's historical average Cost of Capital

[30] If Continental's average utilization of Terminal B gates falls below an airport-wide standard of four flights per day during a designated "test period."

[31] The Base Capital Charge in Terminal B is $6.50 per square foot, reduced for any space demolished or replaced and further reduced by $1.50 per square foot for ticketing area queuing space and by $6.50 per square foot for mezzanine level areas identified as Special Facility space). Currently there is no Base Capital Charge in Terminal C.

5. Annual Systems Costs allocable to the terminal's Airline Area

6. Annual replenishment of the Renewal and Replacement Fund allocable to the terminal's Airline Area, if necessary.

7. Reallocation of the cost of HAS space allocable to the Airline Area of Terminals B and C.

The annual rate is then calculated by dividing the total of these costs by the total square footage of airline space in the terminal's Airline Area.

Similar formulas apply for the calculation of rental rates for the Terminal B and C apron areas.

Under this methodology, the airlines pay only the actual costs of the space they lease and use. The costs associated with public and concession space must be covered by concession revenues and other non-airline revenue sources. The airlines do not share in (i.e., receive credit for) any of the concession or other non-airline revenues. The City retains all concession revenues, including parking, rental car, and ground transportation revenues generated outside the terminal buildings. At Intercontinental (and at Hobby), the "outside" concession activities are particularly profitable, resulting in substantial net revenues flowing to the Airport Improvement Fund each fiscal year.

The landing fee at Intercontinental is calculated according to a cost recovery methodology. The landing fee rate base (referred to as the Total Costs of the Airfield Area) includes the following cost elements:

1. Direct and indirect Operation and Maintenance Expenses allocable to the Airfield Area

2. Amortization of the unamortized net cost of each Capital Improvement in the Airfield Area as of June 30, 1998, over the remaining useful life of the Capital Improvement at the City's weighted Cost of Capital for all Airport Capital Improvements as of that date

3. Amortization of the net cost of each Capital Improvement placed in service in the Airfield Area on or after July 1, 1998

4. Interest on the cost of land allocable to the Airfield Area computed at City's historical average Cost of Capital

5. Annual Systems Costs allocable to the Airfield Area

6. Annual replenishment of the Renewal and Replacement Fund allocable to the Airfield Area, if necessary.

7. Reallocation of the cost of HAS space allocable to the Airfield Area.

The Net Costs of the Airfield Area are then calculated by subtracting revenues from general aviation fuel flowage fees from the Total Costs of the Airfield Area. The Landing Fee Rate is then calculated by dividing the Net Costs of the Airfield Area by the total aircraft landed weight of all airlines using the Airport.[32] Under this methodology, the combination of airline landing fees and general aviation fuel flowage fees recover all of the annual costs of the Airfield Area cost center.

[32] In establishing landing fee rates, the City does not distinguish between airlines signatory to use and lease agreements and other nonsignatory airlines.

Terminal A Use and Lease Agreement. The original term of the Terminal A carriers agreement was seven years from July 1, 1998 to June 30, 2005 and has been extended thereafter on a month-to-month basis. The City and the Terminal A airlines have been negotiating a replacement Terminal A Use and Lease Agreement that is now nearing finalization. The new agreement will have a term through June 30, 2014. The Terminal A Use and lease agreement is essentially the same as the Continental Use and Lease Agreement with respect to rates and charges methodology[33] and language but different with respect to term and facility management provisions. Facility management provisions incorporated into the agreement provide considerable flexibility to HAS in managing Terminal A space and gates. Holdroom space and aircraft parking positions are leased on a preferential use, not exclusive use, basis. All space assignments are subject to monthly review and potential reallocation based on a *Standard Gate Concept Definition for Preferential Gate Use Policy* document developed by the City and incorporated by reference in the agreement. This policy document confirms the City's airport-wide gate utilization standard of 4 flights per day and defines the standard relationships between assigned gates (by aircraft size) and various categories of terminal space. The intent of the policy is to ensure the continued balanced use of space and gates in the terminal as airlines change their flight activity and use of the terminal over time.

The landing fee methodology in the Terminal A Use and Lease Agreement is identical to that of the Continental Use and Lease Agreement.

American, Frontier, United and US Airways currently occupy gates in the South Concourse. Air Canada, Continental and Delta (now merged with Northwest) currently occupy gates in the North Concourse. Gates and space leased by Continental are made available to Colgan (operating as Continental Connection) and, on occasion, to ExpressJet and Chautauqua operating as Continental Express.

International Facilities Agreement. *Continental and the foreign flag international airlines at Terminal D and the Central FIS operate under the terms of the International Facilities Agreement (the IFA) that is currently being extended on a month-to-month basis.*[34] *The IFA set forth the methodology for calculating rates and charges for the use of Terminal D and the Central FIS based on the provisions of the 1999 Term Sheet negotiated by the City and Continental in connection with the International Services Expansion Program. The methodology is generally based on the compensatory rate-making concepts in effect in the other terminals, but with separate charges for use of the aircraft parking positions and loading bridges (on a total enplaned and deplaned passenger basis); operations, office, and club room space (on a per square foot basis); ticketing and baggage make-up space (on an enplaned passenger basis); holdrooms, sterile corridors and related space (on a deplaned passenger basis); and Federal Inspection Services and baggage claim areas (on a deplaned passenger basis).*

The IFA requires that all costs associated with the new Central FIS Facility be recovered through an FIS charge per deplaning international passenger.

Under the IFA, HAS retains all concession revenues generated at Terminal D, manages the public parking facilities and retains the revenues generated therefrom, and retains all rental car and ground transportation revenues generated at Terminal D. Continental manages certain concessions located in the area between the Central Ticketing Facility and the Central FIS and provides those revenues to HAS.

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[33] The Terminal A Use and Lease Agreement includes a base capital charge of $5.00 per square foot (versus $6.50 in the Continental Use and Lease Agreement) but requires the airlines to pay costs of certain unamortized improvements to Terminal A which Continental is not required to pay in Terminal B.

[34] The IFA provides that month-to-month extensions shall not continue beyond June 30, 2010. The City, Continental and the foreign flag airlines recently began negotiations to extend the term of, and incorporate certain new business provisions into, the IFA. These new provisions will address the proposed Terminal D Remodeling and Expansion Program discussed in Section IV.

Continental Terminal E Special Facility Lease. In July 2001, the City entered into a special facility lease with Continental (the Terminal E Special Facility Lease) in connection with the issuance of *City of Houston, Texas, Airport System Special Facilities Revenue Bonds, (Continental Airlines, Inc. Terminal E Project) Series 2001* (the 2001 Continental SFRBs). The 2001 Continental SFRBs were issued to finance Terminal E, Continental's international terminal at Intercontinental.

The 2001 Continental Special Facilities Lease also obligates Continental to pay (1) ground rentals for the use of Airport premises upon which the Continental Special Facilities are constructed and (2) Net Rents equal to the principal of and interest on the 2001 Continental SFRBs. Continental essentially "net leases" all of Terminal E from the City and pays 100% of the capital and operating costs associated therewith, including all debt service on the 2001 Continental SFRBs. Continental also leases the ground comprising the "footprint" of Terminal E at $0.32 per square foot for the first five years following DBO of the FIS. Thereafter, the ground rental rate increases by 15% every five years. Continental manages the Terminal E concessions and retains the concession revenues generated in Terminal E.

Terminal B Term Sheet / Proposed Special Facility Lease. In March 2008, the City and Continental executed a Term Sheet setting forth the terms and conditions under which the parties would carry out the Terminal B Expansion Program (See Section IV). Under the Term Sheet, the operation of Terminal B will transition from the City to Continental under a net lease arrangement that will phase in as major portions of the new facilities are completed and placed in service. Under the net lease arrangement, Continental will be responsible for all costs associated with the new or renovated facilities, including all costs allocable to public and concession areas located within such facilities which were previously borne by the City. Continental will award all additional "inside concession"[35] privileges directly, manage all concession operations, and derive the financial benefit of all inside concessions in Terminal B. Continental will pay to the City 10% of all net inside concession revenues paid to Continental subject to a maximum of $1.0 million annually. The City will retain the sole right to operate and derive the financial benefit from all "outside concessions."[36]

For the purposes of this report, it is assumed that only the initial phase of the Terminal B Expansion Program (the B South Regional Jet Facility) will be undertaken during the forecast period and that the B South Regional Jet Facility will be operated by Continental under the net lease arrangement contemplated by the Term Sheet. The remaining portions of Terminal B will continue to be operated by the City under the provisions of the current use and lease agreement until such time as future phases of the Terminal B Expansion Program are undertaken and completed.

As set forth in the Term Sheet, Continental will be directly responsible, under the proposed Special Facility Lease, for paying the following costs:

- Ground rent for the "footprint" of Terminal B beginning on the dates of beneficial occupancy, at a rate per square foot determined by appraisal and escalated by 15% every five years thereafter.
- Debt service on the Continental SFRBs and all other requirements of the Trust Indenture.
- Direct O&M expenses (utilities, custodial, building maintenance, maintenance of equipment and systems, etc.) of the Continental Special Facilities.

[35] "Inside concessions" include food/beverage, news/gifts, other retail, duty free merchandise, telephones, advertising and other miscellaneous concessions inside the terminal.
[36] "Outside concessions" include parking, rental cars and ground transportation.

In addition, Continental will be responsible for reimbursing the City for the following costs:

- Indirect City O&M expenses and amortization charges (including allocable Airport management and HAS overhead expenses, allocable systems costs and allocable police, fire and communications costs) allocable to the Continental Special Facilities.

- Amortization charges associated with (a) associated roadway modifications, (b) associated utility modifications, (c) pedestrian bridges serving the Continental Project, (d) pedestrian tunnels serving the Continental Project, (e) a sterile/secure pedestrian bridge serving the Continental Project and (f) other items directly associated with Terminal B, all as allocable to the Continental Special Facilities in a manner consistent with the rates and charges methodology in the Continental Airport Use and Lease Agreements.

- The remaining amortization of all other capital costs (other than the Base Capital Cost) charged to direct cost centers related to Terminal B required to be paid by Continental under the Continental Airport Use and Lease Agreement.

- Amortization and O&M charges of the APM allocable to the Continental Special Facilities.

- All costs (amortization and O&M expenses) directly associated with or allocable to the Terminal B aircraft apron.

The City and Continental are currently negotiating a special facility lease for the Terminal B Expansion Program that will incorporate these business provisions.

APM Charges. Under the airline use and lease agreements, 100% of the capital and operating costs of the APM are allocated to and recovered from the airline users of the terminal complex. However, the recently approved PFC Application #1 provides for the use of PFC revenues to pay all capital costs (other than the APM maintenance facility) associated with the APM. As a result, future APM charges will be calculated only to recover APM operating, administrative, and maintenance costs and the capital costs of the APM maintenance facility.

Hobby Use and Lease Agreement. Southwest, Air Tran, American Eagle, and Delta have entered into Hobby Use and Lease Agreements that extend to June 30, 2015.

The Hobby Use and Lease Agreement is similar in form and substance to the agreements at Intercontinental, but with certain differences in rate-making methodology. At Hobby the terminal is divided into two principal cost centers: the Main Terminal and the Central Concourse; however, upon completion and final beneficial occupancy of the final phase of the Hobby Terminal Expansion Program (Main Terminal renovations, scheduled to be completed in mid-2012), the two cost centers will be combined into a single "terminal" cost center for rate-making purposes. (At Hobby, there is no further division of these cost centers into "airline" and "public/concession space" as is done at Intercontinental.) The total costs of each cost center are then divided by the total amount of "usable space"[37] in the cost center to determine an average rate that applies to all leasable space. The airlines then pay that rate for the space they lease. As at Intercontinental, the costs associated with public and concession space must be covered by concession revenues and other non-airline revenue sources. The airlines do not share in (i.e., receive credit for) any of the concession or other non-airline revenues.

The landing fee methodology at Hobby is essentially identical to that at Intercontinental.

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[37] Usable space is defined as gross space less mechanical, electrical, and utility space.

Capital Improvements. *Under the airline use and lease agreements, the City retains the discretion to make capital investment decisions and issue Additional Airport Bonds, as needed, to ensure that adequate facilities are provided on a timely basis to meet public and airline needs.*

HISTORICAL FINANCIAL PERFORMANCE

Table V-1 shows the historical financial operations of the Airport System for FY 2007 and FY 2008, as reported in the City's audited financial statements for the Airport System. Net Revenues and fund transfers are shown for each fiscal year based on the Houston Airport System's internal financial statements for the Airport System. Debt service coverage is also calculated for each fiscal year. Net income and net revenues are then reconciled for each fiscal year.

Overall, debt service coverage increased somewhat between FY 2007 and FY 2008, from 1.82x in FY 2007 to 1.98x in FY 2008.

The annual amount available for transfer to the Airports Improvement Fund increased from $101 million in FY 2007 to $125 million in FY 2008. These funds are available for appropriation for capital projects in the current CIP.

PROJECT COSTS

Exhibit A summarizes the estimated "new money" funding requirements to be financed with the Proposed Bonds. The net proceeds of the Proposed Bonds will be used to provide permanent financing for $137 million of unfunded commercial paper appropriations and fund $214 million of new projects. (See Section IV for further discussion of the elements being financed with the Proposed Bonds.)

PLAN OF FINANCING FOR PROPOSED BONDS

Exhibit B summarizes the plan of financing for the Proposed Bonds as provided by First Southwest Company (First Southwest), the City's financial advisors. For the new money projects, interest will be capitalized through the estimated date of completion of each project. Project costs and capitalized interest will be net funded; all investment earnings on the construction fund and the capitalized interest account will be retained in those accounts and applied toward funding project costs and capitalized interest requirements, respectively. The Proposed Bonds have been sized on the basis of an assumed average coupon rate of 5.7%.

Table V-1

HISTORICAL FINANCIAL OPERATIONS

Fiscal Years 2007 and 2008

Houston Airport System

(All figures in thousands)

	FY 2007	FY 2008
STATEMENT OF NET INCOME (GAAP)		
Operating Revenues	$ 416,138	$ 447,176
Operating Expenses		
Maintenance and operations	$ 214,611	$ 229,551
Depreciation and amortization	126,953	125,951
	$ 341,564	$ 355,502
Operating Income	$ 74,574	$ 91,674
Nonoperating revenues (expenses)		
Interest revenue	$ 33,722	$ 41,694
Interest expense	(101,186)	(104,056)
Gain (loss) on disposal of assets	(7)	37
Passenger facility charges	6,530	11,608
Other revenue	541	514
	$ (60,400)	$ (50,203)
Net Income	$ 14,174	$ 41,471
STATEMENT OF NET REVENUES (ORDINANCES)		
Gross Revenues		
Operating revenue	$ 416,138	$ 447,176
Interest income	26,847	30,063
Prior year recovery and other revenue and expenses	483	182
	$ 443,468	$ 477,421
Operation and Maintenance Expenses		
Operating expense before extraordinary items	$ 217,720	$ 232,665
Retiree health and life insurance - OPEB	-	(11,357)
	$ 217,720	$ 221,308
Net Revenues	$ 225,748	$ 256,113
Transfers:		
Debt service - outstanding Airport System Revenue Bonds*	$ 121,020	$ 127,324
Interest - outstanding commercial paper notes	2,796	2,274
Operation & Maintenance Reserve Fund	1,316	1,164
Renewal & Replacement Fund	-	-
	$ 125,132	$ 130,762
Net revenues available for transfer to AIF	$ 100,616	$ 125,351
Debt Service Coverage	1.82	1.98
RECONCILIATION OF NET INCOME TO NET REVENUE		
Net Income	$ 14,174	$ 41,471
add back:		
Depreciation and amortization	126,953	125,951
Interest expense	101,186	104,056
Loss (gain) on disposal of assets	7	(37)
Retiree health and life insurance - OPEB	-	11,357
deduct:		
Pension bond debt interest and deferred contract interest	(3,109)	(3,114)
Interest income on excluded funds	(6,875)	(11,631)
Passenger facility and grants	(6,530)	(11,608)
Excluded fund revenue and recoveries	(58)	(332)
Net Revenues	$ 225,748	$ 256,113

** Net of AIP grants and PFC revenues available to offset debt service.*

Based on these assumptions, First Southwest Company estimates the total principal amount of the Proposed Bonds to be:

2009 Bonds -- $409 million
2010 Bonds -- $217 million

DEBT SERVICE AND AMORTIZATION

Exhibit C-1 summarizes Debt Service Requirements associated with outstanding Bonds and the Proposed Bonds. Estimated Debt Service Requirements on the Proposed Bonds have been provided by First Southwest. Debt service on the Proposed Bonds will be phased in over the FY 2010-FY 2013 period.

Total annual Debt Service Requirements (net of capitalized interest, certain grant payments and PFC revenues) are estimated to increase from $130 million in FY 2008 to $142 million in FY 2013—the first year of full debt service on the Proposed Bonds.

Exhibit C-2 is a forecast of annual amortization charges associated with (1) capital improvements in service as of June 30, 1998 and (2) capital improvements placed in service on or after July 1, 1998. For the purposes of this analysis, all projects in the Current CIP are included in Exhibit C-2 and taken into account in the financial forecasts—including projects to be financed with Proposed Bonds.

Under the provisions of the use and lease agreements, the undepreciated cost of capital improvements already in service as of June 30, 1998, are being amortized over their remaining useful lives at the weighted-average historical cost of capital at each airport. New capital improvements funded with bond proceeds are amortized over their useful lives at the effective rate of interest on the bonds used to finance the project. New capital improvements funded with AIF moneys are amortized over their useful lives at the current revenue bond market index as of the date the asset is capitalized. Amortization charges are then assigned or allocated to cost centers. These complex calculations are summarized by cost center in Exhibit C-2.

OPERATION AND MAINTENANCE EXPENSES

Exhibit D summarizes the forecasts of Operation and Maintenance Expenses for the Airport System by major component: Intercontinental, Hobby, Ellington, and Department Administration. The forecasts are based on HAS's proposed FY 2010 operating budget. (In response to the recent economic downturn, HAS has made significant adjustments in its FY 2010 operating budget to hold its overall operating costs steady relative to FY 2009.) The forecasts incorporate allowances for future inflation and are further adjusted to include estimates for the anticipated O&M costs of new facilities to be placed in service as a result of new projects coming on line. Total Airport System Operation and Maintenance Expenses are forecast to increase from $230 million in FY 2008 (actual) to $292 million in FY 2015.

Specific assumptions regarding the forecast of operation and maintenance expenses are as follows:

- O&M expenses have been increased across the board at an assumed rate of 3% for FY 2011 through FY 2012 and 4% per year thereafter—reflecting a combination of inflation and real cost increases associated with gradually expanded services.

- O&M expenses associated with terminal buildings have been adjusted in proportion to changes in gross building area.

- Maintenance costs associated with airport systems (central plant, inter-terminal train, elevators/escalators, etc.) have been based on the cost of recent maintenance and service contracts, extrapolated to reflect anticipated changes in terminal configuration.

- Expenses associated with airport parking operations are based on the current parking management contract with New South Parking of Texas. This contract covers the maintenance and operation of all existing public parking facilities at IAH and HOU, except for the airport hotel parking lot. The contract includes costs for the operation of the Terminal A/B and E garages.

GROSS REVENUES

Exhibit E is a summary of the forecast of Gross Revenues by major component: Intercontinental, Hobby, Ellington, and investment income.

Intercontinental

Airline Rates and Charges. Exhibit E summarizes the forecast of airline revenues at Intercontinental by type of charge—landing fees, terminal building rentals, apron fees, and charges for the use of Terminal D (referred to as international charges). Exhibit E-1 shows the calculation of airline rates and charges at Intercontinental for each individual rate, fee, or charge. The calculation of airline rates and revenues on Exhibit E-1 are forecast based on the procedures set forth in the Continental Use and Lease Agreement, the Terminal A Use and Lease Agreement, the IFA, and the Continental Terminal E Special Facility Lease, as outlined earlier in this section.

The major steps in the rates and charges process are (1) the allocation of Operation and Maintenance expenses to cost centers, (2) the calculation and allocation of amortization charges associated with capital improvements to the airport, and (3) the division by the appropriate units to compute the rates.

The allocation of Operation and Maintenance (O&M) Expenses to cost centers is a four step process. First, budgeted direct expenses (salaries, supplies, contract services, equipment, etc.) are allocated to costs centers based on past experience and management judgment. Second, costs allocated to airport "systems" (the central plant, the inter-terminal train, terminal building mechanical systems, etc.) are allocated back to the primary cost centers based on fixed percentages, building square footage, or other predetermined bases. Third, airfield rescue and firefighting costs are allocated back based on fixed percentages. Fourth, remaining Department and Airport Management overhead costs are allocated based on revenues and direct expenses by cost center. These procedures produce an allocation of O&M to the primary cost centers: the terminal buildings, the apron areas, and the airfield. Costs are then further allocated between "airline" and "public/concession" areas in the terminals based on square footage and past experience to derive the O&M expense allocable to the airline areas that appear in Exhibit E-1.

Following the procedures of the use and lease agreements, amortization charges for existing capital investments have been computed based on the undepreciated cost of those investments as of June 30, 1998 and the remaining useful life of the particular investments. Amortization charges for new terminal projects are calculated based on the following useful lives set forth in the use and lease agreements:

New facilities	25 years
Renovation of existing facilities	20 years
Equipment (loading bridges / conveyors)	15 years

Amortization charges for airfield investments are similarly based on various useful lives established by past accounting practice:

New pavements	25 years
Reconstruction of existing pavements	20 years
Overlays of existing pavements	10 years

Investments in new facilities financed with Bonds are amortized at the effective rate on the Bonds; investments in new AIF-financed facilities are amortized at the prevailing market rate for revenue bonds when the asset is capitalized. These systematic procedures provide for full recovery of capital costs over a period of time somewhat shorter than the life of the bonds used to finance the assets.

The policy of recovering expenditures from the R&R Fund in one year can occasionally produce spikes in airline rates, particularly if a relatively large project is funded from that fund. The City and the airlines will occasionally negotiate a payback period of longer than one year to avoid major rate spikes.

The rate-making procedures ensure that all costs allocable to (1) the airline area of the terminal buildings, (2) the apron areas, and (3) the airfield are recoverable from the airlines through rates and charges except for costs associated with vacant, unassigned airline space or aircraft parking positions, the costs of which are absorbed by the City until leased.

As indicated in Exhibit E-1, terminal rental rates generally increase as capital investments in new terminal facilities come on line. Similarly, landing fee rates increase as airfield projects are completed and put in service. It should also be noted, however, that the projected landing fees rates will decrease in FY 2009 and FY 2010 as PFC revenues begin to be applied against debt service on outstanding Bonds and corresponding amortization charges are removed from the airline rate base.

Airline revenues (from rates and charges such as terminal and apron rentals and landing fees) are often expressed on a per enplaned passenger basis (as "airline cost per enplaned passenger") to facilitate the comparison of airline costs among airports. Page 1 of Exhibit E shows the calculation of the forecast average airline cost per enplaned passenger at Intercontinental for each year of the forecast period. Airline costs per enplaned passenger are forecast to decrease from $11.58 in FY 2008 to $11.00 in FY 2013, the first year following completion of the projects being financed with the Proposed Bonds. The projected average airline costs per enplaned passenger at Intercontinental are higher than average for large hub airports (which generally range from $5 to $10), but are not unreasonable when compared to certain large hub airports that have undertaken very large capital improvement programs.

Public Automobile Parking. Public automobile parking is the largest single source of non-airline revenue for the Airport System. In FY 2008, parking revenues totaled $58.4 million at Intercontinental and $14.5 million at Hobby—a total of $73 million. However, for the first 11 months of FY 2009 (through May), parking revenues are down 10.6% at Intercontinental reflecting general economic and traffic trends.

Over the past 10 years, HAS has increased public automobile parking capacity at Intercontinental by approximately 42% (from 15,743 spaces in the fall of 1998 to 22,320 spaces today) as a result of (1) the expansion of the C-West parking structure, (2) construction of the new A/B parking structure, (3) expansion of the C-East structure to serve Terminal E, and (4) expansion of the long-term economy lot.

Current long-term parking rates are $15.00 per day in the parking structures and $6.00 per day in the remote economy lot. HAS intends to increase the daily rates in the structures to $17.00 per day for regular garage parking, $20.00 per day for SurePark level parking, effective June 1, 2009, subject to City

Council approval, and other changes in short-term hourly rates are also under consideration. However, no increases in parking rates are planned in the remote economy lot in FY 2010. HAS plans to implement additional rate increases generally about every two years thereafter. For the purposes of this report, it is assumed that the daily rate in the parking structures will increase by $2 every other fiscal year.

The City has entered into a contract with a parking lot management company to manage its parking facilities. Parking operating expenses are forecast based on the costs of the current contract.

Rental Cars. Seven rental car companies—Alamo/National, Avis, Budget, Dollar, Enterprise, Hertz, and Thrifty provide rental car services at Intercontinental under the terms of concession agreements that commenced on the date of beneficial occupancy of the new consolidated rental car facility and extend to January 1, 2028. During the first five years of the new concession agreement, the rental car companies paid the City percentage fees of 8.5% of the first $3 million of annual gross revenues and 10% of annual gross revenues in excess of $3 million against specific minimum annual guarantees applicable to each company. During the current five years of the agreement, the percentage fee is 10% of gross revenues. Beginning in the 11th year of the term of the concession agreement, the percentage fee is to be based the average of then-prevailing percentage fees at other large hub airports, but not to exceed 15%. The minimum annual guarantee for each operator is 85% of the previous year's percentage fees or $100,000, whichever is greater.

In FY 2008, rental car operations at IAH generated gross revenues of $204 million and net revenues to the City of $18 million. However, for the first nine months of FY 2009, rental car gross revenue have decreased by 4% compared to the same period of FY 2008, reflecting revenue performance somewhat stronger than air traffic trends. In FY 2010 and thereafter, rental car privilege fees are forecast to adjust with originating passengers and general price inflation from the projected lower FY 2009 base.

The facility lease for the consolidated rental car facility provides for ground rentals of approximately $1 million per year from the car rental companies. All other costs associated with the facility are paid from the customer facility charge (CFC) assessed to rental car customers on a per-transaction-day basis. The current CFC rate is $3.00 per transaction day, though the rate is being monitored to determine if a mid-year upward adjustment may be needed. The rental car companies are responsible for all operation and maintenance costs associated with both the facility and the consolidated busing operation that transports rental car customers between the facility and the terminal complex.

Terminal Concessions. Terminal concessions include food and beverage, retail (news/gifts and specialty shops), and duty free merchandise. The terms of the principal concession agreements at Intercontinental are summarized in Table V-2 on the following page.

Table V-2

SUMMARY OF PRINCIPAL CONCESSION AGREEMENTS
George Bush Intercontinental Airport / Houston

Company Name	Original Term	Effective Date	Expiration Date	Options/ Amendments	Terminal / Location	Privilege Fees (Concession Rent)	Current MAG
Food and Beverage							
Concessions of Houston, a joint venture (CA1/DNC)	10 years	7/1/1998	6/30/2008	Amendment 1 (Settlement) extended term thru 6/30/2012	Terminals A, B, C and D	The greater of the MAG or percent of: Food National Brand Foods 8.5% Other 10.5% Beverage 15.0%	$2,900,000 for all option years
JDDA Concession Management, Inc. (Entertainment One)	9 years	7/1/1999 (7/1/2008)	6/30/2008	Amendment 4 = basically new agreement term expires 12/31/2016 w/2 yr option	Terminal C Food Court Areas	The greater of the MAG or percent of: Branded F&B 12.0% Non-Brand F&B 14.0% Alcoholic 15.0% Concept Merchandise 12.0%	$.20 per e.p. for 18 months from effective date. $.30 per e.p. for the remainder of the agreement
Retail							
Paradies Airport Shops (News / Gifts / Specialty)	7 years from Beneficial Occupancy	11/18/03 Effective Beneficial Occupancy 7/1/06	6/30/2013	2 one year options	Terminals A - D	The greater of the MAG or percent of: Gifts, Souvenirs 22% News and Travel Accessories 19% Specialty Non-Branded 18% Specialty Branded 12%	Initial MAG $0.10 per e.p. in Terminals A-D escalated a 3% annually
HMS Host (News / Gifts)	7 years from Beneficial Occupancy	11/18/03 Effective Beneficial Occupancy 7/1/06	6/30/2015	2 one year options have been granted	Terminals A - D	The greater of the MAG or percent of: News & Sundries 25.5% Books 16.0% Specialty 15.0% Limited menu Coffee Kiosk 14.0% Vended Electronics 5.0% Vended Health & Sundries 7.0%	Initial MAG $0.10 per e.p. in Term A-D escalated at 3% annually
Duty Free							
Nuance	5 years	November 2005	10/31/2013	3 one-year options have been granted	Terminals C & D	The greater of the MAG or percent of sales: $0 - $5,000,000 20% Greater than $5,000,000 25%	MAG per ep: $0.55 year 1 $0.65 year 2 $0.67 year 3 $0.69 year 4 $0.70 year 5

Concession space improvements completed in Terminals A, B and C have significantly improved the size of food and beverage concession areas, the location of those concession areas relative to major passenger flows in the buildings, and the general attractiveness (aesthetics and decor) of the concession areas. Most food and beverage space is now located beyond the security checkpoints, in closer proximity to passenger holdroom areas, thereby providing opportunity for passengers to patronize the concessions before their flights. Concessionaires have introduced national-brand food outlets in new premises, enhancing the appeal of food concessions to many airport passengers.

In general, food/beverage and retail concession revenues are forecast to adjust with passenger enplanements and general price inflation. For the purposes of this report, general price inflation is estimated at 2.5% per year.

Duty free concession revenues are forecast to adjust with international enplanements and general price inflation.

Hotel. Host Marriott operates the airport hotel under the terms of a long-term agreement that extends to October 30, 2019. Host Marriott pays the City percentage fees, on various portions of the facility, as follows:

	Existing Facility	Original Facility	50% Existing Facility
Room charges	7%	36%	36%
Food sales	4%	8%	8%
Alcoholic beverage sales	5%	15%	15%
Concession	10%	10%	10%

In FY 2008, Hotel revenues were $4.1 million. Hotel revenues are forecast to adjust with enplaned passengers and general price inflation.

Advertising. J. C. Decaux Airport, Inc. (formerly Sky Sites) provides advertising display services at Intercontinental and Hobby under the terms of a five-year agreement that extends to December 31, 2004, which has been amended to extend through December 31, 2013. Decaux pays the City 70% of gross on existing static or digital advertising displays and 50% on all future digital advertising displays against a minimum annual guarantee of $2,200,000 for the two airports combined. In FY 2008, this agreement generated revenues to the City of $3.9 million ($3.2 million at IAH and $0.7 million at HOU). Advertising revenues are forecast to adjust with enplaned passengers and general price inflation.

Ground Transportation. Ground transportation revenues include fees generated by off-airport rental car companies, off-airport parking operators, hotel courtesy vehicles, taxicabs, and other commercial ground transportation operators (such as bus and limousine companies). Ground transportation fees are set by City ordinance. Off-airport rental car operators currently pay 8% of airport-generated gross revenues and off-airport parking operators pay 6% of airport generated gross revenues. Taxicabs currently pay a fee of $2.75 per trip. Hotel courtesy vehicles and other commercial ground transportation operators pay fees based on size of vehicle and frequency of airport trips. Ground transportation fees generated $3.8 million of revenues in FY 2008. Ground transportation revenues are projected to adjust with originating passengers.

Other Concessions. Other concessions include luggage cart rentals, automated teller machines, shoeshine, currency exchange, phone and internet, vending, and other miscellaneous concessionaires.

Cargo Building Rentals. The City owns and leases both space in City-owned cargo buildings at Intercontinental and land on which certain third-party operators have built cargo buildings. Cargo buildings rentals generated $2.3 million of revenues in FY 2008.

Ground Rentals. The City leases various parcels of airport ground to various tenants including (1) rental car companies, for existing service areas, (2) fixed base operators, for corporate and general aviation aircraft services, and (3) Houston-area corporations, for corporate hangars. In addition, Continental pays ground rentals required by the Continental Special Facility Leases. Most ground leases have a provision for periodic adjustment of ground lease rates—either by specified rate increases or an appraisal process. Ground rental revenues totaled $5.6 million in FY 2008 and are forecast to increase with inflation and as rate adjustment provisions of existing ground leases take effect.

Fuel Flowage Fees. Historically, general aviation users of Intercontinental pay fuel flowage fees in lieu of landing fees because fuel flowage fees are easier to administer and collect. It is assumed that fuel volumes would adjust with general aviation aircraft operations and that the current $0.06 fuel flowage fee would continue through the forecast period.

Fuel System Charges. The airlines pay fees to recover the costs associated with the airline fuel distribution system at the Airport. These charges are assessed to Allied Aviation Services, Inc., the fuel system operator, and passed through to the airlines in the form of fuel flowage charges. The planned improvements to the fueling system and fuel delivery system should result in a $1.3 million increase in fuel system charges beginning in FY 2013.

Other Terminal Rentals. Other terminal rentals include nonairline terminal building space rentals, payments by Continental to recover debt service on the Series 1991C Bonds (which refunded two earlier issues of special facility revenue bonds), and overnight aircraft parking charges.

Other Revenues. Other revenues include miscellaneous building rentals, sale of utilities to tenants, phone cable charges in the IAB, and other miscellaneous revenues.

Hobby

Airline Rates and Charges. Exhibit E summarizes the forecast of airline revenues at Hobby by type of charge—landing fees, terminal building rentals, apron fees, and concourse security fees. Exhibit E-2 shows the calculation of airline rates and charges at Hobby for each individual rate, fee, or charge. The calculation of airline rates and revenues on Exhibit E-2 are forecast based on the procedures set forth in the Hobby use and lease agreement.

The forecast of the average airline cost per passenger at Hobby is shown on page 2 of Exhibit E. The average airline cost per enplaned passenger at Hobby is forecast to increase from $8.34 in FY 2008 to $9.19 in FY 2013, the first year after completion of the Terminal Expansion Program.

Public Automobile Parking. Public automobile parking facilities at Hobby consist of a 3,270-space parking structure and a 566-space economy lot. A significant portion of current long-term parking demand is met by private, off-airport parking companies in facilities situated near the airport. For the first 11 months of FY 2009 (through May) parking revenues were down only 1.7% at Hobby where on-airport parking capacity is somewhat constrained and utilization has remained high.

Current long-term parking rates are $15.00 a day in the structure and $6.00 a day in the economy lot. It is assumed that these rates will increase to $17.00 per day in the structure and $8.00 per day in the economy lot in FY 2010 and other changes in short-term hourly rates are also under consideration. HAS plans to implement additional rate increases generally about every two years thereafter. For the purposes of this report, it is assumed that the daily rate in the parking structures will increase by $2 every other fiscal year.

Rental Cars. Eight rental car companies (Alamo, Avis, Budget, Dollar, Enterprise, Hertz, National and Thrifty) provide rental car services at Hobby under terms of concession agreements that extend to May 31, 2008, with two one-year options. The rental car companies each pay the City privilege fees 10% of annual gross revenues against specific minimum annual guarantees bid by each operator. In FY 2008, rental car operations generated gross revenues of $71 million and net revenues to the City of $6.7 million. For the first nine months of FY 2009, rental car gross revenue have decreased by 6% compared to the same period of FY 2008, somewhat better than air traffic trends. Rental car privilege fees are forecast to adjust with originating passengers and with general price inflation.

Food/Beverage and Retail. Terminal concessions at Hobby include food and beverage and retail (news/gifts and specialty shops). The terms of the principal concession agreements at Hobby are summarized in Table V-3 on the following page.

The Hobby Terminal Expansion Program more than doubled the amount of concession space in the terminal and provided a new centralized concession area in the Central Concourse beyond the security checkpoint, significantly enhancing revenue yield.

It is assumed that the food/beverage and news/gift concessions will continue to operate with the same privilege fees through the forecast period. Food/beverage and retail concession revenues are forecast to adjust with passenger enplanements and general price inflation.

Other Terminal Concessions. As mentioned previously, J. C. Decaux Airport, Inc. (formerly Sky Sites) provides advertising display services at Hobby under the terms of a five-year agreement that originally extended through December 31, 2004 and has been amended to extend through December 31, 2013. Revenues from advertising services are forecast to increase with passenger enplanements and general price inflation. Other concessions include luggage cart rentals, automated teller machines, shoeshine, currency exchange, phone and internet, vending, and other miscellaneous concessionaires.

Ground Transportation. Ground transportation revenues include fees generated by off-airport rental car companies, off-airport parking operators, hotel courtesy vehicles, taxicabs, and other commercial ground transportation operators (such as bus and limousine companies). Ground transportation fees are set by City ordinance. Off-airport rental car operators currently pay 8% of airport-generated gross revenues and off-airport parking operators pay 6% of airport-generated gross revenues. Taxicabs currently pay a fee of $1.25 per trip. Hotel courtesy vehicles and other commercial ground transportation operators pay fees based on size of vehicle and frequency of airport trips. Ground transportation fees generated $0.9 million of revenues in FY 2008 and are forecast to adjust with originating passengers.

Table V-3

SUMMARY OF PRINCIPAL CONCESSION AGREEMENTS
William P. Hobby Airport

William P. Hobby Airport							
Company Name	**Original Term**	**Effective Date**	**Expiration Date**	**Options/ Amendments**	**Terminal / Location**	**Privilege Fees (Concession Rent)**	**Current MAG**
Food and Beverage							
Four Families	13 Years from date the final gate on the Central Concourse became operational	1/12/2003 Last gate 5/23/07	5/23/2020	Amend 1 added option years into the term.		The greater of the MAG or percent of: Food First $17M 13.0% $17M and $18.5M 14.0% Over $18.5M 15.0% Alcoholic Beverage First $4.5M 20.0% Over $4.5M 22.0%	Initial MAG $0.25 per e.p. escalated at 3% annually.
Retail							
Hudson	8 years from the date the final gate on the Central Concourse became operational	12/5/2002 Last gate 5/23/07	5/23/2015	Amendment 1 added option years into the term.		The greater of the MAG or percent of: First $5M 20.0% $5M and $7.5M 22.0% $7.5M and $10M 24.0% Over $10M 25.0%	Initial MAG $0.20 per e.p. escalated at 3% annually.

General Aviation Fuel Flowage Fees. Hobby is the principal general aviation airport serving the Houston area. The fixed base operators at Hobby dispense aviation fuel to general aviation aircraft, generating over $921,707 in fuel flowage fees to the City in FY 2008. HAS currently charges a fuel flowage fee of $0.06 per gallon. It is assumed that fuel volumes would adjust with general aviation aircraft operations and that the current $0.06 fuel flowage fee would continue through the forecast period.

Building and Ground Rentals. Building and ground rentals include cargo building rentals, hangar rentals, and various ground rentals for corporate hangars, fixed base operators and other tenants. Most ground leases provide for periodic adjustment of ground rental rates.

Other Revenues. Other revenues include aircraft parking fees, sale of utilities to tenants, and miscellaneous revenues.

Ellington

The City generates revenues at Ellington from landing fees, fuel flowage fees, and building and ground rentals. Ellington's main sources of revenue are fuel flowage fees, T-hangar rentals, and ground rentals which collectively accounted for $1.3 million (or 85% of Ellington revenues) in FY 2008.

Investment Income

The City generates interest income on the investment of balances in various funds and accounts. Most of this income (other than interest on the Construction Fund) flows to the Revenue Fund as part of Gross Revenues. The City pools its investments for investment purposes. Investment income is forecast using an assumed average rate ranging from 2.5% in FY 2010 and increasing to 3.5% during the forecast on available balances for all of the funds and accounts that appear in **Figure V-1.**

APPLICATION OF REVENUES TO FUNDS AND ACCOUNTS

Exhibit F presents the forecast application of Gross Revenues to the various funds and accounts established by the Bond Ordinances. Gross Revenues are first applied to pay Operation and Maintenance Expenses. Remaining Net Revenues are applied first to pay Debt Service and Reserve Fund Requirements on Senior Lien Obligations, Subordinate Lien Bonds and Inferior Lien Bonds (if any) and then to replenish the O&M Reserve Fund and the R&R Fund. Remaining Net Revenues flow to the Airports Improvement Fund where they may be used for any lawful Airport System purpose, primarily as a source of equity capital for capital improvements.

As indicated in Exhibit F, the annual flow of Net Revenues to the AIF is forecasted to decrease from $125 million in FY 2008 to $65 million in FY 2013, the first year following completion of all of the 2009 and 2010 Bond Projects. The total flow of Net Revenues to the AIF during the FY 2010-FY 2015 period (the period when the balance of the current CIP will be implemented) is forecasted to be approximately $371 million.

The ability of the City to generate the Net Revenue flow to the AIF results from the compensatory rate-making system embodied in the airline agreements and the profitability of concession operations at the Airport (particularly public automobile parking, rental cars, and ground transportation). The AIF resources provide the City a significant source of equity capital for carrying out the CIP and future capital programs for the Airport System.

NET REVENUES AND DEBT SERVICE COVERAGE / FUTURE EARNINGS TEST

Exhibit G shows the calculation of Net Revenues and debt service coverage for the 7-year forecast period, FY 2009-FY 2015. Actual debt service coverage on the Senior Lien Commercial Paper Notes and Subordinate Lien Bonds was 1.98 in FY 2008. Debt service coverage varies during the forecast period as debt service on the Bonds comes on line. Debt service coverage is forecasted to decline as new debt service comes on line--from 1.98 in FY 2008 to 1.48 in FY 2013 and increases gradually thereafter.

HAS essentially recovers 100% of the annual capital cost associated with capital investments in airline cost centers through the amortization process. As additional bonds are issued and new debt service comes on line, the debt service coverage provided by nonairline revenues is spread over a larger base of debt service resulting in a reduction of debt service coverage margins. However, once a new "plateau" of debt service is reached, debt service coverage margins stabilize at a new level and then gradually increase as airline traffic and non-airline revenues increase. These patterns are illustrated in Exhibit G.

Exhibit G also shows the calculation required by the Future Earnings Test of the Bond Ordinances. The test period is FY 2013 through FY 2015--the three fiscal years immediately following completion of the 2009 and 2010 Bond Projects. As indicated, Net Revenues are forecasted to exceed 125% of Debt Service Requirements on Senior Lien Bonds, 110% of Debt Service Requirements on the Subordinate Lien Bonds, and 100% of Debt Service Requirements on Inferior Lien Debt in each year of the test period, thereby demonstrating that the Future Earnings Test for the issuance of Additional Bonds is met.

SUMMARY AND SENSITIVITY ANALYSIS

Table V-4 on the following page summarizes the key financial forecasts presented in detail in the accompanying exhibits including the calculation of Net Revenues and debt service coverage for the 7-year forecast period, FY 2009-FY 2015. The financial forecasts summarized in Table V-4 are based on the "baseline" forecasts of air traffic activity presented in Tables III-22 and III 23 for Intercontinental and Hobby, respectively.

Table V-5 on the second following page summarizes the key financial forecasts based on the lower "sensitivity" forecasts of air traffic activity presented in Tables 3-24 and 3-25 for Intercontinental and Hobby, respectively. While the projected underlying debt service coverage decreases from 1.48 to 1.41 from the baseline forecast to the sensitivity forecast in FY 2013, the projected coverage is still more than sufficient to meet the Future Earnings Test of the Bond Ordinances.

Table V-4

SUMMARY OF FINANCIAL RESULTS
Houston Airport System
Fiscal Years ending June 30
(In thousands)

		Historical		Estimated	Forecast					
Gross Revenues		2007	2008	2009 (a)	2010	2011	2012	2013	2014	2015
George Bush Intercontinental Airport/Houston										
Airline revenues	[A]	$ 239,597	$ 250,618	$ 232,469	$ 212,400	$ 217,545	$ 221,537	$ 230,251	$ 234,748	$ 237,357
Other		114,331	123,278	118,796	121,725	123,530	135,930	142,935	152,247	158,814
William P. Hobby Airport										
Airline revenues	[B]	31,069	38,027	38,573	38,095	37,830	36,980	37,416	39,504	40,994
Other		28,454	33,012	32,377	33,741	33,821	36,602	37,444	40,307	41,226
Ellington Airport		1,820	1,508	1,121	1,465	1,467	1,469	1,471	1,473	1,476
Interest income and other revenues		28,197	30,978	27,729	20,925	22,049	25,883	31,800	32,445	33,710
		$ 443,468	$ 477,421	$ 451,065	$ 428,351	$ 436,242	$ 458,401	$ 481,318	$ 500,724	$ 513,577
Operation and Maintenance Expenses		217,720	221,309	239,246	244,669	252,009	260,364	270,232	281,042	292,286
Net Revenues	[C]	$225,748	$256,113	$211,819	$183,682	$184,233	$198,037	$211,086	$219,682	$221,291
Debt Service Requirements										
Senior Lien Bonds (b)	[D]	$ 2,796	$ 2,274	$ 1,374	$ 6,141	$ 13,397	$ 15,873	$ 20,546	$ 22,517	$ 24,695
Subordinate Lien Bonds (b)		114,718	120,737	107,942	112,626	122,203	122,314	121,932	122,635	121,961
Inferior Lien Bonds (b)		6,302	6,587	3,295	-	-	-	-	-	-
	[E]	$ 123,816	$ 129,598	$ 112,611	$ 118,767	$ 135,600	$ 138,187	$ 142,478	$ 145,152	$ 146,656
Debt service coverage ratio										
Senior Lien Bonds	[C/D]	**80.74**	**112.63**	**154.16**	**29.91**	**13.75**	**12.48**	**10.27**	**9.76**	**8.96**
Total	[C/E]	**1.82**	**1.98**	**1.88**	**1.55**	**1.36**	**1.43**	**1.48**	**1.51**	**1.51**
Rate covenant compliance										
Net Revenues	[C]	$225,748	$256,113	$211,819	$183,682	$184,233	$198,037	$211,086	$219,682	$221,291
125% Senior Lien Bond debt service		$ 3,495	$ 2,843	$ 1,718	$ 7,676	$ 16,747	$ 19,842	$ 25,682	$ 28,147	$ 30,869
110% Subordinate Lien Bond debt service		126,190	132,811	118,737	123,889	134,423	134,545	134,125	134,899	134,157
100% Inferior Lien Bond debt service		6,302	6,587	3,295	-	-	-	-	-	-
	[F]	$ 135,987	$ 142,240	$ 123,749	$ 131,565	$ 151,170	$ 154,387	$ 159,807	$ 163,045	$ 165,026
					[C] exceeds [F] in each Fiscal Year.					
Airline cost per enplaned passenger										
Intercontinental										
Enplaned passengers	[G]	21,488	21,640	19,807	19,256	19,352	20,187	20,934	21,808	22,513
Airline cost per enplaned passenger	[A/G]	**$11.15**	**$11.58**	**$11.74**	**$11.03**	**$11.24**	**$10.97**	**$11.00**	**$10.76**	**$10.54**
Hobby										
Enplaned passengers	[H]	4,344	4,562	4,117	4,017	4,011	4,024	4,070	4,134	4,164
Airline cost per enplaned passenger	[B/H]	**$7.15**	**$8.34**	**$9.37**	**$9.48**	**$9.43**	**$9.19**	**$9.19**	**$9.56**	**$9.84**

(a) FY 2009 airline rentals, fee, and charges do not included a pending $15 to $25 million reduction to account for the settlement of an FY 2007 and FY 2008 overcollection in airline revenues.
(b) Net of capitalized interest and AIP grants and PFCs applied against debt service.

Table V-5 - Low Sensitivity Forecast

SUMMARY OF FINANCIAL RESULTS

Houston Airport System

Fiscal Years ending June 30

(In thousands)

		Historical		Estimated	Forecast					
Gross Revenues		**2007**	**2008**	**2009 (a)**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
George Bush Intercontinental Airport/Houston										
Airline revenues	[A]	$ 239,597	$ 250,618	$ 232,469	$ 212,400	$ 217,542	$ 221,485	$ 230,182	$ 234,661	$ 237,253
Other		114,331	123,278	118,796	121,725	123,007	130,642	133,316	136,881	138,307
William P. Hobby Airport										
Airline revenues	[B]	31,069	38,027	38,573	38,095	37,835	37,015	37,467	39,577	41,096
Other		28,454	33,012	32,377	33,741	33,857	36,539	37,027	39,336	39,981
Ellington Airport		1,820	1,508	1,121	1,465	1,467	1,469	1,471	1,473	1,476
Interest income and other revenues		28,197	30,978	27,729	20,925	22,047	25,850	31,729	32,321	33,444
		$ 443,468	$ 477,421	$ 451,065	$ 428,351	$ 435,755	$ 453,000	$ 471,192	$ 484,249	$ 491,558
Operation and Maintenance Expenses		217,720	221,309	239,246	244,669	252,009	260,364	270,232	281,042	292,286
Net Revenues	[C]	$225,748	$256,113	$211,819	$183,682	$183,746	$192,636	$200,960	$203,207	$199,272
Debt Service Requirements										
Senior Lien Bonds (b)	[D]	$ 2,796	$ 2,274	$ 1,374	$ 6,141	$ 13,397	$ 15,873	$ 20,546	$ 22,517	$ 24,695
Subordinate Lien Bonds (b)		114,718	120,737	107,942	112,626	122,203	122,314	121,932	122,635	121,961
Inferior Lien Bonds (b)		6,302	6,587	3,295	-	-	-	-	-	-
	[E]	$ 123,816	$ 129,598	$ 112,611	$ 118,767	$ 135,600	$ 138,187	$ 142,478	$ 145,152	$ 146,656
Debt service coverage ratio										
Senior Lien Bonds	[C/D]	**80.74**	**112.63**	**154.16**	**29.91**	**13.72**	**12.14**	**9.78**	**9.02**	**8.07**
Total	[C/E]	**1.82**	**1.98**	**1.88**	**1.55**	**1.36**	**1.39**	**1.41**	**1.40**	**1.36**
Rate covenant compliance										
Net Revenues	[C]	$225,748	$256,113	$211,819	$183,682	$183,746	$192,636	$200,960	$203,207	$199,272
125% Senior Lien Bond debt service		$ 3,495	$ 2,843	$ 1,718	$ 7,676	$ 16,747	$ 19,842	$ 25,682	$ 28,147	$ 30,869
110% Subordinate Lien Bond debt service		126,190	132,811	118,737	123,889	134,423	134,545	134,125	134,899	134,157
100% Inferior Lien Bond debt service		6,302	6,587	3,295	-	-	-	-	-	-
	[F]	$ 135,987	$ 142,240	$ 123,749	$ 131,565	$ 151,170	$ 154,387	$ 159,807	$ 163,045	$ 165,026
					[C] exceeds [F] in each Fiscal Year.					
Airline cost per enplaned passenger										
Intercontinental										
Enplaned passengers	[G]	21,488	21,640	19,807	19,256	19,256	19,256	19,256	19,256	19,256
Airline cost per enplaned passenger	[A/G]	**$11.15**	**$11.58**	**$11.74**	**$11.03**	**$11.30**	**$11.50**	**$11.95**	**$12.19**	**$12.32**
Hobby										
Enplaned passengers	[H]	4,344	4,562	4,117	4,017	4,017	4,017	4,017	4,017	4,017
Airline cost per enplaned passenger	[B/H]	**$7.15**	**$8.34**	**$9.37**	**$9.48**	**$9.42**	**$9.21**	**$9.33**	**$9.85**	**$10.23**

(a) FY 2009 airline rentals, fee, and charges do not included a pending $15 to $25 million reduction to account for the settlement of an FY 2007 and FY 2008 overcollection in airline revenues.

(b) Net of capitalized interest and AIP grants and PFCs applied against debt service.

Exhibit A

SUMMARY OF "NEW MONEY" PROJECT COSTS
(Projects Being Financed with the Proposed Bonds)
Houston Airport System
(All figures in thousands)

	2009 Bonds	2010 Bonds	Total
Unfunded Commercial Paper Appropriations			
Intercontinental:			
APM Extension to Terminal A	$118,296		
Rehabilitation of Runway 9-27	9,218		
Terminal B Exp Prog - Phase 1 South Ramp - Design	1,250		
Hobby:			
Access Controls and Electrical Duct Bank	2,884		
Terminal Expansion - Phase 2 - Apron/Taxiway/Other	3,328		
Perimeter Fencing and Obstruction Removal			
Overlay of Runway 12R-30L	1,924		
Subtotal - Unfunded Commercial Paper Appropriations	**$136,900**		**$136,900**
CIP Projects			
Intercontinental:			
Terminal D Miscellaneous Improvements	1,198		
FIS / Garage	12,896		
Terminal D Remodeling - Utilities and Code Upgrades	11,500	44,250	
Terminal B Expansion Program (South Ramp & Utilities)	450	50,750	
Central Plant Expansion - Phases II and III	16,000		
Hobby:			
Terminal Expansion and Renovation	77,318		
Subtotal - New Money Projects	**$119,362**	**$95,000**	**$214,362**
Total	**$256,262**	**$95,000**	**$351,262**

Source: Houston Airport System.

Exhibit B

SUMMARY OF FINANCING PLAN
(Sources and Uses of Funds)
Series 2009 and Series 2010 Bonds
Houston Airport System
(All figures in thousands)

	2009 Bonds	2010 Bonds
Sources of Funds		
Par amount of bonds	**$409,465**	**$217,140**
Net premium	1,712	3,082
Interest income		
Construction funds	1,348	519
Capitalized interest	514	144
Total Sources of Funds	$413,039	$220,885
Uses of Funds		
Refunding elements		
Take out of Commercial Paper Notes	**$87,000**	
Deposit to Refunding Escrow -- 2005A Bonds		**$92,900**
Other escrow requirements		187
"New money" elements		
Unfunded CP Appropriations	**136,900**	0
CIP Projects	**119,362**	**95,000**
Cash funding of subordinate lien surety	**0**	
Costs of Issuance / Underwriter's Discount	4,504	2,389
Capitalized interest	34,101	11,881
Debt service reserve	31,167	18,524
Rounding amount	4	4
Total Uses of Funds	$413,039	$220,885

Source: First Southwest Company, June 14, 2009.

Exhibit C-1

DEBT SERVICE REQUIREMENTS

Houston Airport System

For Fiscal Years ending June 30

	Historical		Estimated	Forecast					
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Senior Lien Bond Obligations									
Commerical Paper (a)	$ 2,796	$ 2,274	$ 1,374	$ -	$ -	$ -	$ -	$ -	$ -
Proposed (b)									
Series 2009	$ -	$ -	$ -	$ 6,980	$ 12,233	$ 17,247	$ 20,832	$ 23,073	$ 31,163
Series 2010	-	-	-	-	6,445	8,087	11,771	12,208	12,208
	$ -	$ -	$ -	$ 6,980	$ 18,678	$ 25,334	$ 32,603	$ 35,281	$ 43,371
	$ 2,796	$ 2,274	$ 1,374	$ 6,980	$ 18,678	$ 25,334	$ 32,603	$ 35,281	$ 43,371
Subordinate Lien Bonds									
Existing (b)									
Series 1997	$ 1,816	$ 231	$ 232	$ 232	$ 231	$ -	$ -	$ -	$ -
Series 1998A	6,202	6,209	6,213	6,220	6,228	6,236	6,243	6,254	6,247
Series 1998B	35,769	35,769	35,773	35,774	35,772	35,770	35,771	35,775	35,771
Series 1998C	8,199	8,199	8,197	8,198	8,196	8,195	8,198	8,197	8,197
Series 2000A/B (Fixed rate)	33,778	21,283	21,270	21,264	21,258	21,278	21,272	21,254	21,273
Series 2000P1/P2 (Variable rate)	5,754	5,675	3,618	6,831	6,866	6,893	6,913	6,925	6,980
Series 2001A	5,992	5,988	5,995	5,992	5,995	4,374	4,370	4,374	4,364
Series 2002 (Fixed rate)	34,308	47,142	43,847	29,777	29,708	29,755	29,753	29,781	29,741
Series 2002 D/D1/D2(variable rate)	included above	included above	included above	17,245	17,758	17,758	17,342	18,106	17,392
Series 2005A	3,579	2,881	2,704	-	-	-	-	-	-
Series 2007B	-	15,382	16,268	16,266	16,267	17,995	17,991	17,992	17,987
	$ 135,397	$ 148,759	$ 144,117	$ 147,799	$ 148,279	$ 148,254	$ 147,853	$ 148,658	$ 147,952
Inferior Lien Bonds									
Sublease - Continental APM SFRB debt service	6,302	6,587	6,591	6,583	6,582	6,583	6,586	6,584	6,582
	$ 144,495	$ 157,620	$ 152,082	$ 161,362	$ 173,539	$ 180,171	$ 187,042	$ 190,523	$ 197,905
LOI Payments to Debt Service Fund (c)	(19,417)	(25,331)	(21,908)	(9,500)	-	-	-	-	-
PFC Payments to Debt Service Fund	(1,262)	(2,691)	(17,563)	(33,095)	(37,939)	(41,984)	(44,564)	(45,371)	(51,249)
Debt Service Requirements	$ 123,816	$ 129,598	$ 112,611	$ 118,767	$ 135,600	$ 138,187	$ 142,478	$ 145,152	$ 146,656

Source: Airport System records for outstanding bonds and First Southwest Company for the proposed Bonds.

(a) Interest on senior lien commercial paper notes.

(b) Shown net of capitalized interest and accrued interest.

(c) LOI payments during FY 2001-FY 2008 will be deposited in the Debt Service Fund and reduce the amount of Net Revenues required for debt service.

The LOI funds will, in effect, flow through to the AIF where they will be reappropriated for other projects in the CIP.

09-Jul-09

Exhibit C-2

AMORTIZATION CHARGES
Houston Airport System
For Fiscal Years ending June 30
(in thousands)

	Forecast					
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
CAPITAL IMPROVEMENTS PLACED IN SERVICE THROUGH JUNE 30, 1998						
Annual amortization (a)						
George Bush Intercontinental Airport/Houston	$ 15,481	$ 10,592	$ 8,800	$ 8,166	$ 7,553	$ 7,552
William P. Hobby Airport	4,865	4,546	3,584	3,472	3,046	3,047
Ellington Airport	11	11	11	11	10	10
	$ 20,357	$ 15,149	$ 12,395	$ 11,649	$ 10,609	$ 10,609
Allocation of annual amortization by cost center						
GEORGE BUSH INTERCONTINENTAL AIRPORT/Houston						
Airfield	$ 4,484	$ 3,312	$ 3,312	$ 3,300	$ 3,287	$ 3,287
Apron						
Terminal A	5	5	5	5	5	5
Terminal B	6	5	5	3	3	3
Terminal C	757	361	361	361	361	361
Airline Area						
Terminal A	563	195	191	158	126	126
Terminal B	531	138	124	84	69	69
Terminal C	3,965	2,885	1,798	1,714	1,634	1,635
Terminal D (IAB)	587	408	253	209	196	198
Central FIS	351	349	340	265	192	192
Central Ticketing	58	58	56	44	32	32
Terminal E	374	372	363	287	213	211
APM	40	40	41	40	39	39
B-South Regional Jet Facility	-	-	49	92	73	73
Other	3,760	2,464	1,902	1,604	1,323	1,321
	$ 15,481	$ 10,592	$ 8,800	$ 8,166	$ 7,553	$ 7,552
WILLIAM P. HOBBY AIRPORT						
Airfield	$ 2,949	$ 2,787	$ 1,958	$ 1,850	$ 1,604	$ 1,604
Apron	25	25	25	25	25	25
Terminal	1,198	1,043	910	907	816	816
Other	693	691	691	690	601	602
	$ 4,865	$ 4,546	$ 3,584	$ 3,472	$ 3,046	$ 3,047

Exhibit C-2 (Page 2 of 3)

AMORTIZATION CHARGES
Houston Airport System
For Fiscal Years ending June 30

IMPROVEMENTS PLACED IN SERVICE ON OR AFTER JULY 1, 1998 - PRE 2009 CIP	Forecast 2010	2011	2012	2013	2014	2015
Annual amortization (b)						
George Bush Intercontinental Airport/Houston	$ 166,130	$ 162,713	$ 171,991	$ 166,597	$ 161,893	$ 157,585
William P. Hobby Airport	27,368	24,815	23,778	23,078	22,300	22,000
Ellington Airport	3,982	3,971	3,570	3,529	3,503	3,501
	$ 197,480	$ 191,499	$ 199,339	$ 193,204	$ 187,696	$ 183,086
Allocation of annual amortization by cost center						
GEORGE BUSH INTERCONTINENTAL AIRPORT/HOUSTON						
Airfield	$ 47,685	$ 47,483	$ 46,914	$ 44,603	$ 44,209	$ 42,100
Apron						
Terminal A	869	865	849	821	804	803
Terminal B	468	444	414	63	51	50
Terminal C	229	226	203	158	136	136
Airline Area						
Terminal A						
Terminal	7,072	6,896	6,725	6,578	6,329	6,312
Loading Bridges	1,031	1,031	1,031	1,031	1,031	568
Baggage Systems	737	737	737	737	737	377
Terminal B	2,979	2,846	2,583	2,244	2,095	2,077
Terminal C	9,042	8,742	8,426	8,167	7,732	7,714
Terminal D (IAB)	8,509	8,286	7,961	7,669	7,466	6,942
Central FIS	17,438	17,137	16,793	16,503	15,996	15,975
Central Ticketing	4,443	4,393	4,336	4,288	4,204	4,200
Terminal E	5,439	5,197	4,989	4,785	4,468	4,430
APM	10,291	10,164	17,925	17,805	17,600	17,590
B-South Regional Jet Facility	-	-	454	1,041	1,023	1,020
Other	49,898	48,266	51,651	50,104	48,012	47,291
	$ 166,130	$ 162,713	$ 171,991	$ 166,597	$ 161,893	$ 157,585
WILLIAM P. HOBBY AIRPORT						
Airfield	$ 7,055	$ 6,310	$ 6,042	$ 5,753	$ 5,553	$ 5,545
Apron	1,226	1,138	1,110	1,099	1,085	1,084
Terminal						
Terminal	1,368	945	750	230	160	160
Main Terminal	-	-	-	-	-	-
Concourse A/East Concourse	-	-	-	-	-	-
Central Concourse	15,337	14,388	14,073	14,315	13,981	13,800
Loading Bridges	407	407	407	407	407	407
Baggage Systems	302	302	302	302	302	302
Other	1,673	1,325	1,094	972	812	702
	$ 27,368	$ 24,815	$ 23,778	$ 23,078	$ 22,300	$ 22,000

Exhibit C-2 (Page 3 of 3)

AMORTIZATION CHARGES
Houston Airport System
For Fiscal Years ending June 30

IMPROVEMENTS PLACED IN SERVICE ON OR AFTER JULY 1, 1998 - POST 2009 CIP	Forecast 2010	2011	2012	2013	2014	2015
Annual amortization (b)						
George Bush Intercontinental Airport/Houston	$ 84	$ 12,189	$ 21,886	$ 37,794	$ 48,360	$ 50,717
William P. Hobby Airport	1,109	1,550	2,078	9,187	13,816	14,415
Ellington Airport	-	3	280	525	538	650
	$ 1,193	$ 13,742	$ 24,244	$ 47,507	$ 62,714	$ 65,782
Allocation of annual amortization by cost center						
GEORGE BUSH INTERCONTINENTAL AIRPORT/HOUSTON						
Airfield	$ 84	$ 469	$ 593	$ 1,002	$ 1,122	$ 2,786
Apron						
Terminal A	-	1	3	21	24	25
Terminal B	-	1	996	3,876	4,401	4,403
Terminal C	-	1	4	26	30	31
Airline Area						
Terminal A						
Terminal	-	30	648	1,399	1,445	1,493
Terminal B	-	21	62	248	275	303
Terminal C	-	5,112	5,310	6,012	6,084	6,168
Terminal D (IAB)	-	1,575	5,189	10,045	19,156	19,241
Central FIS	-	63	193	931	1,024	1,087
Central Ticketing	-	10	23	145	161	171
Terminal E	-	40	81	637	677	724
APM	-	23	3,409	3,657	3,705	3,734
B-South Regional Jet Facility	-	-	8	167	181	198
Other	-	4,842	5,367	9,629	10,077	10,351
	$ 84	$ 12,189	$ 21,886	$ 37,794	$ 48,360	$ 50,717
WILLIAM P. HOBBY AIRPORT						
Airfield	$ -	$ 395	$ 428	$ 753	$ 803	$ 1,237
Apron	-	1	5	26	32	54
Terminal						
Main Terminal	-	13	53	4,571	8,974	9,002
Central Concourse	-	19	79	524	627	686
Loading Bridges	1,109	1,109	1,109	1,116	1,116	1,116
Baggage Systems	-	-	51	51	51	51
Other	-	14	353	2,146	2,213	2,269
	$ 1,109	$ 1,550	$ 2,078	$ 9,187	$ 13,816	$ 14,415

(a) Represents amortization of net asset costs at the City's historical weighted average Cost of Capital.
(b) Represents amortization of net asset costs at the applicable interest rate. Future rates are assumed as follows:
6.0% on the Future Bonds and on the AIF.

Exhibit D

OPERATION AND MAINTENANCE EXPENSES
Houston Airport System
For Fiscal Years ending June 30
(In thousands)

	Historical		Estimated	Forecast					
	2007	2008	2009	2010	2011	2012	2013	2014	2015
GEORGE BUSH INTERCONTINENTAL AIRPORT/HOUSTON									
Personnel	$ 41,169	$ 42,640	$ 46,158	$ 47,554	$ 48,980	$ 50,449	$ 52,467	$ 54,566	$ 56,749
Adjustment for collateralized pension note	-	-	1,263	1,212	1,212	1,212	1,212	1,212	1,212
Supplies	4,540	4,259	3,790	4,955	5,103	5,245	5,411	5,628	5,852
Services and non-capital equipment									
Utilities	24,523	24,727	30,540	28,380	29,232	30,003	30,793	32,023	33,305
Police/Security	13,315	12,764	13,132	13,116	13,509	13,914	14,471	15,050	15,652
Fire protection service	9,624	10,405	11,533	12,149	12,513	12,888	13,404	13,940	14,498
Building Maintenance	17,074	17,666	17,884	20,423	21,037	22,580	23,398	24,335	25,306
Other services and non-capital equipment	20,186	21,053	20,384	21,447	22,092	22,753	23,653	24,599	25,583
Capital equipment	-	-	3,840	3,217	3,217	3,214	3,205	3,205	3,205
	$ 130,431	$ 133,514	$ 148,524	$ 152,453	$ 156,895	$ 162,258	$ 168,014	$ 174,558	$ 181,362
		2.4%	*11.2%*	*2.6%*	*2.9%*	*3.4%*	*3.5%*	*3.9%*	*3.9%*
WILLIAM P. HOBBY AIRPORT									
Personnel	$ 14,849	$ 15,263	$ 17,806	$ 17,532	$ 18,058	$ 18,600	$ 19,344	$ 20,118	$ 20,923
Adjustment for collateralized pension note	-	-	19	463	463	463	463	463	463
Supplies	1,695	1,305	1,359	1,549	1,595	1,643	1,709	1,777	1,848
Services and non-capital equipment									
Utilities	4,050	3,883	4,513	4,423	4,555	4,692	4,880	5,075	5,278
Police/Security	5,048	5,287	4,997	5,149	5,303	5,462	5,680	5,907	6,143
Fire protection service	3,155	3,012	3,510	2,761	2,843	2,928	3,045	3,167	3,294
Building maintenance	1,293	1,471	1,579	2,412	2,484	2,558	2,661	2,768	2,879
Other services and non-capital equipment	4,198	4,645	4,526	5,149	5,303	5,463	5,681	5,908	6,145
Capital equipment	-	-	1,552	1,516	1,516	1,516	1,516	1,516	1,516
	$ 34,288	$ 34,866	$ 39,861	$ 40,954	$ 42,120	$ 43,325	$ 44,979	$ 46,699	$ 48,489
		1.7%	*14.3%*	*2.7%*	*2.8%*	*2.9%*	*3.8%*	*3.8%*	*3.8%*
ELLINGTON AIRPORT									
Personnel	$ 1,490	$ 1,535	$ 1,749	$ 1,696	$ 1,747	$ 1,799	$ 1,871	$ 1,946	$ 2,024
Adjustment for collateralized pension note	-	-	52	50	50	50	50	50	50
Supplies	179	210	197	245	253	261	271	282	293
Services and non-capital equipment									
Utilities	398	455	466	427	441	454	473	492	512
Police/Security	-	-	-	-	-	-	-	-	-
Fire protection service	-	-	-	-	-	-	-	-	-
Building maintenance	63	102	99	186	192	198	206	214	223
Other services and non-capital equipment	408	351	407	456	469	483	502	522	543
Capital equipment	-	-	700	842	842	842	842	842	842
	$ 2,538	$ 2,653	$ 3,670	$ 3,902	$ 3,994	$ 4,087	$ 4,215	$ 4,348	$ 4,487
		4.5%	*38.3%*	*6.3%*	*2.4%*	*2.3%*	*3.1%*	*3.2%*	*3.2%*

Exhibit D (Page 2 of 2)

OPERATION AND MAINTENANCE EXPENSES
Houston Airport System
For Fiscal Years ending June 30
(In thousands)

	Historical		Estimated	Forecast					
	2007	2008	2009	2010	2011	2012	2013	2014	2015
ADMINISTRATION									
Personnel	$ 32,087	$ 43,075	$ 30,477	$ 30,796	$ 31,720	$ 32,672	$ 33,979	$ 35,338	$ 36,752
Adjustment for collateralized pension note	-	-	811	777	777	777	777	777	777
Supplies	970	674	631	841	866	892	928	965	1,004
Services and non-capital equipment									
Utilities	94	146	157	144	149	154	160	167	174
Police	-	-	2,373	2,373	2,445	2,518	2,619	2,724	2,833
Fire	-	-	-	-	-	-	-	-	-
Building Maintenance	1	5	1	1	1	1	1	1	1
Other services and non-capital equipment	14,246	14,667	17,913	20,505	21,119	21,754	22,625	23,530	24,472
Capital equipment	-	-	1,093	688	688	688	688	688	688
	$ 47,398	$ 58,567	$ 53,456	$ 56,125	$ 57,765	$ 59,456	$ 61,777	$ 64,190	$ 66,701
		23.6%	*-8.7%*	*5.0%*	*2.9%*	*2.9%*	*3.9%*	*3.9%*	*3.9%*
TOTAL AIRPORT SYSTEM									
Personnel	$ 89,595	$ 102,513	$ 96,190	$ 97,578	$ 100,505	$ 103,520	$ 107,661	$ 111,968	$ 116,448
Supplies	7,384	6,448	5,977	7,590	7,817	8,041	8,319	8,652	8,997
Services and non-capital equipment									
Utilities	29,065	29,211	35,676	33,374	34,377	35,303	36,306	37,757	39,269
Police/Security	18,363	18,051	20,502	20,638	21,257	21,894	22,770	23,681	24,628
Less: Estimated TSA Reimbursement	-	-	-	-	-	-	-	-	-
Fire	12,779	13,417	15,043	14,910	15,356	15,816	16,449	17,107	17,792
Building Maintenance	18,431	19,244	19,563	23,022	23,714	25,337	26,266	27,318	28,409
Other services and non-capital equipment	39,038	40,716	43,230	47,557	48,983	50,453	52,461	54,559	56,743
Operation and Maintenance Expenses (b)	**$ 214,655**	**$ 229,600**	**$ 236,181**	**$ 244,669**	**$ 252,009**	**$ 260,364**	**$ 270,232**	**$ 281,042**	**$ 292,286**
Percent increase		*7.0%*	*2.9%*	*3.6%*	*3.0%*	*3.3%*	*3.8%*	*4.0%*	*4.0%*
Adjustment for collateralized pension note	-	-	2,145	2,502	2,502	2,502	2,502	2,502	2,502
Capital equipment	-	-	7,185	6,263	6,263	6,260	6,251	6,251	6,251
	$ 214,655	$ 229,600	$ 245,511	$ 253,434	$ 260,774	$ 269,126	$ 278,985	$ 289,795	$ 301,039
ALLOCATION OF ADMINISTRATION									
Percentage allocation of Administration (c)									
George Bush Intercontinental Airport/Houston	81.61%	81.75%	80.43%	79.92%	80.09%	80.29%	80.44%	80.26%	80.22%
William P. Hobby Airport	17.42%	17.28%	18.59%	19.10%	18.93%	18.75%	18.59%	18.79%	18.83%
Ellington Airport	0.98%	0.97%	0.98%	0.98%	0.98%	0.96%	0.96%	0.95%	0.95%
Summary of operating expenses by Airport									
George Bush Intercontinental Airport/Houston	$ 169,110	$ 181,393	$ 191,519	$ 197,309	$ 203,160	$ 209,993	$ 217,710	$ 226,075	$ 234,867
William P. Hobby Airport	42,543	44,987	49,799	51,674	53,056	54,472	56,466	58,759	61,051
Ellington Airport	3,002	3,220	4,193	4,451	4,558	4,661	4,809	4,961	5,121
	$ 214,655	$ 229,600	$ 245,511	$ 253,434	$ 260,774	$ 269,126	$ 278,985	$ 289,795	$ 301,039

(a) As required, HAS will pay Continental a sublease payment for the debt payment on the SFRBs issued to fund the APM between Terminals B and C.
(b) As defined in the Bond Ordinances.
(c) Based 50% on revenues by Airport and 50% on operating expenses by Airport.

Exhibit E

GROSS REVENUES
Houston Airport System
For Fiscal Years ending June 30
(In thousands)

	Historical		**Estimate**	**Forecast**					
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
GEORGE BUSH INTERCONTINENTAL AIRPORT/HOUSTON									
Airline rentals, fee, and charges									
Scheduled Airline landing fees (a)	$ 76,198	$ 81,144	$ 77,982	$ 73,508	$ 73,293	$ 72,311	$ 72,693	$ 72,170	$ 72,023
Terminal Building rentals (a)									
Terminal A (b)	163,399	169,474	154,487	16,379	16,167	16,831	17,613	17,656	17,257
Terminal B	Incl above	Incl above	Incl above	11,493	11,178	10,613	9,655	9,679	9,925
Terminal C	Incl above	Incl above	Incl above	29,354	33,500	32,791	33,715	33,695	34,500
Ramp rentals (a)									
Terminal A	Incl above	Incl above	Incl above	1,019	1,067	1,093	1,111	1,123	1,168
Terminal B	Incl above	Incl above	Incl above	2,208	2,038	1,880	1,151	1,163	1,200
Terminal C	Incl above	Incl above	Incl above	2,510	2,201	2,249	2,269	2,293	2,370
International charges - Terminal D/Central FIS	Incl above	Incl above	Incl above	48,289	50,238	53,716	58,555	63,290	64,302
Terminal E	Incl above	Incl above	Incl above	16,242	16,333	16,471	17,078	16,921	17,325
B-South Regional Jet Facility				-	-	1,563	3,905	4,088	4,211
APM Charges	Incl above	Incl above	Incl above	11,398	11,530	12,018	12,508	12,671	13,075
	$ 239,597	$ 250,618	$ 232,469	$ 212,400	$ 217,545	$ 221,537	$ 230,251	$ 234,748	$ 237,357
Enplaned passengers	***21,488***	***21,640***	***19,807***	***19,256***	***19,352***	***20,187***	***20,934***	***21,808***	***22,513***
Airline cost per enplaned passenger	***$11.15***	***$11.58***	***$11.74***	***$11.03***	***$11.24***	***$10.97***	***$11.00***	***$10.76***	***$10.54***
Concession revenues									
Automobile parking	$ 53,029	$ 58,471	$ 55,289	$ 60,185	$ 60,492	$ 68,796	$ 71,356	$ 80,264	$ 83,099
Rental cars	17,074	17,826	18,639	18,061	18,754	20,493	21,893	23,519	25,081
Terminal Concessions									
Food and beverage	5,754	6,035	5,310	5,051	5,229	5,822	6,288	5,377	5,769
News and gifts	6,861	6,731	6,341	5,911	6,120	6,645	7,164	6,829	7,378
Duty free shops	896	1,334	1,300	1,255	1,309	1,447	1,583	1,692	1,959
Hotel	4,131	4,089	3,866	3,900	3,920	4,090	4,242	4,425	4,581
Ground transportation	3,696	3,772	3,471	3,430	3,498	3,648	3,794	3,965	4,128
Other concessions	4,564	5,510	5,026	4,842	4,984	5,298	5,607	5,049	5,438
	$ 96,005	$ 103,768	$ 99,242	$ 102,635	$ 104,306	$ 116,239	$ 121,927	$ 131,120	$ 137,433
Other revenues									
Cargo building and hangar rentals	$ 3,314	$ 3,823	$ 3,852	$ 4,131	$ 4,251	$ 4,258	$ 4,280	$ 4,340	$ 4,492
Ground rentals									
Other	5,908	6,208	6,530	6,564	6,653	6,820	6,806	6,737	6,773
Continental Special Facility Leases	363	363	388	375	389	389	389	389	400
Consolidated rental car facility	925	931	1,031	1,054	1,054	1,054	1,054	1,185	1,212
Aircraft fuel fees	400	355	299	285	288	291	294	297	300
Fuel System	2,924	2,855	2,819	2,779	2,635	2,565	3,832	3,785	3,769
Other	4,492	4,975	4,635	3,902	3,954	4,314	4,353	4,394	4,435
	$ 18,326	$ 19,510	$ 19,554	$ 19,090	$ 19,224	$ 19,691	$ 21,008	$ 21,127	$ 21,381
Total -- Bush Intercontinental Airport	$ 353,928	$ 373,896	$ 351,265	$ 334,125	$ 341,075	$ 357,467	$ 373,186	$ 386,995	$ 396,171

Exhibit E (Page 2 of 2)

GROSS REVENUES
Houston Airport System
For Fiscal Years ending June 30
(In thousands)

	Historical		Estimate	Forecast					
	2007	2008	2009	2010	2011	2012	2013	2014	2015
WILLIAM P. HOBBY AIRPORT									
Airline rentals, fee, and charges									
Scheduled airline landing fees (d)	$ 12,355	$ 14,586	$ 14,379	$ 13,746	$ 13,897	$ 12,859	$ 13,901	$ 13,575	$ 14,479
Terminal Building rentals (d)									
Main Terminal (e)	18,714	23,441	24,194	5,073	4,964	4,947	22,105	24,481	25,006
Central Concourse	Incl above	Incl above	Incl above	17,931	17,671	17,816	-	-	-
Loading Bridge Charges	Incl above	Incl above	Incl above	87	87	89	97	101	105
Baggage Claim Device/Outbound Conveyor Equipment Charges	Incl above	Incl above	Incl above	81	81	132	132	132	132
Terminal apron rentals	Incl above	Incl above	Incl above	1,177	1,130	1,137	1,181	1,215	1,271
	$ 31,069	$ 38,027	$ 38,573	$ 38,095	$ 37,830	$ 36,980	$ 37,416	$ 39,504	$ 40,994
Enplaned passengers	*4,344*	*4,562*	*4,117*	*4,017*	*4,011*	*4,024*	*4,070*	*4,134*	*4,164*
Airline cost per enplaned passenger	*$7.15*	*$8.34*	*$9.37*	*$9.48*	*$9.43*	*$9.19*	*$9.19*	*$9.56*	*$9.84*
Concession revenues									
Automobile parking	$ 12,424	$ 14,486	$ 14,096	$ 15,249	$ 15,248	$ 17,049	$ 17,240	$ 19,304	$ 19,450
Rental cars	5,876	6,703	6,656	6,453	6,376	6,600	6,890	7,226	7,511
Terminal Concessions									
Food and beverage	2,338	2,451	2,396	2,407	2,476	2,595	2,729	2,856	2,963
News and gifts	1,551	2,343	2,243	2,180	2,252	2,352	2,478	2,609	2,794
Ground transportation	822	940	662	896	895	897	908	922	929
Other concessions	858	942	670	649	664	687	715	741	779
	$ 23,869	$ 27,865	$ 26,723	$ 27,834	$ 27,911	$ 30,180	$ 30,960	$ 33,658	$ 34,426
General aviation fuel fees	848	922	913	913	922	931	941	950	960
Other building and ground rentals	3,054	3,124	3,493	4,175	4,195	4,243	4,280	4,421	4,546
Other revenues (d)	683	1,101	1,248	819	793	1,248	1,263	1,278	1,294
Total -- William P. Hobby Airport	$59,523	$71,039	$70,950	$71,836	$71,651	$73,582	$74,860	$79,811	$82,220
ELLINGTON AIRPORT	1,820	1,508	1,121	1,465	1,467	1,469	1,471	1,473	1,476
Interest income	26,847	30,063	27,229	20,175	21,299	25,133	31,050	31,695	32,960
Miscellaneous Income	1,350	915	500	750	750	750	750	750	750
	$ 443,468	$ 477,421	$ 451,065	$ 428,351	$ 436,242	$ 458,401	$ 481,318	$ 500,724	$ 513,577

(a) Exhibit E-1.
(b) After DBO of Terminal A/B improvements, includes loading bridge charges and baggage system charges.
(c) Exhibit E-2.
(d) Includes direct O&M credit on 4B space until FY 2007.

EXHIBIT E-1

AIRLINE REVENUES
George Bush Intercontinental Airport/Houston
For Fiscal Years ending June 30
(In thousands)

	Forecast					
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
LANDING FEES						
Airfield costs						
Operation and Maintenance Expenses (a)	$ 23,489	$ 24,174	$ 24,880	$ 25,975	$ 26,965	$ 27,998
Replenishment of Renewal and Replacement Fund	1,100	1,200	-	1,200	-	-
Capital charges						
Amortization of Capital Improvements (b)						
Placed in service through June 30, 1998	4,484	3,312	3,312	3,300	3,287	3,287
Placed in service on or after July 1, 1998	47,685	47,483	46,914	44,603	44,209	42,100
Proposed to be in service after July 1, 2009	84	469	593	1,002	1,122	2,786
less: reduction for PFC revenues applied	(7,218)	(7,218)	(7,218)	(7,218)	(7,218)	(7,971)
Interest on land	3,625	3,625	3,625	3,625	3,625	3,625
Reallocation of cost of DOA space	862	853	853	857	834	857
	$ 74,111	$ 73,898	$ 72,959	$ 73,344	$ 72,824	$ 72,682
Less:						
Savings on Series 2007B Refunding	(318)	(317)	(357)	(357)	(357)	(359)
General aviation fuel flowage fees (c)	(285)	(288)	(291)	(294)	(297)	(300)
Net Airfield costs	$ 73,508	$ 73,293	$ 72,311	$ 72,693	$ 72,170	$ 72,023
Forecast landed weight (1,000-pound units)	25,662	25,885	27,006	27,803	28,982	29,860
Landing fee rate (per 1,000-pound unit)	**$ 2.86**	**$ 2.83**	**$ 2.68**	**$ 2.61**	**$ 2.49**	**$ 2.41**
TERMINAL BUILDING RENTALS						
Terminal A						
Operation and Maintenance Expenses (b)	$ 8,398	$ 8,635	$ 8,964	$ 9,306	$ 9,574	$ 9,942
Replenishment of Renewal and Replacement Fund	-	-	-	-	-	-
Capital charges						
Base Capital Charge (d)	300	300	300	300	300	300
Amortization of Capital Improvements (b)						
Placed in service through June 30, 1998	563	195	191	158	126	126
Placed in service on or after July 1, 1998	7,072	6,896	6,725	6,578	6,329	6,312
Proposed to be in service after July 1, 2009	-	30	648	1,399	1,445	1,493
Reallocation of cost of DOA space	612	604	608	606	585	601
Total Costs	$ 16,945	$ 16,660	$ 17,436	$ 18,347	$ 18,359	$ 18,774
Airline space (in square feet)	264.416	264.416	264.416	264.416	264.416	264.416
Terminal A Rental Rates (average per square foot)	**$ 64.08**	**$ 63.01**	**$ 65.94**	**$ 69.39**	**$ 69.43**	**$ 71.00**
x Airline leased space	218.274	218.274	218.274	218.274	218.274	218.274
= Terminal A terminal rentals	$ 13,988	$ 13,753	$ 14,394	$ 15,145	$ 15,155	$ 15,498

AIRLINE REVENUES
George Bush Intercontinental Airport/Houston
For Fiscal Years ending June 30
(In thousands)

	Forecast					
TERMINAL BUILDING RENTALS (continued)	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Terminal A						
LOADING BRIDGE CHARGE						
Operation and Maintenance Expenses (a)	$ 419	$ 432	$ 445	$ 463	$ 482	$ 501
Amortization of Capital Improvements (b)	1,031	1,031	1,031	1,031	1,031	568
Interest on land	-	-	-	-	-	-
	$ 1,450	$ 1,463	$ 1,476	$ 1,494	$ 1,513	$ 1,069
Number of Loading bridges	19	19	19	19	19	19
Loading Bridge Charge	**$ 76,316**	**$ 77,000**	**$ 77,684**	**$ 78,632**	**$ 79,632**	**$ 56,263**
x Leased number of gates	17	17	17	17	17	17
= Terminal A loading bridge rentals	$ 1,297	$ 1,309	$ 1,321	$ 1,337	$ 1,354	$ 956
BAGGAGE CLAIM AND OUTBOUND CONVEYOR EQUIPMENT CHARGES						
Operation and Maintenance Expenses (a)	$ 357	$ 368	$ 379	$ 394	$ 410	$ 426
Amortization of Capital Improvements (b)	737	737	737	737	737	377
Interest on land	-	-	-	-	-	-
= Terminal a baggage claim and outbound conveyor equip charges	$ 1,094	$ 1,105	$ 1,116	$ 1,131	$ 1,147	$ 803
Total Terminal A building rentals	$ 16,379	$ 16,167	$ 16,831	$ 17,613	$ 17,656	$ 17,257
Terminal B						
Operation and Maintenance Expenses (a)	$ 6,585	$ 6,775	$ 6,528	$ 6,029	$ 6,202	$ 6,430
Replenishment of Renewal and Replacement Fund	-	-	-	-	-	-
Capital charges						
Base Capital Charge (d)	995	995	936	709	709	709
Credit for ticketing queueing and security (e)	(7)	(7)	(7)	(7)	(7)	(7)
Amortization of Capital Improvements (b)						
Placed in service through June 30, 1998	531	138	124	84	69	69
Placed in service on or after July 1, 1998	2,979	2,846	2,583	2,244	2,095	2,077
Proposed to be in service after July 1, 2009	-	21	62	248	275	303
Interest on land	-	-	-	-	-	-
Reallocation of cost of DOA space	410	410	387	348	336	344
Total Costs	$ 11,493	$ 11,178	$ 10,613	$ 9,655	$ 9,679	$ 9,925
Airline space (in square feet)	159.953	159.953	150.891	115.979	115.979	115.979
Terminal B Rental Rate (per square foot)	**$71.85**	**$69.88**	**$70.33**	**$83.25**	**$83.46**	**$85.57**
x Airline leased space	159.953	159.953	150.891	115.979	115.979	115.979
= Terminal B terminal rentals	$ 11,493	$ 11,178	$ 10,613	$ 9,655	$ 9,679	$ 9,925

AIRLINE REVENUES
George Bush Intercontinental Airport/Houston
For Fiscal Years ending June 30
(In thousands)

	Forecast					
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
TERMINAL BUILDING RENTALS (concluded)						
Terminal C						
Operation and Maintenance Expenses (a)	$ 15,458	$ 15,885	$ 16,380	$ 16,951	$ 17,406	$ 18,120
Replenishment of Renewal and Replacement Fund	-	-	-	-	-	-
Capital charges						
Amortization of Capital Improvements (b)						
Placed in service through June 30, 1998	3,965	2,885	1,798	1,714	1,634	1,635
Placed in service on or after July 1, 1998	9,042	8,742	8,426	8,167	7,732	7,714
Proposed to be in service after July 1, 2009	-	5,112	5,310	6,012	6,084	6,168
Interest on land	-	-	-	-	-	-
Reallocation of cost of DOA space	889	876	877	871	839	863
Total Costs	$ 29,354	$ 33,500	$ 32,791	$ 33,715	$ 33,695	$ 34,500
Airline space (in square feet)	668.057	668.057	668.057	668.057	668.057	668.057
Terminal C Rental Rate (per square foot)	**$43.94**	**$50.14**	**$49.08**	**$50.47**	**$50.44**	**$51.64**
x Airline leased space	668.057	668.057	668.057	668.057	668.057	668.057
= Terminal C terminal rentals	$ 29,354	$ 33,500	$ 32,791	$ 33,715	$ 33,695	$ 34,500
B-South Regional Jet Facility						
Operation and Maintenance Expenses (a)	$ -	$ -	$ 976	$ 2,438	$ 2,643	$ 2,748
Replenishment of Renewal and Replacement Fund	-	-	-	-	-	-
Capital charges						
Amortization of Capital Improvements (b)						
Placed in service through June 30, 1998	-	-	49	92	73	73
Placed in service on or after July 1, 1998	-	-	454	1,041	1,023	1,020
Proposed to be in service after July 1, 2009	-	-	8	167	181	198
Ground rent	-	-	23	54	57	57
Reallocation of cost of DOA space	-	-	53	113	111	115
= B-South Regional Jet Facility net lease	$ -	$ -	$ 1,563	$ 3,905	$ 4,088	$ 4,211

AIRLINE REVENUES
George Bush Intercontinental Airport/Houston
For Fiscal Years ending June 30
(In thousands)

	Forecast					
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
APRON FEES						
Terminal A						
Operation and Maintenance Expenses (a)	$ 1,092	$ 1,150	$ 1,195	$ 1,228	$ 1,261	$ 1,311
Replenishment of Renewal and Replacement Fund						
Capital charges						
Amortization of Capital Improvements (b)						
Placed in service through June 30, 1998	5	5	5	5	5	5
Placed in service on or after July 1, 1998	869	865	849	821	804	803
Proposed to be in service after July 1, 2009	-	1	3	21	24	25
less: reduction for PFC revenues applied	(844)	(844)	(844)	(844)	(844)	(844)
Reallocation of cost of DOA space	95	96	97	95	91	94
Total Costs allocable to Terminal A Apron Area	$ 1,217	$ 1,273	$ 1,305	$ 1,326	$ 1,341	$ 1,394
Square footage	692.204	692.204	692.204	692.204	692.204	692.204
Average Terminal A Apron Fee Rate (per square foot)	**$1.758**	**$1.839**	**$1.886**	**$1.916**	**$1.937**	**$2.015**
x Leased square footage	579.794	579.794	579.794	579.794	579.794	579.794
= Airline ramp rentals	$1,019	$1,067	$1,093	$1,111	$1,123	$1,168
Terminal B						
Operation and Maintenance Expenses (a)	$ 1,210	$ 1,144	$ 1,072	$ 812	$ 836	$ 870
Replenishment of Renewal and Replacement Fund						
Capital charges						
Base Capital Charge (d)	425	355	305	197	197	197
Amortization of Capital Improvements (b)						
Placed in service through June 30, 1998	6	5	5	3	3	3
Placed in service on or after July 1, 1998	468	444	414	63	51	50
Proposed to be in service after July 1, 2009	-	1	996	3,876	4,401	4,403
less: reduction for PFC revenues applied	(1)	(1)	(994)	(3,859)	(4,381)	(4,381)
Reallocation of cost of DOA space	100	90	82	59	56	58
Total Costs allocable to Terminal B Apron Area	$2,208	$2,038	$1,880	$1,151	$1,163	$1,200
Square footage	850.043	710.689	610.859	393.308	393.308	393.308
Terminal B Apron Fee Rate (per square foot)	**$2.598**	**$2.868**	**$3.078**	**$2.927**	**$2.958**	**$3.050**
x Leased square footage	850.043	710.689	610.859	393.308	393.308	393.308
= Airline ramp rentals	$ 2,208	$ 2,038	$ 1,880	$ 1,151	$ 1,163	$ 1,200

AIRLINE REVENUES
George Bush Intercontinental Airport/Houston
For Fiscal Years ending June 30
(In thousands)

	Forecast					
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
APRON FEES (concluded)						
Terminal C						
Operation and Maintenance Expenses (a)	$ 1,614	$ 1,701	$ 1,768	$ 1,813	$ 1,860	$ 1,933
Replenishment of Renewal and Replacement Fund						
Capital charges						
Amortization of Capital Improvements (b)						
Placed in service through June 30, 1998	757	361	361	361	361	361
Placed in service on or after July 1, 1998	229	226	203	158	136	136
Proposed to be in service after July 1, 2009	-	1	4	26	30	31
less: reduction for PFC revenues applied	(216)	(216)	(216)	(216)	(216)	(216)
Interest on land	-	-	-	-	-	-
Reallocation of cost of DOA space	126	128	129	127	122	125
Total Costs allocable to Terminal C Apron Area	$ 2,510	$ 2,201	$ 2,249	$ 2,269	$ 2,293	$ 2,370
Square footage	1,216.749	1,216.749	1,216.749	1,216.749	1,216.749	1,216.749
Terminal C Apron Fee Rate (per square foot)	**$ 2.06**	**$ 1.81**	**$ 1.85**	**$ 1.87**	**$ 1.88**	**$ 1.95**
x Leased square footage	1,216.749	1,216.749	1,216.749	1,216.749	1,216.749	1,216.749
= Airline ramp rentals	$ 2,510	$ 2,201	$ 2,249	$ 2,269	$ 2,293	$ 2,370
TERMINAL D / CENTRAL FIS						
Existing Terminal D rentals						
Passenger fees						
Operation and Maintenance Expenses (a)	$ 8,025	$ 8,625	$ 9,011	$ 9,358	$ 9,518	$ 9,907
Replenishment of Renewal and Replacement Fund	-	-	-	-	-	-
Capital charges (b)	5,291	6,204	8,381	10,299	13,200	13,234
less: reduction for PFC revenues applied	(748)	(748)	(748)	(748)	(1,830)	(1,830)
Reallocation of HAS Space	498	512	521	520	488	502
Less reallocation of FIS capital cost to Central FIS	-	-	-	-	-	-
Less rate mitigation equal to 1 gate	-	-	-	-	-	-
	$ 13,066	$ 14,593	$ 17,165	$ 19,429	$ 21,376	$ 21,813
Space rentals (Operations, Admin, and VIP/Club space)						
Operation and Maintenance Expenses (a)	$ 1,825	$ 1,815	$ 1,885	$ 1,957	$ 2,547	$ 2,656
Replenishment of Renewal and Replacement Fund	-	-	-	-	-	-
Capital charges (b)	1,532	1,601	2,153	3,428	5,632	5,123
Reallocation of HAS Space	110	105	105	105	126	130
	$ 3,467	$ 3,521	$ 4,143	$ 5,490	$ 8,305	$ 7,909

AIRLINE REVENUES
George Bush Intercontinental Airport/Houston
For Fiscal Years ending June 30
(In thousands)

	Forecast					
	2010	2011	2012	2013	2014	2015
TERMINAL D / CENTRAL FIS (concluded)						
Central FIS						
Operation and Maintenance Expenses (a)	$ 17,663	$ 18,157	$ 18,725	$ 19,463	$ 20,023	$ 20,803
Replenishment of Renewal and Replacement Fund	-	-	-	-	-	-
Capital charges (b)	17,789	17,549	17,326	17,699	17,212	17,254
less: reduction for PFC revenues applied	(13,867)	(13,867)	(13,867)	(13,867)	(13,867)	(13,867)
Reallocation of capital cost Terminal D FIS	1,568	1,671	1,581	1,600	1,614	1,612
Reallocation of cost of HAS space	1,088	1,074	1,076	1,073	1,034	1,062
	$ 24,241	$ 24,583	$ 24,841	$ 25,969	$ 26,015	$ 26,864
Central Ticketing						
Operation and Maintenance Expenses (a)	$ 2,564	$ 2,632	$ 2,713	$ 2,813	$ 2,888	$ 3,000
Replenishment of Renewal and Replacement Fund						
Capital charges (b)	4,794	4,752	4,699	4,698	4,557	4,563
Reallocation of capital cost Terminal D FIS	158	156	156	155	149	153
	$ 7,516	$ 7,540	$ 7,568	$ 7,666	$ 7,594	$ 7,716
= Terminal D / FIS fees and charges	$ 48,289	$ 50,238	$ 53,716	$ 58,555	$ 63,290	$ 64,302
TERMINAL E						
Allocated Indirect Operation and Maintenance Expenses (a)	$ 10,336	$ 10,639	$ 10,954	$ 11,291	$ 11,511	$ 11,896
Replenishment of Renewal and Replacement Fund	-	-	-	-	-	-
Capital charges (b)	5,813	5,609	5,433	5,709	5,358	5,365
less: reduction for PFC revenues applied	(498)	(498)	(498)	(498)	(498)	(498)
Reallocation of cost of HAS space	591	583	582	576	550	562
	$ 16,242	$ 16,333	$ 16,471	$ 17,078	$ 16,921	$ 17,325
APM Fees						
Allocated Indirect Operation and Maintenance Expenses (a)	$ 8,057	$ 8,298	$ 8,837	$ 9,201	$ 9,536	$ 9,908
Replenishment of Renewal and Replacement Fund	-	-	-	-	-	-
Capital charges (b)	10,331	10,227	21,375	21,502	21,344	21,363
APM Debt Service	6,583	6,582	6,583	6,586	6,584	6,582
Reallocation of cost of HAS space	485	480	496	495	481	494
less: reduction for PFC revenues applied	(14,058)	(14,057)	(25,273)	(25,276)	(25,274)	(25,272)
	$ 11,398	$ 11,530	$ 12,018	$ 12,508	$ 12,671	$ 13,075

(a) Exhibit D.
(b) Exhibit C-2.
(c) Exhibit E.
(d) Annual fee based on an amount of square footage of existing space times a fixed rate.
(e) Reflects a $1.50 credit for ticketing queueing and security space in Terminal B.

EXHIBIT E-2

AIRLINE REVENUES
William P. Hobby Airport
For Fiscal Years ending June 30
(In thousands)

	Forecast					
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
LANDING FEES						
Operating costs						
Operation and Maintenance Expenses (a)	$ 11,370	$ 11,667	$ 11,974	$ 12,404	$ 12,891	$ 13,380
Replenishment of Renewal and Replacement Fund	550	550	-	550	-	-
Capital charges						
Amortization of Capital Improvements (b)						
Placed in service through June 30, 1998	2,949	2,787	1,958	1,850	1,604	1,604
Placed in service on or after July 1, 1998	7,055	6,310	6,042	5,753	5,553	5,545
Proposed to be in service after July 1, 2008	-	395	428	753	803	1,237
less: reduction for PFC revenues applied	(7,271)	(6,896)	(6,609)	(6,465)	(6,323)	(6,323)
Interest on land	77	77	77	77	77	77
	$ 14,730	$ 14,890	$ 13,870	$ 14,922	$ 14,605	$ 15,520
Less:						
Savings on Series 2007B Refunding	(71)	(71)	(80)	(80)	(80)	(81)
General aviation fuel flowage fees	(913)	(922)	(931)	(941)	(950)	(960)
Net Costs of the Airfield	$ 13,746	$ 13,897	$ 12,859	$ 13,901	$ 13,575	$ 14,479
Landed weight (1,000-pound units)	6,012	6,022	6,020	6,069	6,184	6,209
Landing Fee Rate (per 1,000-pound unit)	**$2.286**	**$2.308**	**$2.136**	**$2.290**	**$2.195**	**$2.332**
TERMINAL RENTALS						
Main Terminal Rentals / Blended Terminal Rate (FY 2013 on)(c)						
Operating costs						
Operation and Maintenance Expenses (a)	$ 10,625	$ 10,910	$ 11,156	$ 30,057	$ 31,297	$ 32,537
Replenishment of Renewal and Replacement Fund	-	-	-	-	-	-
Capital charges						
Amortization of Capital Improvements (b)						
Placed in service through June 30, 1998	662	507	371	907	816	816
Placed in service on or after July 1, 1998	1,368	945	750	14,545	14,141	13,960
Proposed to be in service after July 1, 2009	-	13	53	5,095	9,602	9,688
less: reduction for PFC revenues applied	(77)	(77)	(77)	(415)	(226)	(170)
	$ 12,578	$ 12,298	$ 12,253	$ 50,189	$ 55,630	$ 56,831
÷ Main Terminal Usable space	136.561	136.561	136.561	566.090	566.090	566.090
				Blended Rate beginning FY 2013		
	$92.11	**$90.05**	**$89.73**	**$88.66**	**$98.27**	**$100.39**
x Airline square footage	53.099	53.099	53.099	247.271	247.271	247.271
	$ 4,891	$ 4,782	$ 4,765	$ 21,923	$ 24,299	$ 24,824

EXHIBIT E-2 (Page 2 of 3)

AIRLINE REVENUES
William P. Hobby Airport
For Fiscal Years ending June 30

	Forecast					
TERMINAL RENTALS (continued)	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Base Capital Charge (d)						
Base Capital Charge rate (per square foot)	$ 2.50	$ 2.50	$ 2.50	$ 2.50	$ 2.50	$ 2.50
x Airline square footage	72.980	72.980	72.980	72.980	72.980	72.980
	$ 182	$ 182	$ 182	$ 182	$ 182	$ 182
Central Concourse Rentals						
Operating costs						
Operation and Maintenance Expenses (a)	$16,850	$17,311	$17,825			
Replenishment of Renewal and Replacement Fund	-	-	-			
Capital charges						
Amortization of Capital Improvements (b)						
Placed in service through June 30, 1998	536	535	539			
Placed in service on or after July 1, 1998	15,337	14,388	14,073			
Proposed to be in service after July 1, 2009	-	19	79			
less: reduction for PFC revenues applied	(338)	(338)	(339)			
	$ 32,385	$ 31,915	$ 32,177			
÷ Central Concourse Usable space	332.048	332.048	332.048	Blended Rate with Main Terminal upon completion of 417F - FY 2013		
	$97.53	**$96.11**	**$96.90**			
x Airline square footage	183.854	183.854	183.854			
= Total Central Concourse rentals	$ 17,931	$ 17,671	$ 17,816			
LOADING BRIDGE CHARGE						
Operation and Maintenance Expenses (a)						
Concourses A, B & C						
Central Concourse	$ 110	$ 110	$ 113	$ 116	$ 121	$ 126
Amortization of Capital Improvements (b)	1,516	1,516	1,516	1,523	1,523	1,523
less: reduction for PFC revenues applied	(1,517)	(1,517)	(1,517)	(1,517)	(1,517)	(1,517)
TOTAL COSTS	$ 109	$ 109	$ 112	$ 122	$ 127	$ 132
Number of Loading bridges	25	25	25	25	25	25
Loading Bridge Charge	**$4,353**	**$4,353**	**$4,473**	**$4,873**	**$5,073**	**$5,273**
x Number of leased bridges	20	20	20	20	20	20
	$ 87	$ 87	$ 89	$ 97	$ 101	$ 105

AIRLINE REVENUES
William P. Hobby Airport
For Fiscal Years ending June 30

	Forecast					
	2010	**2011**	**2012**	**2013**	**2014**	**2015**
BAGGAGE CLAIM AND OUTBOUND CONVEYOR EQUIPMENT CHARGES						
Operation and Maintenance Expenses (a)						
Main Terminal	$ -	$ -	$ -	$ -	$ -	$ -
Central Concourse	-	-	-	-	-	-
Amortization of Capital Improvements (b)	302	302	353	353	353	353
less: reduction in amortization charges with PFC take-out	(221)	(221)	(221)	(221)	(221)	(221)
TOTAL COSTS	$81	$81	$132	$132	$132	$132
TERMINAL APRON RENTALS						
Central Concourse Apron						
Operating costs						
Operation and Maintenance Expenses (a)	$ 1,184	$ 1,213	$ 1,243	$ 1,287	$ 1,335	$ 1,384
Replenishment of Renewal and Replacement Fund	-	-	-	-	-	-
Capital charges						
Amortization of Capital Improvements (b)						
Placed in service through June 30, 1998	8	8	8	8	4	4
Placed in service on or after July 1, 1998	1,208	1,120	1,095	1,084	1,070	1,069
Proposed to be in service after July 1, 2008	-	1	5	26	32	54
less: reduction for PFC revenues applied	(929)	(929)	(929)	(929)	(922)	(922)
Total Costs	$ 1,471	$ 1,413	$ 1,422	$ 1,476	$ 1,519	$ 1,589
Square footage of ramp	681.239	681.239	681.239	681.239	681.239	681.239
Terminal Apron Fee rate (per square foot)	**$2.159**	**$2.074**	**$2.088**	**$2.167**	**$2.229**	**$2.332**
x Airline leased apron (in square feet)	544.901	544.901	544.901	544.901	544.901	544.901
= Total Central Concourse apron rentals	$ 1,177	$ 1,130	$ 1,137	$ 1,181	$ 1,215	$ 1,271

(a) Exhibit D.
(b) Exhibit C-2.
(c) Upon DBO of project, a single rental rate for the Terminal Building and the Central Concourse will be calculated.
(d) Upon DBO of the east side of the terminal, the base capital charge will be reduced to $2.50 from $5.00.

Exhibit F

APPLICATION OF GROSS REVENUES TO FUNDS AND ACCOUNTS ESTABLISHED BY THE BOND ORDINANCE

Houston Airport System
For Fiscal Years ending June 30
(In thousands)

Priority established by Bond Ordinances		Historical 2007	Historical 2008	Estimate 2009	Forecast 2010	Forecast 2011	Forecast 2012	Forecast 2013	Forecast 2014	Forecast 2015
	Gross Revenues (a)	$443,468	$477,421	$451,065	$428,351	$436,242	$458,401	$481,318	$500,724	$513,577
	Application of Gross Revenues									
1	Operation and Maintenance Expenses (b)									
	Operation expenses	$ 217,720	$ 221,309	$ 239,246	$ 244,669	$ 252,009	$ 260,364	$ 270,232	$ 281,042	$ 292,286
2	Senior Lien Bond Interest and Sinking Fund									
	(pay debt service requirements on Senior Lien Bonds)(c)	2,796	2,274	1,374	6,980	18,678	25,334	32,603	35,281	43,371
	IAH and HOU PFC revenues - future bonds		-	-	(839)	(5,281)	(9,461)	(12,057)	(12,764)	(18,676)
3	Senior Lien Bond Reserve Fund									
	(replenish reserve as required)	-	-	-	-	-	-	-	-	-
4	Subordinate Lien Bond Interest and Sinking Fund									
	(pay debt service requirements on Subordinate Lien Bonds)(c)	135,397	148,759	144,117	147,799	148,279	148,254	147,853	148,658	147,952
	Less PFC revenues appllied to debt service									
	IAH PFC revenues - outstanding bonds	-	-	(14,725)	(29,419)	(29,800)	(29,707)	(29,692)	(29,787)	(29,755)
	HOU PFC revenues - outstanding bonds	(1,262)	(2,691)	(2,838)	(2,837)	(2,858)	(2,816)	(2,815)	(2,820)	(2,818)
	less: AIP grant revenue available for Debt Service (d)	(19,417)	(25,331)	(21,908)	(9,500)	-	-	-	-	-
5	Subordinate Lien Bond Reserve Fund									
	(replenish reserve as required)	-	-	-	-	-				
6	Inferior Lien Bond Funds	6,302	6,587	6,591	6,583	6,582	6,583	6,586	6,584	6,582
7	Operation and Maintenance Reserve Fund	1,316	1,164	-	953	1,393	1,645	1,802	1,874	1,949
8	Renewal and Replacement Fund	-	-	-	4,737	150	2,000	1,350	2,000	-
9	Airports Improvement Fund									
	(deposit remainining amounts at year end)									
	Expenditures for capital equipment (b)	$ -	$ -	$ 7,185	$ 6,263	$ 6,263	$ 6,260	$ 6,251	$ 6,251	$ 6,251
	Re-appropriation of LOI Funds for CIP Projects (d)	19,417	25,331	21,908	9,500	-	-	-	-	-
	Additional deposit	81,199	100,020	70,115	43,461	40,828	49,944	59,206	64,405	66,435
	Total to Airports Improvement Fund	$ 100,616	$ 125,351	$ 99,207	$ 59,224	$ 47,091	$ 56,204	$ 65,457	$ 70,656	$ 72,686
	Total application of Gross Revenues	$ 443,468	$ 477,421	$ 451,065	$ 428,351	$ 436,242	$ 458,401	$ 481,318	$ 500,724	$ 513,577

a. Exhibit E.
b. Exhibit D.
c. Exhibit C-1.
d. LOI payments during FY 2001-FY 2008 and other grants available will be deposited in the Debt Service Fund and reduce the amount of Net Revenues required for debt service.
The LOI funds will, in effect, flow through to the AIF where they will be reappropriated for other projects in the CIP or used to pay down debt.

Exhibit G

NET REVENUES AND DEBT SERVICE COVERAGE / FUTURE EARNINGS TEST
Houston Airport System
For Fiscal Years ending June 30
(In thousands)

		Historical		Estimate	Forecast					
Effective debt service coverage		**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Gross Revenues (a)		$ 443,468	$ 477,421	$ 451,065	$ 428,351	$ 436,242	$ 458,401	$ 481,318	$ 500,724	$ 513,577
Operation and Maintenance Expenses (b)										
Operation and Maintenance Expenses		$ 214,655	$ 229,600	$ 236,181	$ 244,669	$ 252,009	$ 260,364	$ 270,232	$ 281,042	$ 292,286
Add: Net Pension Obligation		3,065	3,065	3,065						
Less: Retiree health and life insurance liability			(11,356)							
		$ 217,720	$ 221,309	$ 239,246	$ 244,669	$ 252,009	$ 260,364	$ 270,232	$ 281,042	$ 292,286
Net Revenues	[A]	$ 225,748	$ 256,113	$ 211,819	$ 183,682	$ 184,233	$ 198,037	$ 211,086	$ 219,682	$ 221,291
Debt Service Requirements (c)										
Senior Lien Bond Obligations		$ 2,796	$ 2,274	$ 1,374	$ -	$ -	$ -	$ -	$ -	$ -
Proposed										
Series 2009		-	-	-	6,980	12,233	17,247	20,832	23,073	31,163
Series 2010		-	-	-	-	6,445	8,087	11,771	12,208	12,208
Less: IAH and HOU PFC - future bonds		-	-	-	(839)	(5,281)	(9,461)	(12,057)	(12,764)	(18,676)
	[B]	$ 2,796	$ 2,274	$ 1,374	$ 6,141	$ 13,397	$ 15,873	$ 20,546	$ 22,517	$ 24,695
Subordinate Lien Bonds										
Existing		$ 135,397	148,759	144,117	147,799	148,279	148,254	147,853	148,658	147,952
Less: PFC revenues applied to debt service										
IAH PFCs - outstanding bonds		-	-	(11,429)	(22,836)	(23,218)	(23,124)	(23,106)	(23,203)	(23,173)
HOU PFCs - outstanding bonds		(1,262)	(2,691)	(2,838)	(2,837)	(2,858)	(2,816)	(2,815)	(2,820)	(2,818)
		$ 134,135	$ 146,068	$ 129,850	$ 122,126	$ 122,203	$ 122,314	$ 121,932	$ 122,635	$ 121,961
Less: LOI grants applied to debt service		(19,417)	(25,331)	(21,908)	(9,500)	-	-			
		$ 114,718	$ 120,737	$ 107,942	$ 112,626	$ 122,203	$ 122,314	$ 121,932	$ 122,635	$ 121,961
Inferior Lien Bonds										
Sublease - Continental APM SFRB debt service		6,302	6,587	6,591	6,583	6,582	6,583	6,586	6,584	6,582
Less: IAH PFCs - outstanding bonds				(3,296)	(6,583)	(6,582)	(6,583)	(6,586)	(6,584)	(6,582)
		$ 6,302	$ 6,587	$ 3,295	$ -	$ -	$ -	$ -	$ -	$ -
	[C]	$ 123,816	$ 129,598	$ 112,611	$ 118,767	$ 135,600	$ 138,187	$ 142,478	$ 145,152	$ 146,656
Debt service coverage ratio										
Senior Lien Bonds	[A/B]	**80.74**	**112.63**	**154.16**	**29.91**	**13.75**	**12.48**	**10.27**	**9.76**	**8.96**
Total	[A/C]	**1.82**	**1.98**	**1.88**	**1.55**	**1.36**	**1.43**	**1.48**	**1.51**	**1.51**
Rate covenant compliance										
Net Revenues	[A]	$ 225,748	$ 256,113	$ 211,819	$ 183,682	$ 184,233	$ 198,037	$ 211,086	$ 219,682	$ 221,291
125% Senior Lien Bond debt service		$ 3,495	$ 2,843	$ 1,718	$ 7,676	$ 16,747	$ 19,842	$ 25,682	$ 28,147	$ 30,869
110% Subordinate Lien Bond debt service		126,190	132,811	118,737	123,889	134,423	134,545	134,125	134,899	134,157
100% Inferior Lien Bond debt service		6,302	6,587	6,591	6,583	6,582	6,583	6,586	6,584	6,582
	[D]	$ 135,987	$ 142,240	$ 127,045	$ 138,148	$ 157,752	$ 160,970	$ 166,393	$ 169,629	$ 171,608

[A] exceeds [D] in each Fiscal Year.

n.a. = not applicable.
a. Exhibit E.
b. Exhibit D.
c. Exhibit C-1.

APPENDIX B

HOUSTON AIRPORT SYSTEM FUND FINANCIAL STATEMENT

Airport System Fund

An Enterprise Fund of the
City of Houston, Texas

Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2008

HOUSTON AIRPORT SYSTEM

Prepared by Office of the City Controller
Annise D. Parker, City Controller

Airport System Fund

An Enterprise Fund of the

City of Houston, Texas

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2008

Prepared by:
Office of the City Controller

Annise D. Parker
City Controller

Rudy Garcia, CPA
Deputy City Controller

Cherri Laughlin
Houston Airport System

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COMPREHENSIVE ANNUAL FINANCIAL REPORT
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COMPREHENSIVE ANNUAL FINANCIAL REPORT

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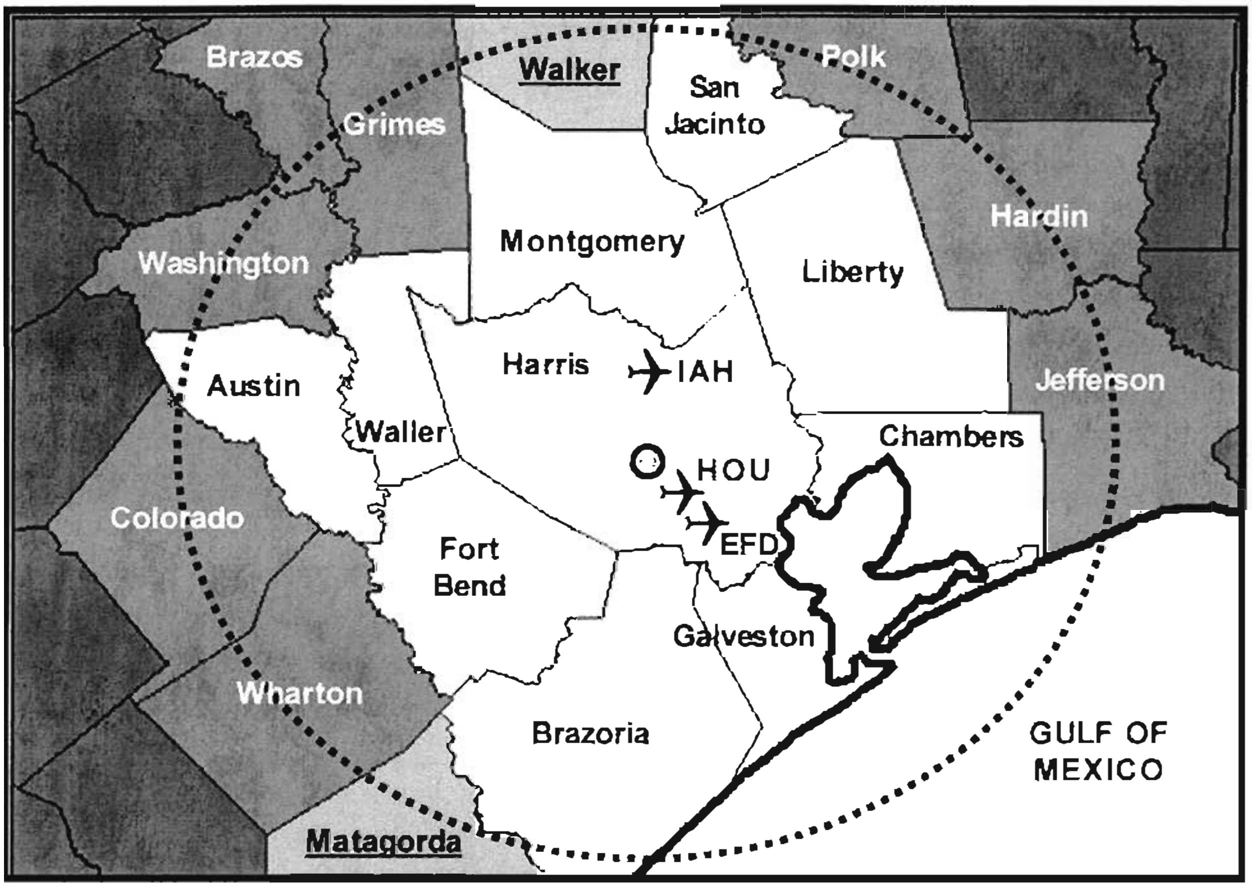
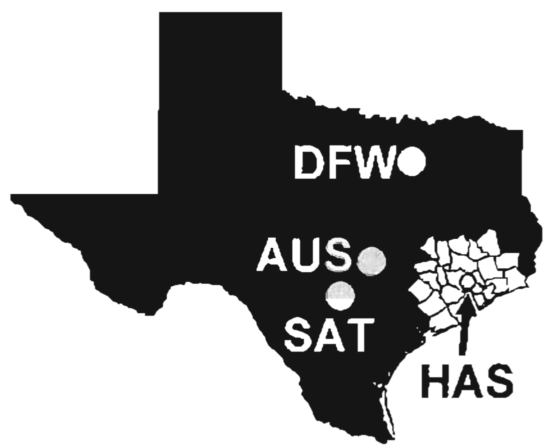
CITY OF HOUSTON
TEXAS

Houston Airport System Air Service Area



	Metropolitan Statistical Area (MSA) of **Houston – Sugar Land – Baytown, TX** includes 10 counties
	Consolidated Statistical Area (MSA) of **Houston – Baytown – Huntsville, TX** adds both Matagorda & Walker counties
	75-mile radius adds parts of an additional 8 counties



Source: U.S. Census Bureau

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Houston

Airport System Fund

Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

OFFICE OF THE CONTROLLER
CITY OF HOUSTON
TEXAS

December 19, 2008

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

I am pleased to present you with the Comprehensive Annual Financial Report (CAFR) for the City of Houston, Texas, Airport System Fund (the Fund) for the fiscal year ended June 30, 2008, including the independent auditor's report. The Controller's Office and the Houston Airport System share responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the Fund.

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

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

The Reporting Entity and Its Services

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

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

901 BAGBY • P.O. BOX 1562 • HOUSTON, TEXAS 77251-1562

Economic Conditions and Major Initiatives

Economic conditions

Houston is classified as a large air traffic hub by the Federal Aviation Administration (FAA). Based on total U.S. passenger traffic for calendar year 2007, Intercontinental and Hobby ranked eighth and forty-third, respectively, among U.S. airports. Intercontinental, which opened in 1969, is the City's dominant air carrier facility and is located approximately 22 miles north of the City's central business district on property comprising approximately 10,000 acres. Hobby is located approximately seven miles southeast of the central business district on approximately 1,500 acres. Ellington Field is situated approximately 15 miles southeast of the central business district on approximately 2,000 acres, a portion of which was conveyed to the City by the federal government on July 1, 1984.

The City of Houston is the nation's fourth most populous city and lies within the sixth largest metropolitan statistical area in the United States. Located on the coastal plain in Southeast Texas, approximately 50 miles from the Gulf of Mexico, the City is a center for the energy, financial, medical, transportation, manufacturing, and retail industries. The service region for the Houston Airport System, the ten-county Houston-Sugar Land-Baytown Metropolitan Statistical Area, has a diverse economic base and is recognized as a major national and international energy, financial, medical, transportation, educational, and distribution center.

Key factors that will affect future airline traffic at the Houston Airport System include (1) the growth in the population and economy of the Service Region, (2) national and international economic conditions, (3) airline economics and air fares, (4) the availability and price of aviation fuel, (5) airline service and route networks, (6) the capacity of the air traffic control system, and (7) the capacity of the airports themselves. Although the rate of growth has slowed down due to the price of fuel and the national economy, passenger traffic has increased in the last four fiscal years, and since fiscal year 2005 has exceeded the level that existed before September 11, 2001. Air freight has also increased in the last three fiscal years. Houston Airport System management cannot predict the operational and financial impact of these factors on the Airport System over the long term.

Capital Improvement Program

The Houston Airport System's five-year Capital Improvement Program (CIP) for 2009-2013 has appropriation requirements of approximately $1.3 billion, with half of the appropriations planned for Fiscal Years 2009 and 2010. These improvements will be funded from airport revenues, airport revenue bonds and commercial paper, the Federal Aviation Administration's Airport Improvement Program grants and a Passenger Facility Charge (PFC) at Hobby. A PFC began at Intercontinental on December 1, 2008. Tightening of the credit markets and a recession in the general economy, along with the state of the airline industry, requires additional and continuous due diligence and review of the CIP, prioritizing projects and delaying projects as necessary.

At Intercontinental, installations of electronic detection systems to screen checked baggage have either been completed or are in process in each terminal. Demolition and removal of structures for the noise mitigation project were completed in fiscal year 2008. The Terminal C rehabilitation of the parking garage is underway and the Terminal C project construction has started. Rehabilitation of Runway 9-27 has an anticipated completion date of March 2009. Construction packages for the automated people mover extension from Terminal B to Terminal A started in June 2008. Design of the Terminal D expansion is expected to begin in 2009. Other master plan projects will be incorporated into the Capital Improvement Program as demand reaches trigger levels including additional terminal space, runways, and roadway improvements. An environmental impact study is underway which will verify the need for runway improvements and terminal building improvements at Intercontinental. During Fiscal Year 2008, the Houston Airport System and Continental made a preliminary agreement for the redevelopment of Terminal

B as a joint program between the parties. Houston Airport System will be responsible for the aircraft parking area and public utilities while Continental will redevelop the terminal building and concourses; and build a second international arrival building.

Hobby's major project, the terminal expansion and rehabilitation, will continue over the next few years. The expansion of the central concourse for five additional gates, the demolition of Concourses A and C, and the final aircraft parking areas associated with the Central Concourse have been completed so that the entire 25 gates are now available. The next phase will be the renovation of the terminal building. Rehabilitation of Runway 12L-30R and aircraft operating area fencing are complete. A major project under construction is the airport access control system. Phase 1 of the environmental impact study was completed and the next phase is delayed as additional airfield capacity is not required at this time.

At Ellington Field, rehabilitation of Runway 4-22 and miscellaneous electrical airfield work are completed,. Taxiway H is under construction.

Financial Information

Accounting systems and budgetary controls

The Fund's financial accounting system utilizes an accrual basis of accounting. Internal accounting controls are an integral part of the Fund's accounting system and are designed to provide reasonable, but not absolute, assurance that assets are safeguarded from unauthorized use or disposition.

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

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

Other Information

Independent Audit

An independent auditor audits the financial statements of the Airport System Fund each year. The firm of Deloitte & Touche LLP performed the fiscal year 2007, 2006, 2005, and 2004 audits. The financial section of this report includes the independent auditor's report on the basic financial statements.

The City is required to undergo an annual Single Audit in conformity with the provisions of the Single Audit Act, the U.S. Office of Management and Budget Circular A-133, "Audits of State, Local Governments and Non-profit Organizations," and the State of Texas Single Audit Circular. These audits are conducted simultaneously with the Fund's annual financial statement audit. Information related to these Single Audits, including the schedules of financial assistance, findings and recommendations, and auditor's reports on the internal control structure and compliance with applicable laws and regulations is included in separate Single Audit Reports.

Awards/Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to City of Houston, Texas Airport System Fund for its comprehensive annual financial report for the fiscal year ended June 30, 2007. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

Respectfully submitted,

Annise D. Parker

Annise D. Parker
City Controller

INTRODUCTORY SECTION
LIST OF PRINCIPAL OFFICIALS AT JUNE 30, 2008

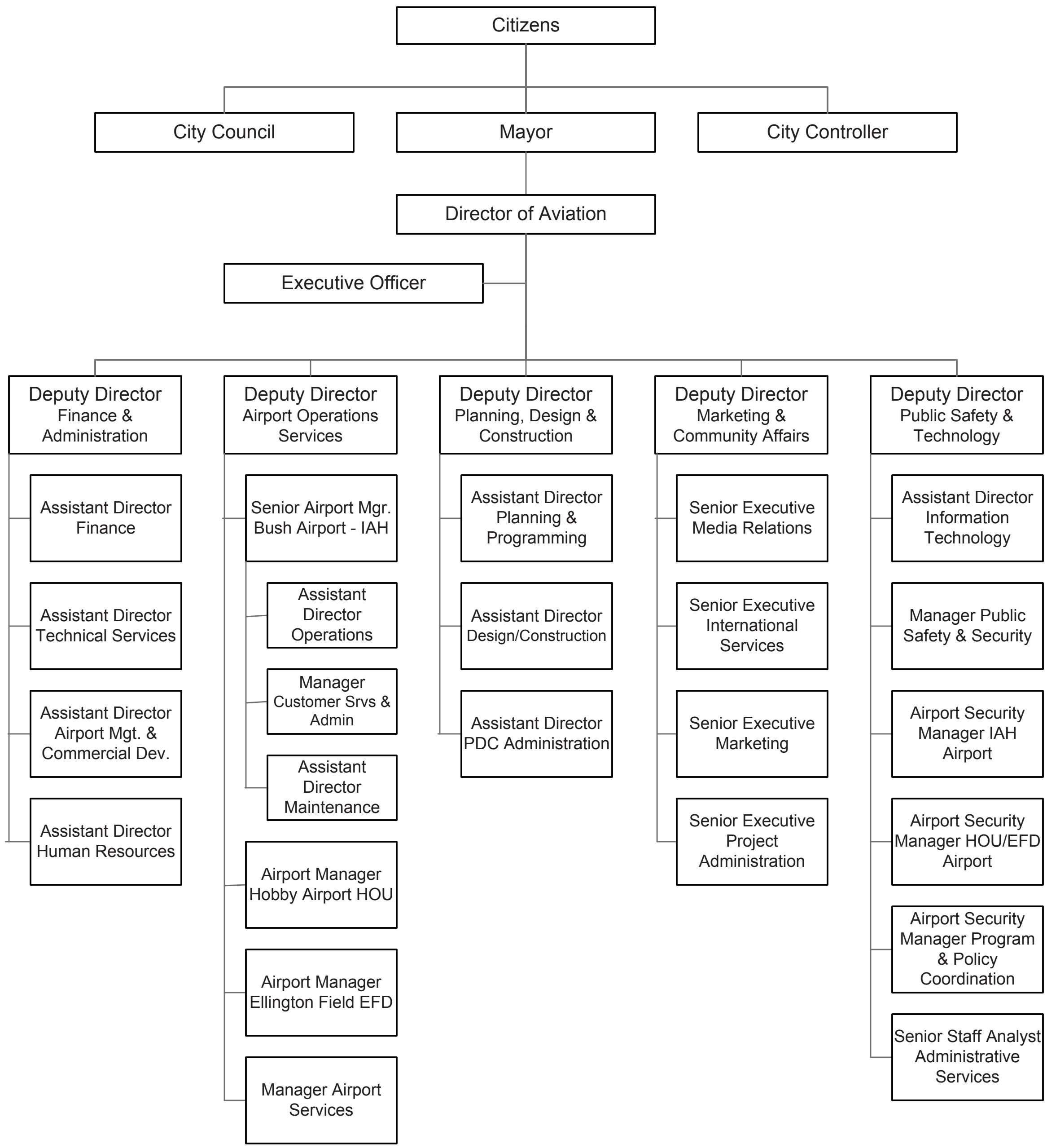
ELECTED:

Mayor	Bill White
Controller	Annise D. Parker
Councilmember, At-Large, Position 1	Peter Brown
Councilmember, At-Large, Position 2	Sue Lovell
Councilmember, At-Large, Position 3	Melissa Noriega
Councilmember, At-Large, Position 4	Ronald C. Green
Councilmember, At-Large, Position 5	Jolanda “Jo” Jones
Councilmember, District A	Toni Lawrence
Councilmember, District B	Jarvis Johnson
Councilmember, District C	Anne Clutterbuck
Councilmember, District D	Wanda Adams
Councilmember, District E	Mike Sullivan
Councilmember, District F	M.J. Khan
Councilmember, District G	Pam Holm
Councilmember, District H	Adrian Garcia
Councilmember, District I	James G. Rodriguez

DEPARTMENT OF AVIATION:

Director of Aviation	Richard M. Vacar, AAE
Deputy Director, Public Security and Technology	Frank Haley
Acting Deputy Director, Finance and Administration	David K. Arthur, CPA
Deputy Director, Marketing, Communications, and Community Affairs	Rob Wigington
Deputy Director, Airport Operations Services	Thomas B. Bartlett
Deputy Director, Planning, Design and Construction	Eric R. Potts
Acting Assistant Director, Finance	Ellen Erenbaum

INTRODUCTORY SECTION
ORGANIZATIONAL CHART



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FINANCIAL SECTION

CITY OF HOUSTON
TEXAS

Deloitte.

Deloitte & Touche LLP
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1111 Bagby Street
Houston, TX 77002-4196
USA

Tel: +1 713 982 2000
Fax: +1 713 982 2001
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of net assets of the Airport System Fund (the "Fund") of the City of Houston, Texas (the "City") as of June 30, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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, 2008, the changes in its net assets, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport System Fund of the City of Houston, Texas as of June 30, 2008 and 2007, and its change in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 8 to the financial statements, the City implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which requires the measurement, recognition, and display of other postemployment benefits for the year ended June 30, 2008.

The accompanying Management's Discussion and Analysis (pages 3-7); Pension System Supplementary Information (page 36) and Other Post Employment Benefits Schedule of Funding Progress (page 36) are not a required part of the basic financial statements but is supplementary information required by the

Governmental Accounting Standards Board. This supplementary information is the responsibility of City's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Fund's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of the City's management. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Deloitte & Touche LLP

December 19, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As management of the Airport System Fund, we offer readers of the Airport System Fund's financial statements this narrative overview and analysis of the financial activities of the Airport System Fund for the fiscal year ended June 30, 2008. Please read this in conjunction with the financial statements and the notes to the financial statements, which follow this section. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

- The Airport System Fund's net assets increased by $132.6 million or 11.2% during the year. Operating income increased by $17.1 million or 22.9%, due to an increase in operating revenue of $31.0 million or 7.5%. The increase in revenues is due in part to a 1.6% increase in passenger volume over the previous year.

- Interest revenue increased by $8.0 million or 23.6%.

- Operating expenses increased by $13.9 million or 4.1%. Depreciation expense decreased $1.0 million or 0.8%. Maintenance and operating expenses increased $14.9 million or 7.0% due primarily to an $11.4 million increase to book the reserve for Other Post-Employment Benefits.

- The Fund had a net gain before contributions of $41.5 million, compared to a net gain before contributions of $14.2 million in fiscal year 2007.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Airport System Fund's financial statements. The Airport System Fund's financial statements consist of the following components: this management's discussion and analysis, the financial statements, the notes to the financial statements, and required supplementary information. The notes are essential to a full understanding of this report. In addition, a statistical section is included for further analysis.

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. An enterprise fund is used to account for a business-like activity within a government. The Airport System Fund is an enterprise fund of the City of Houston. The Houston Airport System, consisting of George Bush Intercontinental Airport/Houston (Intercontinental), William P. Hobby Airport (Hobby), and Ellington Field, is managed and operated as a department of the City. The Airport System Fund is also included in the City of Houston's Comprehensive Annual Financial Report (CAFR).

The statement of net assets presents information on all the Fund's assets and liabilities, with the difference between the two reported as net assets. Increases and decreases in net assets from year to year may serve as a useful indicator of whether the financial position of the Airport System Fund is improving or deteriorating.

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

The statement of cash flows reports how much cash was provided by or used for the Fund's operations, investing activities, and acquisition or retirement of capital assets.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Houston's progress in funding its obligation to provide pension benefits to its employees.

Net Assets

Total net assets at June 30, 2008 were $1,322.7 million, an 11.2% increase from June 30, 2007. Total net assets at June 30, 2007 were $1,190.0 million, a 4.9% increase from June 30, 2006.

NET ASSETS
JUNE 30, 2008, JUNE 30, 2007 and JUNE 30, 2006
(in thousands)

	June 30, 2008	June 30, 2007	June 30, 2006
Current assets	$ 866,353	$ 756,776	$ 680,658
Noncurrent assets	5,261	1,804	1,882
Capital assets	2,857,099	2,828,729	2,836,198
Total assets	3,728,713	3,587,309	3,518,738
Current liabilities	138,509	133,549	125,365
Long term liabilities	2,267,487	2,263,689	2,259,157
Total liabilities	2,405,996	2,397,238	2,384,522
Net assets invested in capital assets, net of related debt	685,286	648,933	671,640
Restricted net assets	637,431	541,138	462,576
Total net assets	$ 1,322,717	$ 1,190,071	$ 1,134,216

The largest portion of the Fund's total net assets (51.8% in fiscal year 2008) reflects net assets invested in capital assets (e.g., land, buildings, runways, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Fund uses these capital assets to operate the airports; consequently, these assets are not available for future spending. Although the Fund's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from airport revenue and other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Fund's net assets (48.2% in fiscal year 2008) represents resources that are subject to external restrictions on how they may be used. Most of these restrictions are due to covenants made to the holders of the Airport System Fund's revenue bonds within ordinances passed by City Council. These covenants further require that any unrestricted net assets carried in cash and cash equivalents at the end of the fiscal year be restricted for future capital improvements.

Changes in Net Assets

From July 1, 2007 to June 30, 2008, net assets of the Airport System Fund increased by $132.6 million or 11.2%. From July 1, 2006 to June 30, 2007, net assets increased by $55.9 million or 4.9%.

CHANGES IN NET ASSETS
JUNE 30, 2008, JUNE 30, 2007, AND JUNE 30, 2006
(in thousands)

	June 30, 2008	June 30, 2007	June 30, 2006
Operating revenue:			
Landing area fees	$ 99,017	$ 92,140	$ 101,758
Rentals, building and ground	211,786	199,720	179,951
Parking and concessions	131,747	119,994	108,884
Other	4,626	4,284	3,268
Total operating revenues	447,176	416,138	393,861
Nonoperating revenue:			
Interest on investments	41,694	33,722	18,507
Arbitrage rebate recovery	-	-	160
Passenger facility charges	11,608	6,530	-
Other nonoperating	514	541	56
Total nonoperating revenues	53,816	40,793	18,723
Total revenues	500,992	456,931	412,584
Operating expenses:			
Maintenance and operating	229,551	214,611	202,496
Depreciation	125,951	126,953	134,150
Total operating expenses	355,502	341,564	336,646
Nonoperating expenses:			
Interest expense	104,056	101,186	93,449
(Gain) / Loss on disposal of assets	(37)	7	1,297
Total nonoperating expenses	104,019	101,193	94,746
Total expenses	459,521	442,757	431,392
Excess (deficit) before contributions	41,471	14,174	(18,808)
Capital contributions	91,175	41,681	84,105
Change in net assets	132,646	55,855	65,297
Net assets, July 1	1,190,071	1,134,216	1,068,919
Net assets, June 30	$ 1,322,717	$ 1,190,071	$ 1,134,216

Enplaned and deplaned passenger volume increased 1.6% in fiscal year 2008 and 3.6% in fiscal year 2007. Contributing causes for the increase in passengers include an expanding population in the Airport Fund's service area, lessening fears of terrorist activity offset by a softening national economy. Increases in airport rates and charges accounted for approximately $17.6 million and $10.2 million of the increase in operating revenues in fiscal years 2008 and 2007, respectively. Detailed passenger statistics and comparative rates and charges can be found in the statistical section of this report.

Operating expenses increased by $13.9 million or 4.1% in fiscal year 2008. A major contributor to the increase is the $11.4 million booked to retirees' health and life insurance expense to recognize other post-employment benefits liabilities in compliance with GASB 45. Depreciation expense decreased by $1.0 million, or 0.8%, during fiscal year 2008. This compares to a 5.0% increase in depreciable assets. Base salary expense increased $1.0 million or 1.7%. Operating expenses in fiscal year 2007 increased by $4.9 million or 1.5%. Depreciation expense decreased by $7.2 million or 5.4% and base salary expense increased $5.5 million or 10.9% in fiscal year 2007.

Capital contributions in fiscal year 2008 increased by $49.5 million or 118.7% over fiscal year 2007 due mainly to a grant for $16.4 million from the Transportation Security Administration for an Explosives Detection Screening System at IAH, $11.1 million in discretionary grants for HOU from the Federal Aviation Administration (FAA), and $5.5 million received as a donated asset. In fiscal year 2007, capital contributions decreased by $42.4 million or 50.4% due to the FAA Letter Of Intent from two federal fiscal years given in the same city fiscal year in 2006.

Non-operating revenue increased by $13.0 million or 31.9% in fiscal year 2008. This was due to an $8.0 million increase in interest revenue and a $5.0 million increase in passenger facility charges. In fiscal year 2007, non-operating revenue increased by $22.1 million or 117.9%.

The total value of the Fund's investments increased by $107.2 million or 14.7%. Interest expense increased by $2.9 million or 2.8%. The increase is due to additional outstanding commercial paper and interest rate increases on variable rate debt. In addition, the fund is responsible for a portion of the interest expense on a collateralized pension obligation note and on pension obligation bonds issued as general obligation debt during fiscal year 2005.

Capital Assets

The Airport System Fund's investment in capital assets amounts to $2.86 billion at June 30, 2008, an increase of $28.4 million, or 1.0%, from June 30, 2007. Capital assets at June 30, 2007 were $2.83 billion which was a decrease of $7.5 million, or 0.3%, from June 30, 2006.

CAPITAL ASSETS
JUNE 30, 2008, JUNE 30, 2007, AND JUNE 30, 2006
(net of accumulated depreciation in thousands)

	June 30, 2008	June 30, 2007	June 30, 2006
Land	$ 207,439	$ 202,214	$ 198,614
Buildings and building improvements	1,383,832	1,374,229	1,321,043
Improvements other than buildings	983,965	903,799	941,683
Machinery and equipment	45,773	46,298	45,648
Construction in progress	236,090	302,189	329,210
	$ 2,857,099	$ 2,828,729	$ 2,836,198

Major capital projects ongoing during fiscal year 2008 included: (1) runway 9-27 rehabilitation, automated people mover system expansion to terminal A, terminal C garage upgrades, in-line baggage systems, CCTV and fire alarm system upgrades, noise mitigation and noise monitoring, and land acquisition at IAH: (2) central concourse extension and terminal renovation, runway 12R-30L rehabilitation, access control and perimeter fencing and land acquisition at HOU; (3) taxiway H improvements at EFD; and (4) GIS development for the airport system.

Debt

At the end of the current fiscal year, the Airport System Fund had total long-term debt of $2.27 billion, which represents outstanding subordinate lien revenue bonds, senior lien commercial paper, and an inferior lien contract, all secured solely by Airport Fund revenues. In addition, the Fund is responsible for a portion of a collateralized pension obligation note, pension obligation bonds, and a deferred electricity contract secured by a pledge against ad valorem taxes. At the end of fiscal years 2007 and 2006, the Fund had a total debt of $2.27 billion and $2.26 billion respectively.

OUTSTANDING DEBT
JUNE 30, 2008, JUNE 30, 2007, AND JUNE 30, 2006
(in thousands)

	June 30, 2008	June 30, 2007	June 30, 2006
Senior lien debt:			
Commericial paper	$ 83,000	$ 95,000	$ 59,000
Total senior lien debt	83,000	95,000	59,000
Subordinate lien debt:			
Current maturities-revenue bonds	43,050	34,500	28,385
Long-term revenue bonds payable	2,083,255	2,083,320	2,117,820
Unamortized discounts, premium, or deferred amounts on refunding	(32,135)	(36,968)	(38,359)
Total subordinate lien debt	2,094,170	2,080,852	2,107,846
Inferior lien debt:			
Current maturities-contract	3,880	3,660	3,450
Long-term contract payable	45,820	49,700	53,360
Total inferior lien debt	49,700	53,360	56,810
Other debt:			
Collateralized pension note	34,800	34,800	34,800
Pension obligation bonds	2,006	2,006	2,006
Electricity deferral	1,011	1,961	2,812
Total other debt	37,817	38,767	39,618
Total outstanding debt	$ 2,264,687	$ 2,267,979	$ 2,263,274

Total outstanding debt decreased $3.3 million or 0.2% during fiscal year 2008. During fiscal year 2007, the outstanding debt increased $4.7 million or 0.2%.

For a complete list of outstanding debt and required debt service, please refer to note 6 to the financial statements.

Standard & Poor's, Moody's, and Fitch's underlying ratings of the Airport System Fund's obligations are as follows:

Standard & Poor's: A+ Moody's: A1 Fitch's: A+

Requests for Information

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

STATEMENTS OF NET ASSETS (in thousands)
JUNE 30, 2008 AND 2007

	2008	2007
Assets		
Current assets		
Cash and cash equivalents	$ 828,803	$ 722,089
Accounts Receivable (net of allowance for doubtful accounts of $1,984 in 2008 and $2,504 in 2007)	21,279	19,462
Due from City of Houston	34	6
Inventory	2,869	3,626
Prepaid insurance	2,224	2,106
Due from other governments - grants receivable	3,688	2,474
Restricted assets - investments	7,456	7,013
Total current assets	866,353	756,776
Noncurrent assets		
Deferred charges	5,261	1,804
Capital Assets		
Land	207,439	202,214
Buildings, improvements and equipment	3,741,652	3,527,363
Construction in progress	236,090	302,189
Total capital assets	4,185,181	4,031,766
Less accumulated depreciation	(1,328,082)	(1,203,037)
Net capital assets	2,857,099	2,828,729
Total noncurrent assets	2,862,360	2,830,533
Total assets	$ 3,728,713	$ 3,587,309

(continued)

STATEMENTS OF NET ASSETS (in thousands)
JUNE 30, 2008 AND 2007

	2008	2007
Liabilities		
Current Liabilities		
Accounts payable	$ 6,116	$ 6,141
Accrued payroll liabilities	3,441	2,760
Due to City of Houston	7	609
Advances and deposits	1,976	2,236
Deferred revenue	1,607	9,376
Claims for workers' compensation	1,260	1,303
Compensated absences	4,343	3,990
Revenue bonds payable	43,050	34,500
Inferior lien contract payable	3,880	3,660
Accrued interest payable	47,686	48,914
Contracts and retainages payable	24,132	19,110
Other current liabilities	1,011	950
Total current liabilities	138,509	133,549
Long-term liabilities		
Revenue bonds payable, net	2,051,120	2,046,352
Inferior lien contract, net	45,820	49,700
Commercial paper payable	83,000	95,000
Collateralized note payable	34,800	34,800
Pension obligation bonds payable	2,006	2,006
Claims for workers compensation	3,762	2,814
Compensated absences	5,514	4,494
Net pension obligation payable	30,109	27,512
Other post employment benefits	11,356	-
Other long-term liabilities	-	1,011
Total long-term liabilities	2,267,487	2,263,689
Total liabilities	2,405,996	2,397,238
Net assets		
Invested in capital assets, net of related debt	685,286	648,933
Restricted net assets		
Restricted for debt service	67,847	53,373
Restricted for maintenance and operations	41,048	39,638
Restricted for renewal and replacement	10,000	10,000
Restricted for capital improvements	518,536	438,127
Total net assets	$ 1,322,717	$ 1,190,071

The accompanying notes are an integral part of the financial statements

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (in thousands)
FOR YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
Operating Revenues		
Landing area fees	$ 99,017	$ 92,140
Rentals, building and ground area	211,786	199,720
Parking	72,958	65,454
Concessions	58,789	54,540
Other	4,626	4,284
Total operating revenues	447,176	416,138
Operating Expenses		
Maintenance and operating	229,551	214,611
Depreciation	125,951	126,953
Total operating expenses	355,502	341,564
Operating income	91,674	74,574
Nonoperating revenues (expenses)		
Interest revenue	41,694	33,722
Interest expense	(104,056)	(101,186)
Gain / (Loss) on disposal of assets	37	(7)
Passenger facility charges	11,608	6,530
Other revenue	514	541
Total nonoperating revenues (expenses)	(50,203)	(60,400)
Income/(loss) before capital contributions	41,471	14,174
Capital contributions	91,175	41,681
Change in net assets	132,646	55,855
Total net assets, July 1	1,190,071	1,134,216
Total net assets, June 30	$ 1,322,717	$ 1,190,071

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

STATEMENTS OF CASH FLOWS (in thousands)
FOR YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
Cash flows from operating activities		
Receipts from customers	$ 437,312	$ 427,886
Payments to employees	(84,338)	(79,758)
Payments to suppliers	(91,173)	(86,319)
Payments to the City of Houston	(36,833)	(37,455)
Claims paid	(1,260)	(1,304)
Other revenues	571	483
Net cash provided by operating activities	224,279	223,533
Cash flows from investing activities		
Sale of investments	26,485	3,295
Purchase of investments	(26,927)	(2,285)
Transfer of investments to equity pooled cash & investments	-	572,391
Gain(loss) on sale on nonpooled stock	(169)	-
Interest income on investments	41,863	33,722
Net cash (used for) provided by investing activities	41,252	607,123
Cash flows from noncapital financing activities		
Interest expense electricity contract	(50)	(44)
Interest expense pension obligation bonds	(106)	(105)
Interest expense collateralized note	(2,958)	(2,958)
Deferred charges on future debt issuance	(28)	-
Net cash (used for) provided by noncapital financing activities	(3,142)	(3,107)
Cash flows from capital and related financing activities		
Retirement of revenue bonds	(34,500)	(28,385)
Proceeds (use of cash) from issuance of debt	290,863	-
Refunding of revenue bonds	(247,858)	-
Interest expense on debt	(112,852)	(111,559)
Retirement of inferior lien contract	(3,660)	(3,450)
Proceeds from issuance of commercial paper	31,000	36,000
Retirement of commercial paper	(43,000)	-
Passenger facility charges	11,608	6,530
Advances and deposits	17	16
Contributed capital	84,417	48,995
Acquisition of capital assets	(131,710)	(108,794)
Net cash (used for) capital and related financing activities	(155,675)	(160,647)
Net increase in cash and cash equivalents	106,714	666,902
Cash and cash equivalents, beginning of year	722,089	55,187
Cash and cash equivalents, end of the yea	$ 828,803	$ 722,089
Noncash transactions		
Unrealized loss (gain) on investments	7,573	2,988
Capitalized interest expense	12,071	14,794
Donated assets	(5,486)	-
Capital additions included in liabilites	(5,023)	4,602
Loss (gain) on disposal of assets	(37)	7
Noncash transactions	$ 9,098	$ 22,391
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 91,674	$ 74,574
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	125,952	126,953
Other revenues	571	483
Other post-employment benefits	11,356	-
Changes in assets and liabilities		
Accounts receivable	(1,817)	10,136
Due from the City of Houston	(28)	(6)
Inventory and prepaid insurance	639	(509)
Accounts payable	(975)	1,147
Accrued payroll liabilities	681	1,420
Due to the City of Houston	(602)	609
Advances and deposits	(8,047)	1,625
Net pension obligation payable	2,597	4,765
Claims for workers' compensation	905	668
Compensated absences	1,373	1,668
Net cash provided by operating activities	$ 224,279	$ 223,533

The accompanying notes are an integral part of the financial statements

1. Reporting Entity

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

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

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

2. Summary of Significant Accounting Policies

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, non-current, and capital are included on the balance sheet.

The financial statements presented in this report conform to the reporting requirements of the Governmental Accounting Standards Board (GASB) which establishes generally accepted accounting principles for governmental entities. The Fund applies all Financial Accounting Standards Board (FASB) pronouncements issued prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Fund has elected not to follow FASB pronouncements issued subsequent to that date. 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.

Changes in Accounting Principles

In November 2006, the GASB issued Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations". Statement No. 49 addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The requirements for this statement are effective for financial statements for periods beginning after December 15, 2007. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

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

In June 2007, the GASB issued statement No. 51, "Accounting and Financial Reporting for Intangible Assets". This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. The requirements of this statement are effective for periods beginning after June 15, 2009. The City has not determined the impact, if any, upon its financial position, results of operations, or cash flows upon adoption.

In November 2007, the GASB issued statement No. 52, "Land and Other Real Estate Held as Investments by Endowments". This statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2008. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In June 2008, the GASB issued statement No. 53, "Accounting and Financial Reporting for Derivative Instruments". This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

Inventories of Material and Supplies

Inventories of material and supplies are valued at average cost and charged to expense as used.

Capital Assets

The Fund defines capital assets as assets with an initial cost of more than $5,000. Acquired or constructed property is recorded at historical cost or estimated historical cost. Contributed property is recorded at the estimated fair value on the date received. Construction costs (excluding land and equipment) are added to construction work-in-progress until the assets are placed in service and are depreciated following completion. Depreciation on equipment begins in the year of acquisition. Interest costs on funds borrowed to finance the construction of capital assets are capitalized when the costs materially exceed interest earnings on related revenue bond proceeds. $12.1 million in interest costs was capitalized for the year ended June 30, 2008. $14.8 million was capitalized for the year ended June 30, 2007.

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

Compensated Absences

Full-time employees of the City are eligible for vacation leave of 10 working days per year. After 4 years of full-time employment with the City, they receive extra vacation time for each year of service, up to a maximum of 25 days at 18 years of employment. Employees hired before January 1, 2000 may accumulate up to 90 days of vacation leave, to be paid upon termination or retirement. Employees hired after December 31, 1999 may accumulate up to 45 days of vacation.

In addition, most full-time employees are covered under the compensatory sick leave plan and receive a bi-weekly leave time allowance of 2.5 hours per payroll period up to a maximum of 65 hours per year. Employees who use fewer than 65 hours during the benefit year will receive a

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

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 two days or less 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 remaining full-time employees are covered under a sick plan that was closed to employees in 1985. The plan accumulates a cash value for every sick day not used, which is payable upon resignation or retirement.

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

Bond Discount and Issuance Costs

Bond discount and issuance costs are deferred and amortized over the term of the bonds using the effective interest method for fixed rate bonds and the straight line method for variable rate bonds. Gains or losses on bond refundings are amortized over the term of the lesser of the new bonds or the refunded bonds using the same respective methods.

Statements of Cash Flows—Cash and Cash Equivalents

The Fund makes most of its deposits and withdrawals from the City's General Investment Pool, a cash management pool that has the general characteristics of a demand deposit account, in that the Fund may deposit additional cash at any time and may also effectively withdraw cash at any time without prior notice or penalty. In prior fiscal years, the Fund has chosen to define cash and cash equivalents as the portion of its equity in the pool that was being used for operations. Equity in the pool that was being used for debt service, construction, or was restricted by bond covenants for the maintenance and operations reserve, was not considered cash and cash equivalents.

In Fiscal Year 2007, the City began using a new computerized accounting system, which makes it substantially more difficult to identify Airport Fund investment activity within the purchases and sales of the total General Investment Pool. Therefore, in Fiscal Year 2008 and 2007, the Fund defines cash and cash equivalents as its total equity in the pool. Investments are being held outside of the pool in separate accounts.

3. **Deposits and Investments**

Cash and Cash Equivalents

The Fund does not separately account for most deposits and investments, but participates in a City-wide investment pool managed internally by City personnel. The General Investment Pool has the characteristics of a demand deposit, where deposits and withdrawals can be made without notice or penalty. The Fund's total equity in the City's General Investment Pool was $828,802,740 and $722,088,934 at June 30, 2008 and June 30, 2007 respectively.

Deposits

The following deposit and investment disclosures generally relate to the City's General Investment Pool as a whole.

3. **Deposits and investments, continued:**

At June 30, 2008, the carrying amount of the City's deposits was ($17,103,929). The City's bank balance is the sum of three accounts in multiple investment pools which total $54,556,514. The three accounts that comprise this balance are described by the following:

Accounts	Ledger	Collected
Concentration	$ 38,860,197	$ 15,000,000
Section 108	374,229	374,229
JPM Money Market	15,322,088	15,322,088
Subtotal	$ 54,556,514	$ 30,696,317
Market Value Collateral	$ 26,133,078	$ 26,133,078

The first account is a demand deposit account with JPMorgan Chase bank that as of June 30, 2008 had a ledger balance of $38,860,197 and a collected balance of $15,000,000. The difference between the ledger and collected balance of $23,860,197 represents checks deposited in this bank account for which the collection of available funds had not been obtained as of June 30, 2008. A Depository Pledge Agreement is in effect by which collateral is pledged by JPMorgan Chase to the City to cover collected balances. The collateral is in the form of fixed income securities which are held by a third party, and as of June 30, 2008 had a market value of $26,133,078. According to the terms of the pledge agreement, the City is granted a security interest in the pledged securities. In the event of a default by JPMorgan Chase, the City may sell the pledged securities to satisfy any indebtedness owed to the City by JPMorgan Chase, provided at least 3 business days written notice and opportunity to cure the default is given.

The second account is a demand deposit account with JPMorgan Chase Bank for the City's Housing and Urban Development section 108 account, which had both a collected and ledger balance as of June 30, 2008 of $374,299. This balance was collateralized by the same Depository Pledge Agreement described above.

The third account is a SEC registered money market fund. The balance in the money market fund as of June 30, 2007 was $15,322,088. As this is not a bank account, collateral is not required to be held to cover the balance. There is no custodial risk associated with this money market fund.

Investments and Risk Disclosures

The following describes the investment positions of the City's General Investment Pool as of June 30, 2008. All investments are governed by state law and the City's Investment Policy, which dictates the following objectives, in order of priority:

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

These funds are managed internally by City personnel within a City-wide investment pool in order to gain operational efficiency. This pool consists of all working capital, construction and debt service funds which are not subject to yield restriction under IRS arbitrage regulations. The funds of the City's enterprise systems, as well as the general fund are commingled in this pool in order to gain operational efficiency. Approximately 98.7% of the City's total investable funds are contained in this portfolio.

3. **Deposits and investments, continued:**

Pooled Investments as of June 30, 2008	Credit Quality Ratings		Market Value	Weighted Average Maturity
U.S. Treasury Notes	n/a	$	360,744,951	0.364
Housing and Urban Development Notes	not rated		46,287,909	2.244
Government National Mortgage Association	not rated		1,878,784	0.469
Agency Notes (4)	AAA		940,259,154	2.265
Agency Notes (3) (4)	not rated		212,639,110	0.134
Collateralized Mortgage Obligations (3) (4)	not rated		12,600,893	1.916
Mortgage Backed Securities (3) (4)	not rated		248,767,919	4.384
Money Market Mutual Fund	AAA		250,489,772	0.085
Municipal Bonds	AAA		81,622,817	1.855
Municipal Bonds	SP-1+/MIG1		20,961,441	0.530
Municipal Bonds	AA		52,792,621	2.155
Municipal Bonds	A		16,139,591	0.055
Total Investments		$	2,245,184,962	1.732

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

1. Standard and Poor's Rating Services has assigned an AAAf credit quality rating and S1 volatility rating to the City's General Investment Pool. The AAAf 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 S&P ratings, or if an S&P credit rating is not available, the equivalent S&P credit rating is shown to represent the actual Moody's or Fitch credit rating.

3. These securities are not individually rated by the rating agencies. The issuers of these securities, which include the Federal Home Loan Mortgage Corporation ("Freddie Mac") and the Federal National Mortgage Corporation ("Fannie Mae"), are rated AAA by the rating agencies. Federal Agricultural Mortgage Corporation ("Farmer Mac"), which comprises 1.3% of this portfolio, is not rated by the credit rating agencies as to the individual securities or as an issuer. Farmer Mac is a government sponsored enterprise and is a permitted investment under state law and City investment policy.

4. These are securities issued by government sponsored enterprises, including the Federal Home Loan Bank, Freddie Mac, Fannie Mae, Farmer Mac, and Federal Farm Credit Bank System.

Risk Disclosures

Interest Rate Risk: In order to ensure the ability of the City to meet obligations and to minimize potential fair value losses arising from rising interest rate environments, the City's investment policy limits the City's investment portfolio dollar-weighted average stated maturity to a maximum of 2.5 years. As of June 30, 2008, the City's investment portfolio dollar-weighted average stated maturity is 1.732 years. Modified duration for the same period is 1.35. 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 1.35 would experience approximately a 1.35% change in market price for every 100 basis point change in yield.

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

Credit Risk: The US Treasury Notes and Urban Development Notes, and the Government National Mortgage Association are direct obligations of the United States government. The Agency Notes, Collateralized Mortgage Obligations and Mortgage Backed Securities are issued by government sponsored enterprises but are not direct obligations of the US Government. The money market mutual fund holds were rated AAA. The Municipal Securities that were considered short-term securities at time of issue, and thus were not given a long-term credit rating, have the highest short-term credit rating of SP-1 or MIG-1.

Custodial Credit Risk: The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the City of Houston will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are not registered in the name of the City, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. As of June 30, 2008, none of the City's investments in the General Investment Fund 9900 (Pool 960) were subject to custodial credit risk.

In addition to its investment pools, the City maintains several money market account balances for various purposes described below. The Airport Fund's portion of these is as follows:

Investments as of June 30, 2008	Credit Quality Ratings	Market Value	Weighted Average Maturity
JP Morgan U.S. Government Money Market Fund: Airport System Special Facilities Revenue Bonds Series 1997A Reserve Fund	AAA	$ 6,871,409	< 90 days
JP Morgan U.S. Government Money Market Fund: Balances held for auction rate debt service	AAA	1,007,991	< 90 days
First American Treasury Obligation Money Market Fund: Balances held for commercial paper debt service	AAA	426,834	< 90 days
Total Investments		$ 8,306,234	

Risk Disclosures:

Interest Rate Risk: These money market funds maintain an average maturity of less than 90 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 U.S. dollar denominated securities that present minimal credit risk. They have the highest credit ratings.

Custodial Credit Risk: The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the City of Houston will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are not registered in the name of the City, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. As of June 30, 2008, none of the City's investments in the above noted money market funds were subject to custodial credit risk.

4. Capital Assets

Summaries of changes in fixed assets for the years ended June 30, 2008 and June 30, 2007 follow (in thousands):

	Balance June 30, 2007	Additions	Retirements	Transfers	Balance June 30, 2008
Capital assets not being depreciated:					
Land	$ 202,214	$ -	$ -	$ 5,225	$ 207,439
Construction work in progress	302,189	141,457	-	(207,556)	236,090
Total capital assets not being depreciated	504,403	141,457	-	(202,331)	443,529
Other capital assets:					
Buildings and building improvements	1,807,690	7,329	-	65,790	1,880,809
Improvements other than buildings	1,593,441	491	-	131,569	1,725,501
Equipment	126,231	5,081	(942)	4,972	135,342
Total other capital assets	3,527,362	12,901	(942)	202,331	3,741,652
Less accumulated depreciation for:					
Buildings and building improvements	(433,461)	(63,516)	-	-	(496,977)
Improvements other than buildings	(689,642)	(51,894)	-	-	(741,536)
Equipment	(79,933)	(10,541)	905	-	(89,569)
Total accumulated depreciation	(1,203,036)	(125,951)	905	-	(1,328,082)
Other capital assets, net	2,324,326	(113,050)	(37)	202,331	2,413,570
Total capital assets, net	$ 2,828,729	$ 28,407	$ (37)	$ -	$ 2,857,099

	Balance June 30, 2006	Additions	Retirements	Transfers	Balance June 30, 2007
Capital assets not being depreciated:					
Land	$ 198,614	$ -	$ -	$ 3,600	$ 202,214
Construction work in progress	329,210	106,339	-	(133,360)	302,189
Total capital assets not being depreciated	527,824	106,339	-	(129,760)	504,403
Other capital assets:					
Buildings and building improvements	1,708,751	4,877	-	94,062	1,807,690
Improvements other than buildings	1,572,673	989	(30)	19,809	1,593,441
Equipment	104,639	7,314	(1,609)	15,887	126,231
Total other capital assets	3,386,063	13,180	(1,639)	129,758	3,527,362
Less accumulated depreciation for:					
Buildings and building improvements	(387,708)	(59,214)	-	13,461	(433,461)
Improvements other than buildings	(630,990)	(56,712)	30	(1,970)	(689,642)
Equipment	(58,991)	(11,027)	1,574	(11,489)	(79,933)
Total accumulated depreciation	(1,077,689)	(126,953)	1,604	2	(1,203,036)
Other capital assets, net	2,308,374	(113,773)	(35)	129,760	2,324,326
Total capital assets, net	$ 2,836,198	$ (7,434)	$ (35)	$ -	$ 2,828,729

5. Leases

The Airport Fund was the lessee of office space for which it paid $67,000 and $109,000 in fiscal year 2008 and fiscal year 2007, respectively. This lease was canceled on February 29, 2008. The Airport Fund is the lessor of approximately 10 percent of its land and substantially all of its buildings and improvements. These lease agreements are non-cancelable operating leases with fixed minimum rentals and non-cancelable operating use and lease agreements with annually

5. **Leases, continued:**

adjusted rates. Rental income is earned from leasing various parcels of land with asset costs of $20,743,916 to airlines, fixed base operators and various corporations for aircraft maintenance, facilities, hangars, flight kitchens, and cargo buildings; to auto rental companies for their service facilities and storage lots; and to a variety of other entities for buildings and other permanent improvements. Airlines and airport concessionaires lease various sections of City owned airport buildings and improvements for ticket counters, passenger hold rooms, baggage carousels, restaurants, retail stores and other facilities. Leased buildings, improvements and equipment have asset costs of $3,741,651,798 and carrying costs of $2,413,570,166. Accumulated depreciation on all these assets is $1,328,081,632.

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

Year Ending June 30	Minimum Rental Income
2009	$ 37,275
2010	29,179
2011	27,630
2012	27,044
2013	23,139
2014-2018	109,162
2019-2023	99,878
2024-2028	82,652
2029-2033	20,324
2034-2038	12,713
2039-2043	10,023
2044-2046	20
Total	$ 479,039

Contingent income associated with these non-cancelable operating leases was approximately $12,088,511 and $11,687,149 for the years ended June 30, 2008 and 2007, respectively. Contingent income is earned when a concessionaire's payment, based on a percentage of sales, is higher than the minimum amount guaranteed to the Airport System under the terms of the lease. In addition, income is earned from certain non-cancelable operating use and lease agreements for landing fees and terminal building rentals. Such income is adjusted annually based on a compensatory formula to recover certain operating and capital costs of the related facilities. Compensatory income for the years ended June 30, 2008 and 2007 is as follows (in thousands):

	Compensatory Income	
	2008	2007
Landing Fees	$ 95,730	$ 88,552
Terminal Space - Airline	192,915	182,113
	$ 288,645	$ 270,665

6. **Long-Term Liabilities**

Changes in long-term liabilities for the years ended June 30, 2008 and 2007 are summarized as follows (in thousands):

	Balance June 30, 2007	Additions	Retirements/ Transfers	Balance June 30, 2008	Amounts Due within One Year
Revenue bonds payable	$ 2,117,820	$ 298,670	$ (290,185)	$ 2,126,305	$ 43,050
Plus unamortized premium	3,031	8,903	(476)	11,458	-
Less unamortized discount	(35,640)	-	8,813	(26,827)	-
Less deferred amount on refundings	(4,359)	(13,086)	679	(16,766)	-
Revenue bonds payable, net	2,080,852	294,487	(281,169)	2,094,170	43,050
Inferior lien contract	53,360	-	(3,660)	49,700	3,880
Inferior lien contract, net	53,360	-	(3,660)	49,700	3,880
Commercial paper payable	95,000	31,000	(43,000)	83,000	-
Collateralized pension note	34,800	-	-	34,800	-
Pension obligation bonds	2,006	-	-	2,006	-
Compensated absences	8,484	1,914	(541)	9,857	4,343
Claims for workers compensation	4,117	2,165	(1,260)	5,022	1,260
Net pension obligation payable	27,513	2,597	-	30,110	-
Other post employment benefits	-	11,356	-	11,356	-
Other long-term liabilities	1,961	-	(950)	1,011	1,011
Total long-term liabilities	$ 2,308,093	$ 343,519	$ (330,580)	$ 2,321,032	$ 53,544

	Balance June 30, 2006	Additions	Retirements/ Transfers	Balance June 30, 2007	Amounts Due within One Year
Revenue bonds payable	$ 2,146,205	$ -	$ (28,385)	$ 2,117,820	$ 34,500
Plus unamortized premium	3,358	-	(327)	3,031	-
Less unamortized discount	(36,921)	-	1,281	(35,640)	-
Less deferred amount on refundings	(4,796)	-	437	(4,359)	-
Revenue bonds payable, net	2,107,846	-	(26,994)	2,080,852	34,500
Inferior lien contract	56,810	-	(3,450)	53,360	3,660
Inferior lien contract, net	56,810	-	(3,450)	53,360	3,660
Commercial paper payable	59,000	36,000	-	95,000	-
Collateralized pension note	34,800	-	-	34,800	-
Pension obligation bonds	2,006	-	-	2,006	-
Compensated absences	6,816	3,336	(1,668)	8,484	3,990
Claims for workers compensation	3,449	1,971	(1,303)	4,117	1,303
Net pension obligation payable	22,747	4,766	-	27,513	-
Other long-term liabilities	2,812	-	(851)	1,961	950
Total long-term liabilities	$ 2,296,286	$ 46,073	$ (34,266)	$ 2,308,093	$ 44,403

Purpose of Debt

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

6. Long-Term Liabilities, continued:

Debt Service Requirements to Maturity

Aggregate future Airport system debt service payments to maturity as of June 30, 2008 were as follows (in thousands):

Year Ending June 30	Airport System Subordinate Lien Revenue Bonds		Airport System Senior Lien Commercial Paper	
	Principal	Interest	Principal	Interest
2009	43,050	104,096	-	1,588
2010	40,840	101,814	-	1,588
2011	51,885	99,600	83,000	818
2012	52,285	96,863	-	-
2013	51,240	94,124	-	-
2014-2018	316,585	425,163	-	-
2019-2023	406,125	333,274	-	-
2024-2028	523,495	217,302	-	-
2029-2033	640,800	81,626	-	-
2034-2038	-	-	-	-
Total	$2,126,305	$1,553,862	$ 83,000	$ 3,994

Year Ending June 30	Airport System Inferior Lien Contract		Airport System Pension Obligations	
	Principal	Interest	Principal	Interest
2009	3,880	2,602	-	3,064
2010	4,085	2,388	-	3,064
2011	4,305	2,163	-	3,064
2012	4,535	1,925	-	3,064
2013	4,780	1,675	-	3,065
2014-2018	28,115	4,031	-	15,323
2019-2023	-	-	-	15,323
2024-2028	-	-	-	15,323
2029-2033	-	-	1,627	15,159
2034-2038	-	-	35,179	3,491
Total	$ 49,700	$ 14,784	$36,806	$79,940

Year Ending June 30	Airport System Deferred Electricity Contract		Airport System Total Future Requirements		
	Principal	Interest	Principal	Interest	Total
2009	1,011	53	47,941	111,403	159,344
2010	-	-	44,925	108,854	153,779
2011	-	-	139,190	105,645	244,835
2012	-	-	56,820	101,852	158,672
2013	-	-	56,020	98,864	154,884
2014-2018	-	-	344,700	444,517	789,217
2019-2023	-	-	406,125	348,597	754,722
2024-2028	-	-	523,495	232,625	756,120
2029-2033	-	-	642,427	96,785	739,212
2034-2038	-	-	35,179	3,491	38,670
Total	$1,011	$53	$ 2,296,822	$ 1,652,633	$ 3,949,455

On September 12, 2007 the City issued $298,670,000 of Airport System Subordinate Lien Revenue Refundings Bonds Series 2007B (Non-AMT). The bonds were issued at rates of 4.0 to 5.0% with an average yield of 4.77%. The bonds are due in varying amounts from 2008 to final maturity on July 1, 2027.

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

The proceeds were used to currently refund $30,960,000 of Airport System Subordinate Lien Revenue Refunding Bonds Series 1997 and $43,000,000 of Airport System Senior Lien Commercial Paper Notes, to advance refund $224,725,000 of Airport System Subordinate Lien Revenue Bonds Series 2000B, and to pay costs of issuance. The commercial paper was refunded to lock in fixed rates rather than to achieve present value savings. Cash savings on the current refunding will be $2,579,000, and the net present value savings are $1,507,000 or 4.87%. Cash savings on the advance refunding will be $30,493,000, and the net present value savings are $14,982,000 or 6.67%.

Certain bond ordinances have additional requirements for accumulation of principal and interest repayment amounts from surplus operating funds. 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 5%. Significant additional restrictions and other data are set forth below. During 2008 and 2007, the City has substantially complied with the requirements of all financial revenue bond ordinances and related bond restrictions.

To the extent it legally may do so, the Fund covenants in the ordinances to charge rates for use of the Airport System in order that in each fiscal year the net revenues will be not less than 125% of the debt service requirements for Senior Lien Bonds for such fiscal year and 110% of the debt service requirements for Subordinate Lien Bonds for such fiscal year.

The Fund purchased a Municipal Debt Service Reserve Fund Surety Policy concurrently with the issuance of the Airport System Subordinate Lien Revenue Refunding Bonds Series 2007B. The reserve fund surety policy, along with previously issued reserve fund surety policies, unconditionally guarantees the payment of the current principal and interest on all outstanding airport system subordinate lien issues. The reserve policies terminate upon final maturity. Each of the draws made against the reserve policy 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.

Airport System Inferior Lien Contract

On July 1, 2004 the City and Continental Airlines, Inc. entered into a Sublease Agreement associated with the Special Facilities Lease for the Automated People Mover System and the City's Airport System Special Facilities Revenue Bonds (Automated People Mover Project) Series 1997A ("1997A Special Facilities Bonds"). The City assumed Continental's interest in the project upon completion of the expansion of the Automated People Mover System on January 25, 2005. As part of the Sublease, the City agreed to make sublease payments that include amounts equal to the debt service on the 1997A Special Facilities Bonds. The payments are payable from Airport system net revenues on the same priority as inferior lien bonds. Accordingly, the principal amount remaining on the 1997A Special Facilities Bonds, totaling $49,700,000, is recorded as an Inferior Lien Contract.

Variable Rate Debt

The Fund has issued variable rate debt in Airport System Subordinate Lien Revenue Bonds Series 2000P-1 and Series 2000P-2. They were issued as auction reset securities with Series 2000P-1 to be auctioned every 7 days, and Series P-2 to be auctioned every 28 days. On July 20, 2005, Series P-2 changed to being auctioned every 7 days. Rates in effect at June 30, 2008, including dealer and auction fees, were 2.9965% and 2.9585%, respectively. Additional variable rate debt was issued as Series 2002C, Series 2002D-1, and Series 2002D-2 as auction rate securities to be auctioned every 35 days. These changed to being auctioned every 7 days as of August 10, 2005, August 3, 2005, and July 13, 2005, respectively. Rates in effect at June 30, 2008, including dealer and auction fees, were 5.220%, 5.220%, and 5.196%, respectively. Starting in February 2008, various auction rate securities began, and continue, to not be remarketed. Auction rate bonds that cannot be sold remain with the bondholder. However, if the auction is not successful, the rate is reset based on predetermined formulae which include the rating of the insurer, or the underlying rating of the Fund if it is higher than the insurer's rating. The formula for the Series 2000P-1 and Series 2000P-2 is 125% of the commercial paper rate and the formula for the Series 2002C, Series 2002D-1, and Series 2002D-2 is 200% of LIBOR. Additional variable rate debt was issued as Series 2005A as variable rate demand obligations with a weekly reset. Rates in effect at June 30, 2008, including remarketing fees, were 1.781%.

Revenue bonds payable for the years ended June 30, 2008 and 2007 (in thousands):

	Stated Interest Rate Range	Face Value Outstanding June 30, 2008	Face Value Outstanding June 30, 2007
Airport System Subordinate Lien Revenue Refunding Bonds, Series 1997, $33,255,000 original principal, matures in 2017	4.5%-5.125%	$ 820	$ 31,960
Airport System Subordinate Lien Revenue Refunding Bonds, Series 1998A, $70,405,000 original principal, matures in 2017	5.25%-6%	46,500	49,805
Airport System Subordinate Lien Revenue Bonds, Series 1998B, $479,940,000 original principal, matures in 2028	3.9%-5.25%	415,775	429,825
Airport System Subordinate Lien Revenue Bonds, Series 1998C, $150,905,000 original principal, matures in 2028	3.8%-5%	146,900	147,765
Airport System Subordinate Lien Revenue Bonds, Series 2000A, $327,225,000 original principal, matures in 2030	5%-6%	219,300	225,330
Airport System Subordinate Lien Revenue Bonds, Series 2000B, $269,240,000 original principal, matures in 2030	5.45%-5.7%	44,515	269,240
Airport System Subordinate Lien Revenue Bonds, Series 2000P-1, $50,000,000 original principal, (Periodic Auction Reset Securities), matures in 2030	variable	46,425	47,450
Airport System Subordinate Lien Revenue Bonds, Series 2000P-2, $50,000,000 original principal, (Periodic Auction Reset Securities), matures in 2030	variable	46,200	47,225
Airport System Subordinate Lien Revenue Refunding Bonds, Series 2001A, $65,475,000 original principal, matures in 2021	4%-5.5%	48,470	51,815
Airport System Subordinate Lien Revenue Bonds, Series 2002A, $200,050,000 original principal, matures in 2032	5%-5.625%	200,050	200,050
Airport System Subordinate Lien Revenue Bonds, Series 2002B, $274,455,000 original principal, matures in 2032	5%-5.5%	274,455	274,455
Airport System Subordinate Lien Revenue Bonds, Series 2002C, $100,000,000 original principal, (Auction Rate Securities), matures in 2032	variable	98,450	100,000
Airport System Subordinate Lien Revenue Bonds, Series 2002D-1, $75,000,000 original principal, (Auction Rate Securities), matures in 2032	variable	73,425	75,000
Airport System Subordinate Lien Revenue Bonds, Series 2002D-2, $75,000,000 original principal, (Auction Rate Securities), matures in 2032	variable	73,450	75,000
Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005A, $92,900,000 original principal, (Variable Rate Debt Obligations), matures in 2030	variable	92,900	92,900
Airport System Subordinate Lien Revenue Refunding Bonds, Series 2007B, $298,670,000 original principal, matures in 2032	4%-5%	298,670	-
Total principal		2,126,305	2,117,820
Less:			
Total current maturities		(43,050)	(34,500)
Unamortized discount		(26,827)	(35,640)
Unamortized premium		11,458	3,031
Deferred amount on refunding		(16,766)	(4,359)
Total revenue bonds payable - long term		$ 2,051,120	$ 2,046,352

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

Arbitrage Rebate

Arbitrage rebate rules, under Chapter 148 of the Federal Tax Code, require generally that a tax-exempt bond issuer pay to the federal government any profit made from investing bond proceeds at a yield above the bond yield, when investing in a taxable market. Payments based on cumulative profit are due, in general, every five years. There was no arbitrage rebate payable by the Airport Fund for fiscal years ended June 30, 2008 and June 30, 2007.

Commercial Paper

Airport System Commercial Paper Notes (the "Notes") have been authorized for $150 million for Series A and B and $150 million for Series C to establish, improve, enlarge, extend and repair the Houston Airport System, acquire land, and pay interest and cost of issuance of the Notes. As of June 30, 2008, $77.0 million is outstanding in Series A and $6.0 million is outstanding in Series B.

Series A and B are collateralized by a direct pay letter of credit issued by two commercial banks, and a lien on the net revenues of the Fund. The letter of credit was $161,095,890 at June 30, 2008. It will terminate on January 4, 2011. The credit agreement covers the $150 million face value plus $11,095,890 in respect of 270 days accrued interest computed at 10%. The bank agrees to lend up to the amount of principal and interest outstanding during the time of the agreement, and that at the end of the agreement period, the outstanding loans will be consolidated into a single term loan to be repaid in six equal semiannual installments of principal plus interest commencing on a date which is six months after the termination of the Revolving Credit Period.

Series C is backed by a lien on the net revenues of the Fund, but is not collateralized.

Pledged Revenues

The Fund has pledged airport system revenues, net of operation and maintenance expenses, to pay principal and interest on outstanding Senior Lien Commercial Paper Notes, Subordinate Lien Revenue Bonds, and an Inferior Lien Contract, with outstanding principal amounts of $83,000,000, $2,126,305,000 and $49,700,000, respectively. Interest rates, maturity dates and debt service to maturity are described in detail in Note 6. The Commercial Paper Notes and Revenue Bonds are issued to establish, improve, enlarge, extend and repair the Airport System. The Inferior Lien Sublease Agreement with Continental Airlines pays debt service on the Airport System Special Facilities Bonds, (Automated People Mover Project) Series 1997A.

Pledged airport system revenues exclude: proceeds of any bonds, replacement proceeds, or any investment income earned by bond proceeds; passenger facility charges; grants or gifts for construction or acquisition; insurance proceeds; revenue from special facilities pledged to Special Facility Bonds; taxes collected for others; and proceeds from the sale of property. Pledged airport system revenues, net of operation and maintenance expense, totaled $256,113,000 in Fiscal Year 2008, covering principal of $45,996,000 and interest of $111,623,000. In addition to pledged airport system revenue, grants and passenger facility charges totaling $28,022,000 were available to cover debt service in Fiscal Year 2008, making the ratio of net pledged revenue to reduced debt service cost 198%. For historical information on the Airport Fund's pledged revenues, see Pledged Revenues on pages 40 and 41 of the Statistical Section.

7. Defined Benefit Pension Plan

The Fund participates in the pension plan of the City of Houston's municipal employees, for which separately published financial statements are available. Since the plan does not separately account for the Fund, the following disclosures, as well as those in Note 8, generally relate to the City as a whole. A complete copy of the plan can be obtained from the Houston Municipal Employees Pension System at 1111 Bagby, Suite 2450, Houston, Texas 77002-2555.

Plan Description

The Municipal Employees Pension System of the City is a single employer defined benefit pension plan that covers all eligible municipal employees, including all employees of the Fund. This pension plan was established under the authority of Texas statutes (Vernon's Texas Civil Statutes, Articles 6243g), which establish the various benefit provisions. The plan provides for service-connected disability and death benefits to survivors, with no age or service eligibility requirements. Employer and employee obligations to contribute, as well as employee contribution rates, are included in the statutes. Some requirements are delineated in the meet and confer agreements of September 2004. 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. The plan provides service, disability, death, and vesting benefits. The plan recognizes participant and employer contributions as revenues in the period in which they are due pursuant to formal commitments and recognizes benefits and refunds when they are due and payable in accordance with the terms of the pension statutes.

On November 10, 2004 the City issued a $300,000,000 collateralized note ("The Collateralized Note") to the Houston Municipal Employees Pension System ("HMEPS") as part of the meet and confer agreement with the HMEPS to fund part of the unfunded accrued actuarial liability of its pension plan. The notes will bear interest at 8.5% per year unless the rate of adjustment formula based on U.S. Treasury securities maturing in 2033, calls for a higher interest rate. The promissory note from the Houston Hotel Corporation to the City, as well as the related Deed of trust, has been pledged as collateral on the notes. Interest on the notes may be paid or deferred, at the City's option, up to a maximum of $150,000,000 plus 75% of the amount by which the appraisal value of the hotel exceeds $300,000,000. If the interest is deferred, the City will issue uncollateralized deferred interest certificates that may be converted to assignable certificates at the request of the HMEPS up to $150 million, or collateralized deferred interest certificates up to the limit based on the appraisal value of the hotel. The Collateralized Note constitutes a general obligation of the City with an ad valorem tax pledge, but the City may look to other revenue sources available to pay the debt, including the collateral and its proceeds as well as interest deferrals.

Actuarially Determined Contribution Requirements and Contributions Made

The City's funding policies provide for actuarially determined periodic contributions at rates such that, over time, they will remain level as a percent of payroll. The contribution rate for normal cost is determined using the entry age normal actuarial cost method. The pension plan uses the level percentage of payroll method to amortize the unfunded actuarially accrued liability (or surplus) over 30 years from July 1, 2004

The reported contributions to the pension funds for the year ended June 30, 2008, were different from the actuarially determined requirements based on the July 1, 2007 actuarial valuations.

7. Defined Benefit Pension Plan, continued:

Contributions are as follows:

	Percentage of Payroll
City of Houston normal cost	5.8%
Amortization of unfunded actuarial accrued liability	13.6%
Required employer contribution rate	19.4%
Employer contribution made	15.7%
Employee contribution made	5.0%

	Contribution Amounts (in thousands)
Net contribution required	$ 114,090
Total City contribution	75,000
Total employee contribution	21,176
Total contribution	$ 96,176

Annual Pension Cost and Net Pension Obligation

The annual employer's pension cost associated with the Houston Municipal Employees' Pension System for the current year is as follows (in thousands):

	June 30, 2008	June 30, 2007	June 30, 2006
Annual required contribution	$ 92,914	$ 108,146	$ 100,745
Interest on net pension obligation	22,416	19,067	16,135
Adjustment to annual required contribution *	(18,585)	(15,808)	(54,710)
Annual pension cost	96,745	111,405	62,170
Contribution made	75,000	72,000	69,000
Change in net pension obligation	(21,745)	(39,405)	6,830
Net pension obligation beginning	(263,718)	(224,313)	(231,144)
Net pension obligation end of year	$ (285,463)	$ (263,718)	$ (224,314)

* Includes an adjustment for the recalculation of the annual required contribution for prior years.

7. Defined Benefit Pension Plan, continued:

Schedule of Employer Contributions

Year Ended June 30	Annual Pension Cost (in millions)	Percentage Contributed	Net Pension Obligation (in millions)	Annual Required Contribution as a % of Base Pay
2005	$ 129.4	51.1%	$ 231.1	29.4%
2006	$ 62.2	111.0%	$ 224.3	24.1%
2007	$ 111.4	64.6%	$ 263.7	24.1%
2008	$ 96.7	77.5%	$ 285.5	19.5%

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as to the latest actuarial valuation is as follows:

Valuation date	July 1, 2007
Actuarial cost method	Entry Age Normal cost
Amortization Method	Level percentage of payroll over an open period of 30 years
Remaining amortization period	Rolling 30 year period
Asset valuation method	5 year smoothed market
Actuarial assumptions:	
Investment rate of return	8.5%, net of expenses
Payroll growth factor	3.0%
Projected salary increases	Graded rates based on years of service
General inflation rate	3.0%

Schedule of Funding Progress (in millions)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (Surplus UAAL) (b-a)	Funded Ratio (a/b)	Projected Annual Covered Payroll (c)	UAAL as Percentage of covered Payroll ((b-a)/c)
July 1, 2007	$2,193.7	$3,128.7	$935.0	70.0%	$448.9	208.0%

8. Other Employee Benefits

Post-Retirement Health Insurance Benefits

Pursuant to a City Ordinance, the City provides certain health care benefits for retired employees. Substantially all of the City's employees become eligible for these benefits if they reach normal retirement age while working for the City. Contributions are recognized in the year paid. The cost of retiree health care contributions incurred by the City amounted to approximately $54,477,067 and $54,681,045 for the years ended June 30, 2008 and 2007, respectively. Retiree health care is accounted for in the City's Health Benefits Fund, an Internal Service Fund. At June 30, 2008 and 2007, there were 8,653 and 8,471 retirees eligible to receive benefits, respectively.

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

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

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

	OPEB
Annual required contributions	$ 326,518
Annual OPEB cost	326,518
Contribution made	54,477
Change in net OPEB obligation	(272,041)
Net OPEB obligation end of year	$ (272,041)

Schedule of Employer Contributions (in millions):

Year Ended June 30	Annual OPEB Contribution	Actuarially Accrued Liability	Net OPEB Obligation	Funded Ratio	Covered Payroll	Unfunded AAL as a % of Covered Payroll
2008	$54.5	$326.5	$272.0	16.7%	$1,090.1	25.0%

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

Valuation date	June 30, 2006
Actuarial cost method	Entry age Normal Cost
Amortization method	Level percent of payroll over an open period of 30 years
Remaining amortization period	Rolling 30 year
Discount Rate	4.5%
Annual increase attributable to seniority/merit	3.0% to 12%

Health Benefits Internal Service Fund

The City's Health Benefits plan is currently administered by HMO Blue Texas. Employees and retirees are able to choose between an HMO Plan with all benefits covered by third party purchased insurance or a substantially self insured with specific individual aggregate stop loss features Preferred Provider Organization Plan (PPO). Specific and aggregate stop loss insurance is provided for the PPO of $300,000 and approximately $11,600,000 based on enrollment, respectively. Premiums paid (employer and subscriber) for current employees to third party administrators totaled $180,912,419 and $163,209,173 for the years ended June 30, 2008 and 2007, respectively.

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

The changes in the actuarial estimate of claims liability for the City related to the PPO/POS and PPO/OOA plans are as follows (in thousands):

	PPO/POS and PPO/OOA Schedule of Changes in Liability June 30, 2008	June 30, 2007
Beginning actuarial estimate of claims liability, July 1	$ 937	$ 971
Incurred claims for fiscal year	9,398	9,784
Payments on claims	(9,483)	(10,034)
Actuarial adjustment	59	216
Ending actuarial estimate of claims liability, June 30	$ 911	$ 937

The City provides one times salary of basic life insurance, with a minimum of $15,000, at no cost to the employee. The employee, at no cost to the City, may then obtain additional life insurance up to four times the employee's annual salary. The current cost for active employees for both basic and voluntary life insurance totaled $6,157,628 and $5,731,503 for the years ended June 30, 2008 and 2007, respectively.

Long-Term Disability Plan

The long-term disability plan, accounted for as an internal service fund of the City, is a part of the Income Protection Plan implemented effective September 1, 1985 (renamed the Compensable Sick Leave Plan (CSL) in October, 1996) and is provided at no cost to City employees who are members of CSL. Coverage is effective the later of September 1, 1985 or upon completion of two years 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. Plan benefits may be payable after all CSL scheduled sick leave benefits, including frozen sick leave days, have been used, however, not before six months absence from work.

The plan is administered by Disability Management Alternatives, Inc., which is reimbursed from the fund for claims as they are paid along with a fee for administrative services. The change in the actuarial estimate of claims liability for the City is as follows (in thousands):

	Schedule of Changes in Liability (in thousands) June 30, 2008	June 30, 2007
Beginning actuarial estimate of claims liability, July 1	$ 7,783	$ 7,046
Incurred claims for fiscal year	1,939	1,962
Payments on claims	(805)	(761)
Actuarial adjustment	(657)	(464)
Ending actuarial estimate of claims liability, June 30	$ 8,260	$ 7,783

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

Deferred Compensation Plan

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

9. **Transactions with City of Houston**

Interfund Services

The City charges the Fund for certain services performed by other City funds on behalf of the Airport System Fund. Such charges were as follows for the years ended June 30, 2008 and 2007 (in thousands):

	2008	2007
Police services	$ 18,051	$ 18,363
Fire services	13,418	12,779
Indirect support services	2,141	2,468
Water and sewer services	2,303	3,270
Other	290	1,178
Total	$ 36,203	$ 38,058

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

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

Due to and Due from the City of Houston

Amounts due to and due from other funds of the City at June 30, 2008 and 2007 are as follows (in thousands):

	2008		2007	
	Due to	Due from	Due to	Due from
General Fund	$ 7	$ 34	$ 609	$ 6
Total	$ 7	$ 34	$ 609	$ 6

10. Major Customers

The Airport System Fund earns a significant portion of its operating revenues from two major customers as follows:

	Percentage of Operating Revenue	
	2008	2007
Continental Airlines	40.6%	42.8%
Continental Partners	6.7%	7.1%
Continental	**47.3%**	**49.9%**
Southwest Airlines	**6.4%**	**8.0%**

11. Conduit Debt Obligations

From time to time, the City has authorized the issuance of bonds to enable various third parties to acquire and/or construct facilities deemed to be in the public interest. To provide for the airport facilities, the City has issued eight series of Special Facility Revenue Bonds. These bonds are limited special obligations of the City, payable solely from and secured by a pledge of revenue to be received from agreements between the City and various third parties. The bonds do not constitute a debt or pledge of the faith and credit of the City or the Fund and accordingly have not been reported in the accompanying financial statements, except for the City of Houston Special Facility Revenue Bonds (Automated People Mover System), Series 1997A, which are reported as an Inferior Lien Obligation because the City has contracted with Continental Airlines to operate certain facilities and pay related debt service.

At June 30, 2008, the aggregate value of Special Facility Revenue Bonds outstanding was $638,465,000, which includes $49,700,000 of the City of Houston Special Facility Revenue Bonds (Automated People Mover System), Series 1997A bonds. The Series 1997A bonds are supported by an inferior lien contract between the Fund and Continental Airlines which is included in the Fund's liabilities. At June 30, 2007, outstanding conduit bonds totaled $644,280,000.

12. Commitments and Contingencies

Litigation and Claims

The City is the defendant in various lawsuits arising in the ordinary course of its municipal and enterprise activities, certain of which seek substantial damages. These matters affecting the Airport System are primarily class action and other lawsuits and claims alleging discriminatory pay practices. The status of such litigation ranges from an early discovery stage to various levels of appeal of judgments both for and against the City. The amount of damages is limited in certain cases under the Texas Tort Claims Act and is subject to appeal. The City intends to defend itself vigorously against the suits. Management has determined the amounts of loss, if any, would not be material in these financial statements.

12. **Commitments and Contingencies, continued:**

Commitments

At June 30, 2008 and 2007, the Fund had contracted for, but not spent, $247,608,778 and $123,551,293, respectively, for capital projects.

Risk Management

The City carries fidelity coverage to comply with City ordinances, and purchases commercial property insurance with a per occurrence loss limit of $250 million. Such insurance provides a $2.5 million per occurrence deductible except for: 3% of the damaged insured value for windstorm or hail from a named storm, subject to $2.5 million minimum and a $20 million maximum; and a $5 million deductible for flood. The City also carries a separate terrorism insurance policy with a $100 million loss limit per occurrence and aggregate, with a $25 million sublimit for biological and chemical terrorism, and a $10 million deductible per occurrence. Settlements for the Airport Fund have not exceeded insurance coverage for any of the last five fiscal years.

Through its Health Benefit Plan, the City has purchased commercial insurance up to certain limitations in the event of adverse loss experience. This insurance is discussed in the footnote 8, titled Other Employee Benefits.

The City is self-insured for claims pertaining to third party liability, unemployment and workers compensation. Self-insured claims are reported as liabilities in the accompanying financial statements when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. This determination is based on reported pending claims, estimates of claims, incurred but not yet reported, actuarial reports and historical analysis.

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

	Unemployment Claim Activity	
	June 30, 2008	June 30, 2007
Unpaid claims, beginning of fiscal year	$ 123,964	$ 156,046
Incurred claims (including IBNRs)	583,298	562,418
Claim payments	(589,660)	(594,500)
Unpaid claims, end of fiscal year	$ 117,602	$ 123,964

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

At June 30, 2008, the City has an accumulated liability in the amount of $78.0 million to cover estimates for approved but unpaid claims and incurred but not reported claims (calculated on an actuarial basis). The amount of liability is based on the estimate of an independent actuary.

12. Commitments and Contingencies, continued:

The change in actuarial estimate of claims liability is as follows (in thousands):

	Schedule of Changes in Liability	
	June 30, 2008	June 30, 2007
Beginning actuarial estimate of claims liability, July 1	$ 77,724	$ 76,020
Incurred claims for fiscal year	15,366	12,965
Payments on claims	(15,094)	(14,082)
Actuarial adjustment	(10)	2,821
Ending actuarial estimate of claims liability, June 30	$ 77,986	$ 77,724

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, could be a liability of the Fund.

Electricity Futures Contracts

Objective of the futures contracts. The City's electric supply agreement provides that the City will purchase electricity at prices based on market prices of natural gas at time of delivery. Therefore the City is exposed to significant price fluctuations in its electricity purchases. The agreement also allows the City to lock in fixed natural gas prices for future periods. To hedge the risk of increases and to be able to accurately budget future purchase, the City has entered into contracts to lock in fixed rates for the natural gas price component of future electricity purchases.

Terms: At June 30, 2008, the City had two outstanding agreements to cover natural gas purchases for August 2008 through June 2009. As of June 30, 2008, the aggregate notional amount of the agreements was 223 contracts or 2,230,000 million British thermal units (MMBtu's) of natural gas. Locked-in prices ranged from $7.52 to $9.06 per MMBtu. At June 30, 2007, the City had eight outstanding agreements to cover natural gas purchases for August 2007 through June 2008. As of June 30, 2007, the aggregate notional amount of the agreements was 773.75 contracts or 7,737,500 million British thermal units (MMBtu's) of natural gas. Locked-in prices ranged from $6.92 to $10.14 per MMBtu.

Fair value: As of June 30, 2008, because natural gas futures prices had changed from the time of the agreements, the contracts had a total net fair value of $11,138,000. As of June 30, 2007, contracts had a total net fair value of negative $3,807,000.

Credit risk: As of June 30, 2008 the City is exposed to credit risk on the contracts for a total fair positive value of $11,138,000. The City's electrical provider is the Texas General Land Office ("GLO"), an agency of the State of Texas, which is rated AA1 by Moody's, AA by Standard and Poor's, and AA+ by Fitch. As of June 30, 2007 the City was exposed to credit risk on the contracts for a total fair positive value of $343,000.

Termination risk: GLO can terminate the electrical supply agreement (and related price agreements) only if the City defaults on its obligations. The City can unwind the price agreements at its discretion, paying or receiving market value credit at the time of the unwind.

13. Subsequent Events

Credit Market Conditions

Beginning in September 2008, certain City of Houston outstanding commercial paper notes and variable rate demand notes were not successfully remarketed as a result of the national credit crisis and downgrade or potential downgrade of certain of the City's liquidity providers. Notes that were not successfully remarketed were held by the City's liquidity providers. As of December 12, 2008, all of the City's commercial paper notes have been successfully remarketed, while approximately $107 million of its $1 billion outstanding variable rate notes are held by liquidity providers. The notes held by the liquidity providers are at rates of interest currently within budgeted amounts for Fiscal Year 2009. The Airport System Fund has $93 million in commercial paper and $92.9 million in variable rate demand obligations outstanding as of December 12, 2008.

Pension Obligation Bonds

On December 4, 2008, the City priced $382,630,000 of Pension Obligation Refunding Bonds, Series 2008A and $20,190,000 of Pension Obligation Bonds, Series 2008B. The City expects to close on the bonds on January 8, 2009. The stated interest rate and yield on the Series 2008A and Series 2008B bonds was 6.29%. Proceeds of the 2008A bonds will be used to refund the $300,000,000 Collateralized Pension Obligation Note, related Uncollateralized Deferred Interest Certificates, and the $35,050,000 Taxable Pension Obligation Note and to pay costs of issuance. Proceeds of the 2008B bonds will be used to fund the Houston Police Officers Pension System Unfunded Actuarial Accrued Liability and pay costs of issuance.

MUNICIPAL PENSION SYSTEM SUPPLEMENTARY INFORMATION (Unaudited)

Schedule of Funding Progress (Millions)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (Surplus UAAL) (b-a)	Funded Ratio (a/b)	Projected Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
July 1, 1998	$1,095.6	$1,240.1	$144.5	88%	$397.7	36%
July 1, 1999	$1,222.2	$1,339.9	$117.7	91%	$407.7	29%
July 1, 2000	$1,376.0	$1,509.4	$133.4	91%	$432.6	31%
July 1, 2001	$1,490.2	$1,955.8	$465.6	76%	$418.0	111%
July 1, 2002	$1,519.7	$2,515.2	$995.5	60%	$399.8	249%
July 1, 2003	$1,510.3	$3,278.3	$1,768.0	46%	$390.3	453%
July 1, 2004	$1,501.2	$2,633.8	$1,132.5	57%	$366.1	309%
July 1, 2005	$1,777.7	$2,725.3	$947.6	65%	$404.6	234%
July 1, 2006	$1,867.3	$2,894.3	$1,027.0	65%	$422.5	243%
July 1, 2007	$2,193.7	$3,128.7	$935.0	70%	$448.9	208%

OTHER POST-EMPLOYOMENT BENEFITS (OPEB) COST AND NET OPEB (OBLIGATION) ASSET (Unaudited)

Schedule of Funding Progress (Millions)

Year Ended Date	Annual OPEB Contribution	Actuarially Accrued Liability	Net OPEB Obligation	Funded Ratio	Covered Payroll	Unfunded UAAL as Percentage of Covered Payroll
June 30, 2008	$54.5	$326.5	$272.00	16.7%	$1,090.1	25.0%

COMPREHENSIVE ANNUAL FINANCIAL REPORT

STATISTICAL SECTION

(Unaudited)

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.

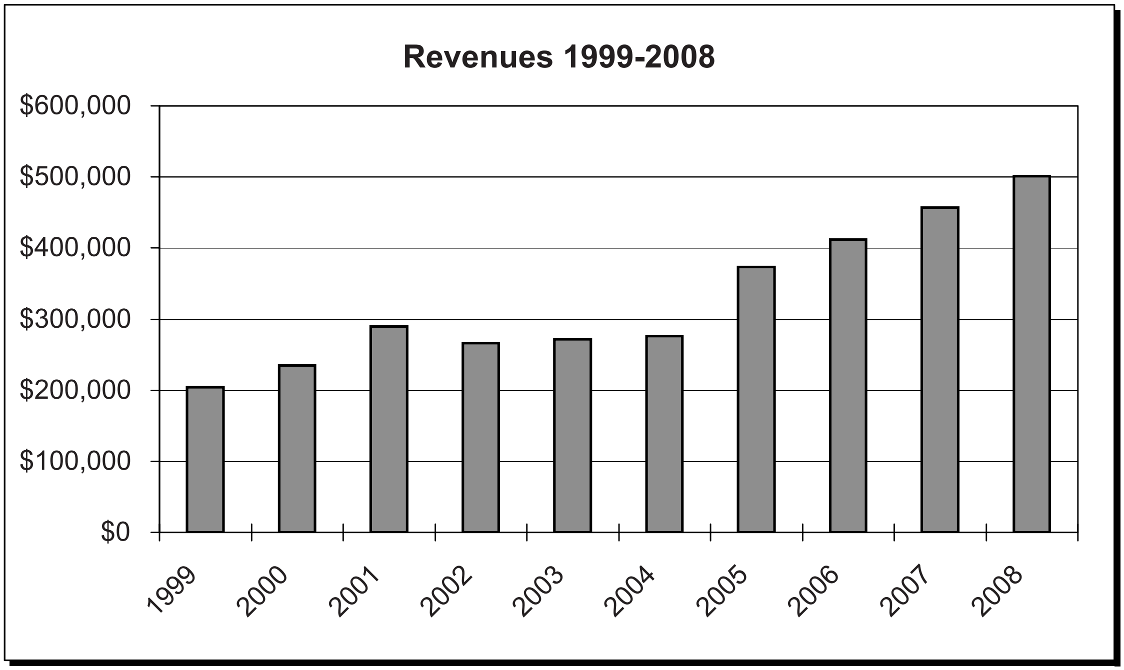
Revenue Capacity – intended to assist users in understanding and assessing the factors affecting the Houston Airport System's ability to generate its own source revenues.

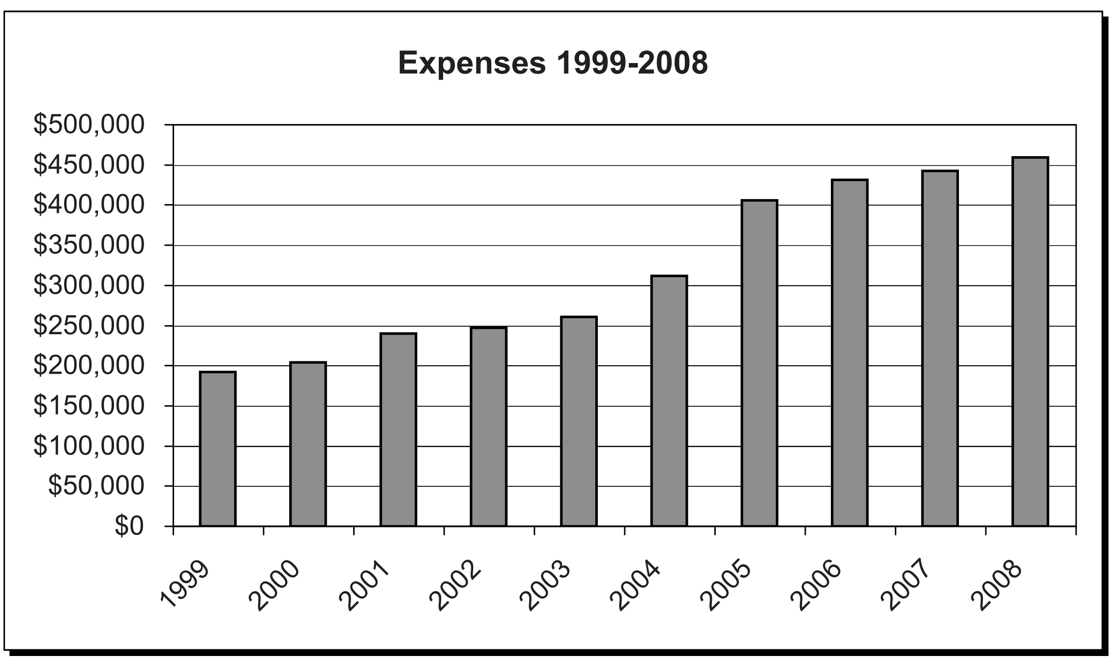
Debt Capacity – intended to assist users in understanding and assessing the Houston Airport System's debt burden and its ability to cover and issue additional debt.

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

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

TOTAL ANNUAL REVENUES AND TOTAL ANNUAL EXPENSES (in thousands)
STATISTICAL SECTION





TOTAL ANNUAL REVENUE, EXPENSES AND CHANGES IN NET ASSETS (in thousands)
STATISTICAL SECTION

CHANGES IN NET ASSETS	1999	2000	2001	2002
OPERATING REVENUES				
Landing area fees	$ 37,506	$ 40,930	$ 48,298	$ 50,826
Building and ground area fees	59,921	72,988	74,168	84,752
Concession and parking revenues	84,944	95,217	99,708	91,877
TOTAL OPERATING REVENUES	182,371	209,135	222,174	227,455
NONOPERATING REVENUES				
Interest Income	21,762	25,027	66,846	37,629
Passenger facility charges	-	-	-	-
Other nonoperating revenues	207	188	828	942
TOTAL NONOPERATING REVENUES	21,969	25,215	67,674	38,571
TOTAL REVENUES	204,340	234,350	289,848	266,026
OPERATING EXPENSES				
Maintenance and operating	117,206	113,442	122,594	142,950
Depreciation	42,537	46,390	52,410	60,088
TOTAL OPERATING EXPENSES	159,743	159,832	175,004	203,038
NONOPERATING EXPENSES				
Interest expense and others	32,471	44,354	64,825	44,165
TOTAL NONOPERATING EXPENSES	32,471	44,354	64,825	44,165
TOTAL EXPENSES	192,214	204,186	239,829	247,203
CONTRIBUTIONS	15,679	18,693	19,873	51,286
TOTAL CHANGES IN NET ASSETS	$ 27,805	$ 48,857	$ 69,892	$ 70,109

NET ASSETS AT YEAR-END	1999	2000	2001	2002
Invested in capital assets, net of related debt				$ 690,014
Restricted net assets				
Restricted for debt service				32,281
Restricted for maintenance and operations				28,035
Restricted for renewal and replacement				13,819
Restricted for capital improvement				202,808
Other restricted				1,952
Unrestricted				6,265
TOTAL NET ASSETS	$ 786,316	$ 835,173	$ 905,065	$ 975,174

2003	2004	2005	2006	2007	2008
$ 51,162	$ 57,011	$ 102,072	$ 101,758	$ 92,140	$ 99,017
91,801	115,777	151,417	179,951	199,720	211,786
97,804	97,625	100,152	112,152	124,278	136,373
240,767	270,413	353,641	393,861	416,138	447,176
30,278	5,967	14,968	18,507	33,722	41,694
-	-	-	-	6,530	11,608
681	203	4,295	56	541	514
30,959	6,170	19,263	18,563	40,793	53,816
271,726	276,583	372,904	412,424	456,931	500,992
154,541	168,923	223,972	202,496	214,611	229,551
59,987	88,371	105,891	134,150	126,953	125,951
214,528	257,294	329,863	336,646	341,564	355,502
46,538	54,853	75,908	94,586	101,193	104,019
46,538	54,853	75,908	94,586	101,193	104,019
261,066	312,147	405,771	431,232	442,757	459,521
45,527	42,000	63,989	84,105	41,681	91,175
$ 56,187	$ 6,436	$ 31,122	$ 65,297	$ 55,855	$ 132,646

2003	2004	2005	2006	2007	2008
$ 648,027	$ 668,742	$ 695,039	$ 671,640	$ 648,933	$ 685,286
84,529	40,229	32,267	37,868	53,373	67,847
28,123	31,337	34,160	38,322	39,638	41,048
13,572	12,947	12,852	10,000	10,000	10,000
251,061	282,494	292,416	376,386	438,127	518,536
2,092	2,048	2,185	-	-	-
3,957	-	-	-	-	-
$ 1,031,361	$ 1,037,797	$ 1,068,919	$ 1,134,216	$ 1,190,071	$ 1,322,717

PLEDGED REVENUES (in thousands)
STATISTICAL SECTION

	1999	2000	2001	2002
Net Revenues				
Operating revenues	$ 182,371	$ 209,135	$ 222,174	$ 227,455
Interest income	9,632	9,677	12,396	11,816
Other nonoperating revenues	206	99	680	5,520
Gross revenues	192,209	218,911	235,250	244,791
Less: Maintenance & Operating expenses	(117,206)	(113,442)	(122,594)	(142,950)
Net pledged revenues	$ 75,003	$ 105,469	$ 112,656	$ 101,841
Required revenue per bond covenant	$ 37,477	$ 42,401	$ 55,203	$ 56,782
Less grant revenue available for debt service	-	-	(2,798)	(37,153)
Net required revenue per bond covenant	$ 37,477	$ 42,401	$ 52,405	$ 19,629
Ratio of required revenue	2.00	2.49	2.15	5.19
Debt Service				
Principal	$ 17,395	$ 18,395	$ 19,460	$ 4,380
Interest	16,547	20,060	30,567	47,231
	33,942	38,455	50,027	51,611
Less: Grants available for debt service	-	-	(2,798)	(37,153)
Total debt service	$ 33,942	$ 38,455	$ 47,229	$ 14,458
Debt Service Coverage	2.21	2.74	2.39	7.04

Gross revenues include all operating revenue of the Airport Fund, and all non-operating revenue except for interest and other revenue earned by the construction funds. Maintenance and operating expenses include all operating expenses of the system except for depreciation. 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.

Debt service requirement is equal to interest expense (excluding amortization of bond discount, and amounts provided for payment of interest from bond proceeds and other sources and deposited into restricted fund for that purpose) for each respective fiscal year ended June 30, plus principal payment payable on the next July 1. Starting in Fiscal Year 1998, debt service requirements include interest on commercial paper whereas the other fiscal years do not. Starting in Fiscal Year 2001, certain grant revenue is available to cover net required revenue and required debt service.

	2003	2004	2005	2006	2007	2008
	$ 240,767	$ 270,413	$ 353,641	$ 393,861	$ 416,138	$ 447,176
	10,650	8,406	10,499	17,742	26,847	30,064
	504	114	4,175	(58)	483	182
	251,921	278,933	368,315	411,545	443,468	477,422
	(154,541)	(161,645)	(191,093)	(205,565)	(217,720)	(221,309)
	$ 97,380	$ 117,288	$ 177,222	$ 205,980	$ 225,748	$ 256,113
	$ 70,396	$ 83,382	$ 123,266	$ 154,127	$ 158,734	$ 173,064
	(30,282)	(32,823)	(25,506)	(46,621)	(20,679)	(28,022)
	$ 40,114	$ 50,559	$ 97,760	$ 107,506	$ 138,055	$ 145,042
	2.43	2.32	1.81	1.92	1.64	1.77
	$ 17,985	$ 18,865	$ 28,182	$ 31,737	$ 33,377	$ 45,996
	46,003	56,932	84,066	108,776	111,118	111,623
	63,988	75,797	112,248	140,513	144,495	157,619
	(30,282)	(32,823)	(25,506)	(46,621)	(20,679)	(28,022)
	$ 33,706	$ 42,974	$ 86,742	$ 93,892	$ 123,816	$ 129,597
	2.89	2.73	2.04	2.19	1.82	1.98

OUTSTANDING DEBT (in thousands)
STATISTICAL SECTION

	1999	2000	2001	2002
Outstanding debt by type				
Current liabilities				
Revenue bonds payable	$ 17,395	$ 18,395	$ 19,460	$ 4,380
Inferior lien contract payable	-	-	-	-
Commercial paper payable	-	-	-	-
Total current liabilities	17,395	18,395	19,460	4,380
Long-term liabilities				
Revenue bonds payable	831,550	813,155	1,490,160	1,484,860
Inferior lien contract payable	-	-	-	-
Commercial paper payable	-	50,000	-	20,000
Total long-term liabilities	831,550	863,155	1,490,160	1,504,860
Total outstanding debt	$ 848,945	$ 881,550	$ 1,509,620	$ 1,509,240
Total enplaned passengers	20,499,285	21,576,999	22,438,632	20,941,865
Outstanding debt per enplaned passenger	$ 41.41	$ 40.86	$ 67.28	$ 72.07

	2003	2004	2005	2006	2007	2008
	$ 17,985	$ 18,865	$ 27,665	$ 28,385	$ 34,500	$ 43,050
	-	-	3,255	3,450	3,660	3,880
	-	20,000	-	-	-	-
	17,985	38,865	30,920	31,835	38,160	46,930
	2,191,380	2,172,515	2,146,205	2,117,820	2,083,320	2,083,255
	-	-	56,810	53,360	49,700	45,820
	-	-	48,500	59,000	95,000	83,000
	2,191,380	2,172,515	2,251,515	2,230,180	2,228,020	2,212,075
	$ 2,209,365	$ 2,211,380	$ 2,282,435	$ 2,262,015	$ 2,266,180	$ 2,259,005
	20,604,509	21,779,196	23,357,155	24,912,085	25,830,387	26,202,152
	$ 107.23	$ 101.54	$ 97.72	$ 90.80	$ 87.73	$ 86.21

CITY OF HOUSTON, TEXAS

SUMMARY OF CERTAIN FEES AND CHARGES
STATISTICAL SECTION

IAH	**1999**	**2000**	**2001**	**2002**
Landing Rates (1)	$1.039	$1.075	$1.269	$1.518 - $1.750
Terminal Space Rentals (2)	$28.68 - $31.81	$20.36 - $42.31	$23.96 - $53.25	$22.54 - $45.76
Apron Rentals (2)	$1.428 - $1.589	$1.099 - $2.730	$.632 - $3.281	$1.133 - $2.454
Parking Rates (3)				
Economy	$4.00	$5.00	$5.00	$5.00 - $6.00
Structured	$9.00	$10.00	$10.00	$10.00 - $12.00
Surface	$7.00	$7.00 - $9.00	$7.00 - $9.00	$7.00 - $9.00
Short-Term	$30.00	$30.00	$30.00	$30.00
Sure Park	--	--	$15.00	$15.00

HOU	**1999**	**2000**	**2001**	**2002**
Landing Rates (1)	$1.958	$1.931	$1.817	$1.905
Terminal Space Rentals (2)	$31.17 - $47.60	$30.62 - $48.96	$31.38 - $50.01	$35.63 - $56.68
Apron Rentals (2)	$1.198	$1.260	$1.175	$1.936
Parking Rates (3)				
Economy	$4.00	$5.00	$5.00	$5.00 - $6.00
Structured	$9.00	$10.00	$10.00	$10.00 - $12.00
Surface	--	--	--	--
Short-Term	$30.00	$30.00	$30.00	$30.00
Sure Park	--	--	--	--

(1) Per 1,000 pounds of landing weight
(2) Range per square foot
(3) Maximum per day

2003	2004	2005	2006	2007	2008
$1.651	$1.654	$3.164	$3.190	$3.069	$2.928
$24.36 - $53.83	$18.92 - $62.19	$20.69 - $92.74	$19.28 - $86.56	$25.32 - $99.05	$27.52 - $112.85
$1.296 - $2.903	$1.465 - $3.094	$1.652 - $3.339	$1.759 - $3.243	$2.373 - $3.636	$2.443 - $2.889
$6.00	$6.00	$6.00	$6.00	$6.00	$6.00
$12.00	$12.00	$12.00	$13.00	$13.00	$15.00
$9.00	$9.00	$9.00	--	--	--
$30.00	$30.00	$30.00	--	--	--
$15.00	$15.00	$15.00	$15.00	$15.00	$15.00

2003	2004	2005	2006	2007	2008
$2.078	$2.232	$2.587	$2.711	$2.814	$2.255
$35.19 - $54.82	$34.41 - $60.69	$40.73 - $67.24	$42.90 - $73.02	$40.39 - $72.44	$86.07 - $91.45
$1.831	$2.019 - $3.468	$2.628 - $3.626	$2.529 - $3.722	$2.477 - $3.245	$2.288
$6.00	$6.00	$6.00	$6.00	$6.00	$6.00
$12.00	$12.00	$12.00	$13.00	$13.00	$15.00
--	--	--	--	--	--
$30.00	$30.00	$30.00	--	--	--
--	--	--	--	--	--

CITY OF HOUSTON, TEXAS

PASSENGER STATISTICS
LAST TEN YEARS

	Domestic Passengers					
	Intercontinental		Hobby		Ellington Field	
Fiscal Year	Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change
1999	27,271	6.8%	8,795	2.3%	100	-11.5%
2000	28,892	5.9%	9,053	2.9%	89	-11.0%
2001	30,105	4.2%	9,038	-0.2%	64	-28.1%
2002	28,168	-6.4%	8,192	-9.4%	68	6.3%
2003	27,931	-0.8%	7,796	-4.8%	81	19.1%
2004	29,473	5.5%	8,089	3.8%	80	-1.2%
2005	31,609	7.2%	8,247	2.0%	14	-82.5%
2006	34,105	7.9%	8,423	2.1%	0	-100.0%
2007	35,260	3.4%	8,642	2.6%	0	0.0%
2008	35,201	-0.2%	9,097	5.3%	0	0.0%

Domestic Passengers		International Passengers			
Total		Intercontinental		Total Passengers	
Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change
36,166	5.6%	4,801	15.4%	40,967	6.6%
38,034	5.2%	5,340	11.2%	43,374	5.9%
39,207	3.1%	5,811	8.8%	45,018	3.8%
36,428	-7.1%	5,556	-4.4%	41,984	-6.7%
35,808	-1.7%	5,526	-0.5%	41,334	-1.5%
37,642	5.1%	5,952	7.7%	43,594	5.5%
39,870	5.9%	6,818	14.5%	46,688	7.1%
42,528	6.7%	7,126	4.5%	49,654	6.4%
43,902	3.2%	7,555	6.0%	51,457	3.6%
44,298	0.9%	7,976	5.6%	52,274	1.6%

PASSENGER STATISTICS BY CARRIER
FOR YEARS ENDED JUNE 30, 2008 and 2007

Domestic

	Intercontinental				Hobby			
	Fiscal Year 2008		Fiscal Year 2007		Fiscal Year 2008		Fiscal Year 2007	
Airlines	Total Passengers	Market Share	Total Passengers	Market Share	Total Passengers	Market Share	Total Passengers	Market Share
Air Tran	0	0.0%	0	0.0%	366,915	4.0%	342,306	4.0%
America West	57,210	0.1%	284,118	0.7%	0	0.0%	0	0.0%
American Airlines, Inc.	994,819	2.3%	1,008,544	2.4%	0	0.0%	0	0.0%
American Eagle - AA	0	0.0%	0	0.0%	191,167	2.1%	222,903	2.6%
ATA Airlines	0	0.0%	0	0.0%	445	0.0%	136,606	1.6%
Atlantic Southeast - DL	41,348	0.1%	111,376	0.3%	53,704	0.6%	60,544	0.7%
Charter Airlines	3,938	0.0%	2,955	0.0%	3,843	0.0%	7,542	0.1%
Chautauqua Airlines - CO	2,268,617	5.3%	602,417	1.4%	0	0.0%	0	0.0%
Colgan - Air Inc, - CO	643,964	1.5%	551,623	1.3%	0	0.0%	0	0.0%
Comair - DL	80,215	0.2%	90,668	0.2%	0	0.0%	0	0.0%
Compass Airlines - NW	28,860	0.1%	0	0.0%	0	0.0%	0	0.0%
Continental	22,024,869	51.0%	22,015,159	51.4%	0	0.0%	0	0.0%
ExpressJet Airlines, Inc. - CO	6,245,810	14.5%	8,212,426	19.2%	0	0.0%	0	0.0%
Delta	317,654	0.7%	364,109	0.9%	59,166	0.7%	110,086	1.3%
Freedom Airlines - DL	3,349	0.0%	0	0.0%	0	0.0%	0	0.0%
Frontier	183,898	0.4%	181,458	0.4%	0	0.0%	0	0.0%
JetBlue	0	0.0%	0	0.0%	167,605	1.8%	157,289	1.8%
Mesa Airlines, Inc. - America West	0	0.0%	37,057	0.1%	0	0.0%	0	0.0%
Mesa Airlines, Inc. - UA	58,805	0.1%	0	0.0%	0	0.0%	0	0.0%
Mesa Airlines, Inc. - US	282,825	0.7%	271,942	0.6%	0	0.0%	0	0.0%
Mesaba Aviation , Inc. - NW	44,375	0.1%	0	0.0%	0	0.0%	0	0.0%
Northwest	461,797	1.1%	530,089	1.2%	0	0.0%	0	0.0%
Pinnacle Airlines, Inc. - DL	47,751	0.1%	0	0.0%	79,472	0.9%	0	0.0%
Pinnacle Airlines, Inc. - NW	35,239	0.1%	0	0.0%	0	0.0%	0	0.0%
PSA Airlines - US	0	0.0%	16,763	0.0%	0	0.0%	0	0.0%
Republic Airlines - US	168,307	0.4%	148,396	0.3%	0	0.0%	0	0.0%
Republic Airlines - Frontier	18,644	0.0%	0	0.0%	0	0.0%	0	0.0%
Shuttle America Corporation - DL	34,517	0.1%	19,108	0.0%	50,128	0.6%	72,827	0.8%
Shuttle America Corporation - UA	117,001	0.3%	152,591	0.4%	0	0.0%	0	0.0%
SkyWest Airlines - DL	176,186	0.4%	105,464	0.2%	54,690	0.6%	32,704	0.4%
SkyWest Airlines - UA	71,504	0.2%	83,363	0.2%	0	0.0%	0	0.0%
Southwest Airlines Company	0	0.0%	0	0.0%	8,070,262	88.7%	7,498,778	86.8%
United Air Lines, Inc.	450,723	1.0%	470,339	1.1%	0	0.0%	0	0.0%
US Airways	338,390	0.8%	125	0.0%	0	0.0%	0	0.0%
Total Domestic	35,200,615	81.5%	35,260,090	82.4%	9,097,397	100.0%	8,641,585	100.0%

International

	Fiscal Year 2008		Fiscal Year 2007		Fiscal Year 2008		Fiscal Year 2007	
	Total Passengers	Market Share	Total Passengers	Market Share	Total Passengers	Market Share	Total Passengers	Market Share
AeroMexico	159,364	0.4%	186,838	0.4%				
Air Canada	74,496	0.2%	82,423	0.2%				
Air Canada Jazz	121,241	0.3%	95,485	0.2%				
Air France	244,877	0.6%	250,585	0.6%				
Air Jamaica	0	0.0%	0	0.0%				
Aviacsa	21,558	0.0%	33,526	0.1%				
British Airways	208,026	0.5%	212,185	0.5%				
Cayman Airways	2,149	0.0%	14,616	0.0%	Domestic only			
Charter Airlines	1,834	0.0%	27,040	0.1%				
China Airlines	28,473	0.1%	49,205	0.1%				
Continental	5,157,748	11.9%	4,804,886	11.2%				
Emirates	79,888	0.2%	0	0.0%				
ExpressJet Airlines, Inc. - CO	1,365,774	3.2%	1,347,229	3.1%				
KLM	202,222	0.5%	202,127	0.5%				
Lufthansa	199,064	0.5%	176,507	0.4%				
Pakistan Int'l Airlines	0	0.0%	6,565	0.0%				
Singapore Airlines	15,126	0.0%	0	0.0%				
TACA	64,797	0.2%	65,909	0.2%				
World Airways	29,226	0.1%	0	0.0%				
Total International	7,975,863	18.5%	7,555,126	17.6%				
Total Airlines	43,176,478	100.0%	42,815,216	100.0%	9,097,397	100.0%	8,641,585	100.0%

(1) Houston Airport System totals include 2 charter passengers in FY 2007 at Ellington. Commercial passenger traffic at Ellington ceased in September 2004.

Houston Airport System [1]

Fiscal Year 2008 Total Passengers	Fiscal Year 2008 Market Share	Fiscal Year 2007 Total Passengers	Fiscal Year 2007 Market Share
366,915	0.7%	342,306	0.7%
57,210	0.1%	284,118	0.6%
994,819	1.9%	1,008,544	2.0%
191,167	0.4%	222,903	0.4%
445	0.0%	136,606	0.3%
95,052	0.2%	171,920	0.3%
7,781	0.0%	10,499	0.0%
2,268,617	4.3%	602,417	1.2%
643,964	1.2%	551,623	1.1%
80,215	0.2%	90,668	0.2%
28,860	0.1%	0	0.0%
22,024,869	42.1%	22,015,159	42.8%
6,245,810	11.9%	8,212,426	16.0%
376,820	0.7%	474,195	0.9%
3,349	0.0%	0	0.0%
183,898	0.4%	181,458	0.4%
167,605	0.3%	157,289	0.3%
0	0.0%	37,057	0.1%
58,805	0.1%	0	0.0%
282,825	0.5%	271,942	0.5%
44,375	0.1%	0	0.0%
461,797	0.9%	530,089	1.0%
127,223	0.2%	0	0.0%
35,239	0.1%	0	0.0%
0	0.0%	16,763	0.0%
168,307	0.3%	148,396	0.3%
18,644	0.0%	0	0.0%
84,645	0.2%	91,935	0.2%
117,001	0.2%	152,591	0.3%
230,876	0.4%	138,168	0.3%
71,504	0.1%	83,363	0.2%
8,070,262	15.4%	7,498,778	14.6%
450,723	0.9%	470,339	0.9%
338,390	0.6%	125	0.0%
44,298,012	84.7%	43,901,677	85.3%

Houston Airport System [1]

Fiscal Year 2008 Total Passengers	Fiscal Year 2008 Market Share	Fiscal Year 2007 Total Passengers	Fiscal Year 2007 Market Share
159,364	0.3%	186,838	0.4%
74,496	0.1%	82,423	0.2%
121,241	0.2%	95,485	0.2%
244,877	0.5%	250,585	0.5%
0	0.0%	0	0.0%
21,558	0.0%	33,526	0.1%
208,026	0.4%	212,185	0.4%
2,149	0.0%	14,616	0.0%
1,834	0.0%	27,040	0.1%
28,473	0.1%	49,205	0.1%
5,157,748	9.9%	4,804,886	9.3%
79,888	0.2%	0	0.0%
1,365,774	2.6%	1,347,229	2.6%
202,222	0.4%	202,127	0.4%
199,064	0.4%	176,507	0.3%
0	0.0%	6,565	0.0%
15,126	0.0%	0	0.0%
64,797	0.1%	65,909	0.1%
29,226	0.1%	0	0.0%
7,975,863	15.3%	7,555,126	14.7%
52,273,875	100.0%	51,456,803	100.0%

ORIGINATING PASSENGER ENPLANEMENTS
STATISTICAL SECTION

George Bush Intercontinental Airport

Fiscal Year	Originating Enplanements	Connecting Enplanements	Total Enplaned Passengers	Originating Enplanement Percentage
1999	8,323,914	7,725,343	16,049,257	51.9%
2000	8,839,346	8,172,995	17,012,341	52.0%
2001	9,139,616	8,746,479	17,886,095	51.1%
2002	7,934,632	8,876,817	16,811,449	47.2%
2003	7,820,907	8,842,781	16,663,688	46.9%
2004	8,626,935	9,066,201	17,693,136	48.8%
2005	9,326,276	9,872,313	19,198,589	48.6%
2006	9,983,652	10,692,215	20,675,867	48.3%
2007	10,477,803	11,008,827	21,486,630	48.8%
2008	10,449,356	11,190,625	21,639,981	48.3%

William P. Hobby Airport

Fiscal Year	Originating Enplanements	Connecting Enplanements	Total Enplaned Passengers	Originating Enplanement Percentage
1999	3,513,843	883,860	4,397,703	79.9%
2000	3,585,312	932,620	4,517,932	79.4%
2001	3,564,988	953,505	4,518,493	78.9%
2002	3,166,701	927,932	4,094,633	77.3%
2003	2,994,073	904,483	3,898,556	76.8%
2004	3,103,828	940,732	4,044,560	76.7%
2005	3,236,719	914,007	4,150,726	78.0%
2006	3,313,974	922,244	4,236,218	78.2%
2007	3,396,182	947,575	4,343,757	78.2%
2008	3,605,540	956,631	4,562,171	79.0%

Houston Airport System [1]

Fiscal Year	Originating Enplanements	Connecting Enplanements	Total Enplaned Passengers	Originating Enplanement Percentage
1999	11,890,082	8,609,203	20,499,285	58.0%
2000	12,471,384	9,105,615	21,576,999	57.8%
2001	12,738,648	9,699,984	22,438,632	56.8%
2002	11,137,116	9,804,749	20,941,865	53.2%
2003	10,857,245	9,747,264	20,604,509	52.7%
2004	11,772,263	10,006,933	21,779,196	54.1%
2005	12,570,835	10,786,320	23,357,155	53.8%
2006	13,297,626	11,614,459	24,912,085	53.4%
2007	13,873,986	11,956,401	25,830,387	53.7%
2008	14,054,896	12,147,256	26,202,152	53.6%

[1] The Houston Airport System Totals also include enplanements for Ellington between fiscal years 1998-2005. In its highest year, Ellington had 57,403 originating and total enplaned passengers. All commercial passenger service at Ellington ceased in September 2004.

AIRCRAFT OPERATIONS AND LANDING WEIGHT
STATISTICAL SECTION

	Aircraft Operations (in thousands)			Aircraft Landed Weight (in million pounds)		
Fiscal Year	Total	Increase (Decrease)	Percentage Change	Total	Increase (Decrease)	Percentage Change
1999	796	7	0.89%	30,119	1,866	6.60%
2000	827	31	3.89%	31,495	1,376	4.57%
2001	823	(4)	-0.48%	32,083	588	1.87%
2002	790	(33)	-4.01%	30,496	(1,587)	-4.95%
2003	811	21	2.66%	30,803	307	1.01%
2004	856	45	5.55%	31,444	641	2.08%
2005	887	31	3.62%	32,543	1,099	3.50%
2006	933	46	5.19%	32,808	265	0.81%
2007	983	50	5.36%	33,930	1,122	3.42%
2008	974	(9)	-0.92%	34,097	167	0.49%

PERFORMANCE MEASURES
STATISTICAL SECTION

	2001	2002	2003
Revenue per Enplaned Passenger	$ 12.92	$ 12.70	$ 13.19
Maintenance and Operations Expenses per Enplaned Passenger	$ 5.46	$ 6.83	$ 7.50
Debt Service per Enplaned Passenger	$ 2.23	$ 2.46	$ 3.11
Outstanding Debt per Enplaned Passenger	$ 67.28	$ 72.07	$ 107.23
Intercontinental Budgeted Airline Cost per Enplaned Passenger (1)	$ 4.99	$ 5.34	$ 6.47
Intercontinental Actual Airline Cost per Enplaned Passenger (1)	$ 4.91	$ 5.59	$ 6.49
Hobby Budgeted Airline Cost per Enplaned Passenger (1)	$ 4.61	$ 5.02	$ 5.81
Hobby Actual Airline Cost per Enplaned Passenger (1)	$ 4.53	$ 5.10	$ 6.32

(1) Airline Costs include terminal building charges, aircraft parking apron charges, and landing fees only for passenger carriers. The costs are calculated during the rates and charges process based on budget and estimated passengers. They are then recalculated, after the annual audit, during the rates and charges reconciliation process. Therefore, there is a lag in obtaining the actual cost per enplaned passenger. This is reconciliation revenue, not actual revenue booked, since the accrual is unknown and therefore not booked.

	2004		2005		2006		2007		2008
$	12.70	$	15.97	$	16.56	$	17.67	$	19.12
$	7.76	$	9.59	$	8.13	$	8.31	$	8.76
$	3.48	$	4.81	$	5.64	$	5.59	$	6.02
$	101.54	$	97.72	$	90.80	$	87.73	$	86.21
$	7.17	$	10.25	$	11.54	$	10.95	$	11.45
$	6.96	$	10.27	$	10.57	$	-	$	-
$	7.57	$	8.49	$	8.52	$	8.26	$	8.40
$	7.35	$	8.23	$	7.00	$	-	$	-

AIRPORT INFORMATION
STATISTICAL SECTION

George Bush Intercontinental Airport

Location:	22 miles north of downtown Houston			
Area:	10,030 acres			
Elevation:	97 MSL			
Airport Code:	IAH			
Runways:	8R-26L		9,402 x 150 ft	
	9-27		10,000 x 150 ft	
	15L-33R		12,001 x 150 ft	
	15R-33L		9,999 x 150 ft	
	8L-26R		9,000 x 150 ft	
Terminal:	Airlines			2,708,100 sf
	Tenants			200,801 sf
	Public/common			718,736 sf
	Mechanical			239,730 sf
	Other			298,847 sf
			Total	4,166,214 sf
	Number of gates			131
	Apron for Commercial Airlines			4,109,497 sf
Consolidated Rental Car Facility:	Number of rental car agencies			9
Parking:	Spaces assigned:	Short-term hourly		13,786
		Long-term economy		8,526
		Employee		1,505
			Total	23,817

AIRPORT INFORMATION
STATISTICAL SECTION

William P. Hobby Airport

Location:	7 miles southeast from downtown Houston			
Area:	1,524 acres			
Elevation:	46 MSL			
Airport Code:	HOU			
Runways:	12L-30R	5,148 x 100 ft		
	12R-30L	7,602 x 150 ft		
	17-35	6,000 x 150 ft		
	4-22	7,602 x 150 ft		
Terminal:	Airlines		265,046	sf
	Tenants		29,399	sf
	Public/common		138,241	sf
	Mechanical		51,333	sf
	Other		45,071	sf
		Total	529,090	sf
	Number of gates		25	
	Apron for Commercial Airlines		680,819	sf
	Number of rental car agencies in terminal		9	
Parking:	Spaces assigned:	Short-term hourly	3,494	
		Long-term economy	566	
		Employee	0	
		Total	4,060	

Ellington Field (1)

Location:	15 miles southeast of downtown Houston	
Area:	2,000 acres	
Elevation:	32 MSL	
Airport Code:	EFD	
Runways:	17L-35R	4,609 x 75 ft
	17R-35L	9,001 x 150 ft
	4-22	8,001 x 150 ft

Note 1: No scheduled commercial flights.

EMPLOYEE STAFFING BY FUNCTION
STATISTICAL SECTION

Function	Full Time Equivalent (FTE) Number of Employees (1) 2007	2008
Executive Administration	8.7	9.0
F&A Administration	18.0	10.0
Finance	50.5	53.3
Human Resources	34.1	34.3
Purchasing	77.7	76.9
Property Management	10.8	9.0
Marketing, Communications & Community Affairs	17.4	15.7
Airports Services	16.9	23.4
George Bush Intercontinental (IAH) Operations (2)	719.0	706.4
William P. Hobby (HOU) Operations (2)	245.2	249.5
Ellington Field Operations (2)	29.0	29.5
Security and Safety-All Airports (3)	294.7	301.3
Planning, Design & Construction	65.5	71.0
Information Technology	34.1	45.7
Total FTE Employees	1,621.6	1,635.0

Note 1: A full-time employee is scheduled to work 2,080 hours per year (including vacation and sick leave). Full-time equivalent employment is calculated by dividing total labor hours including overtime by 2,080.

Note 2: Includes Airside, Landside, Communication Center and Ground Transportation.

Note 3: Police and Fire Operations are not included in employee counts for the Houston Airport System. They are provided by the City of Houston and paid for through interfund service charges. See Note #9 in the Notes to the Financial Statements.

The Fund is including only two years of employee staffing information because of a change in cost center allocations during the implementation of a new accounting system in fiscal year 2007.

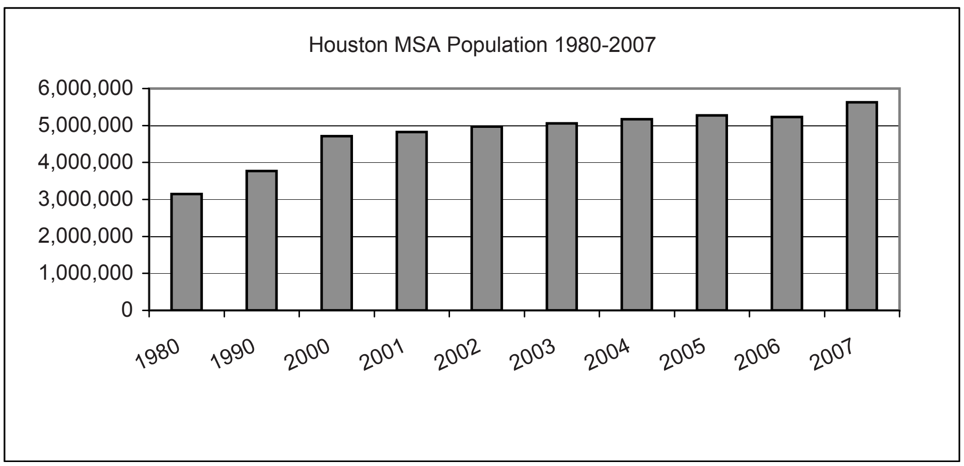
SERVICE AREA
STATISTICAL SECTION

The primary service region for the Houston Airport System, the 10-county Houston-Sugar Land-Baytown, Texas 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 two additional counties for the broader Houston-Baytown-Huntsville Combined Statistical Area ("CSA"). According to U.S. Bureau of the Census, the population estimate was 5.62 million for the MSA and 5.72 million for the CSA as of July 1, 2007. The air service region also encompasses other smaller markets such as Beaumont/Port Arthur, Victoria, Brownsville and Del Rio in Texas and Lake Charles, Louisiana as those airports only provide air service to and from Intercontinental.

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

Service Area Population

Year	Houston MSA Population
1980	3,148,991
1990	3,767,335
2000	4,715,407
2001	4,828,082
2002	4,967,350
2003	5,059,210
2004	5,171,071
2005	5,273,595
2006	5,228,844
2007	5,628,101



Source: Texas State Data Center 1980-2005, US Census Bureau 2007

Largest Private Employers Houston MSA

At June 30, 2008

Memorial Herman Healthcare Systems
Continental Airlines, Inc.
UT - M.D.Anderson Cancer Center
Shell Oil Company
UT - Medical Branch At Galveston
Kroger Company
Methodist Hospital System
Baylor College of Medicine
Hewlett-Packard Corporation
Aramark Corporation
Chevron
Pappas Restaurants, Inc.

Sources: Greater Houston Partnership; Business Houston

CITY OF HOUSTON
TEXAS

APPENDIX C

THE ORDINANCE - SUMMARY OF PROVISIONS AND DEFINITIONS

The following are summaries of certain provisions of and certain defined terms contained in the Ordinance or used in this Official Statement. These summaries do not purport to be comprehensive or definitive and are qualified in their entirety by reference to the full terms of the Ordinance. Additional summaries of certain provisions of the Ordinance are included in the forepart of the Official Statement under the caption "THE BONDS."

SUMMARY OF SELECTED PROVISIONS

Funds

Establishment of Funds. The Ordinance requires that the following listed eight special funds be established, maintained and accounted for so long as there are any Senior Lien Obligations Outstanding: the Revenue Fund; the Senior Lien Bond Interest and Sinking Fund; the Senior Lien Bond Reserve Fund; the Subordinate Lien Bond Interest and Sinking Fund; the Subordinate Lien Bond Reserve Fund; the Operation and Maintenance Reserve Fund; the Renewal and Replacement Fund; and the Airports Improvement Fund.

The Ordinance provides that the Revenue Fund, the Operation and Maintenance Reserve Fund, the Renewal and Replacement Fund and the Airports Improvement Fund shall be maintained as separate funds or accounts on the books of the City and all amounts credited to such Funds shall be maintained in an official depository bank of the City or in a trustee bank designated by the City. The Ordinance further provides that the Senior Lien Bond Interest and Sinking Fund and the Senior Lien Bond Reserve Fund shall be maintained at an official depository bank of the City separate and apart from all other funds and accounts of the City.

The Senior Lien Bond Interest and Sinking Fund constitute trust funds which are to be held in trust for the Owners of the Senior Lien Obligations and the proceeds of which (other than the interest income thereon, which may be transferred to the Revenue Fund) shall be pledged to the payment of the Senior Lien Obligations.

Within the Senior Lien Bond Reserve Fund, the Ordinance establishes a Senior Lien Bond Reserve Account and a Senior Lien Note Reserve Account, and permits the establishment of other accounts within the Senior Lien Bond Reserve Fund for the benefit of any series of Senior Lien Bonds which are not designated as Reserve Fund Participants. The 2009A Bonds have been designated in the Officers Pricing Certificate for the 2009A Bonds as non-Reserve Fund Participants, and the City has created within the Senior Lien Bond Reserve Fund an account of the Senior Lien Bond Reserve Fund designated as the "2009A Non-Participant Bond Reserve Account" (referred to in this Official Statement as the "2009A Reserve Account").

The 2009A Reserve Account will be initially funded with proceeds of the 2009A Bonds in an amount equal to the Reserve Fund Requirement for the 2009A Bonds. The 2009A Reserve Account (other than interest income thereon, which may be transferred to the Revenue Fund) shall be pledged solely to the 2009A Bonds. Neither the Senior Lien Bond Reserve Account nor the Senior Lien Notes Reserve Account will be pledged to the 2009A Bonds. The Senior Lien Bond Reserve Account (if and when funded) will be held in trust only for the Owners of the Senior Lien Bonds that are Reserve Fund Participants (if any), to which such account is pledged. The Senior Lien Note Reserve Account constitutes trust funds which shall be held in trust for the Owners of the Senior Lien Notes to which they are pledged. The City has reserved the right to issue Additional Senior Lien Bonds which are not Reserve Fund Participants and are not secured by the Senior Lien Bond Reserve Account; provided that the City may create a separate account within the Senior Lien Bond Reserve Fund for the benefit of any such series that is not a Reserve Fund Participant, the proceeds of which account (other than the interest income thereon, which may be transferred to the Revenue Fund) shall be pledged to the payment of such series that is not a Reserve Fund Participant.

The Subordinate Lien Bond Interest and Sinking Fund and the Subordinate Lien Bond Reserve Fund constitute trust funds which shall be held in trust for the Owners of the Subordinate Lien Bonds to which they are pledged and the proceeds of which (other than the interest income thereon, which shall be transferred to the extent herein provided to the Revenue Fund) shall be pledged to the payment of such Subordinate Lien Bonds.

The City has also reserved the right to create additional accounts within any Fund as necessary or desirable in furtherance of the intent and purpose of the Ordinance.

Flow of Funds. All Gross Revenues of the Houston Airport System shall be deposited, as received, into the Revenue Fund. In addition, the City may deposit into the Revenue Fund any Federal Payments, provided that, so long as such Federal Payments are excluded from the definition of Gross Revenues, such Federal Payments shall be applied solely to the payment of Operation and Maintenance Expenses. Moneys from time to time credited to the Revenue Fund shall be applied in the following order of priority:

(1) First, to pay and to provide by encumbrance for the payment of all current Operation and Maintenance Expenses;

(2) Second, to transfer all amounts to the Senior Lien Bond Interest and Sinking Fund required by the Ordinance and any other ordinance authorizing the issuance of Senior Lien Bonds or Senior Lien Notes;

(3) Third, to transfer all amounts to the Senior Lien Bond Reserve Fund required by the Ordinance and any other ordinance authorizing the issuance of Senior Lien Bonds or Senior Lien Notes, including transfers to pay all reimbursement obligations under any reserve fund surety policies obtained with respect to Senior Lien Bonds or Senior Lien Notes;

(4) Fourth, to transfer all amounts to the Subordinate Lien Bond Interest and Sinking Fund required by any ordinance authorizing the issuance of Subordinate Lien Bonds;

(5) Fifth, to transfer all amounts to the Subordinate Lien Bond Reserve Fund required by any ordinance authorizing the issuance of Subordinate Lien Bonds;

(6) Sixth, to transfer all amounts necessary to provide for the payment, and/or to provide reserves for the payment, of principal of, premium, if any, and interest on any Inferior Lien Bonds to the appropriate funds or accounts established for such purpose and required to be maintained by any ordinance authorizing such Inferior Lien Bonds;

(7) Seventh, to transfer all amounts to the Operation and Maintenance Reserve Fund required by the Ordinance and any other ordinance authorizing Senior Lien Obligations, Subordinate Lien Bonds or Inferior Lien Bonds;

(8) Eighth, to transfer all amounts to the Renewal and Replacement Fund required by the Ordinance and any other ordinance authorizing Senior Lien Obligations, Subordinate Lien Bonds or Inferior Lien Bonds; and

(9) Ninth, the balance shall be transferred to the Airports Improvement Fund.

Senior Lien Bond Interest and Sinking Fund. After making all required payments and provision for payment of Operation and Maintenance Expenses, the City shall transfer into the Senior Lien Bond Interest and Sinking Fund, on or before the last business day of each month, (i) such amounts as necessary so that the balance therein equals the Debt Service Requirements on all Senior Lien Obligations accrued at the end of the current month, plus (ii) such amounts as necessary to provide for payment, when due, of all expenses of providing for the full and timely payment of Senior Lien Obligations in accordance with their terms including without limitation, all fees charged or incurred in connection with bond insurance, letters of credit, lines of credit, standby bond purchase agreements, or other credit or liquidity facilities, remarketing agreements, interest rate indexing agreements, interest rate swap agreements and tender agreements obtained or entered into by the City in connection with any Senior Lien Obligations.

Whenever the total amounts on deposit to the credit of the Senior Lien Bond Interest and Sinking Fund and the Senior Lien Bond Reserve Fund shall be equivalent to the sum of the aggregate principal amount of all Outstanding Senior Lien Obligations plus the aggregate amount of all interest accrued and to accrue thereon, no further transfers need be made into the Senior Lien Bond Interest and Sinking Fund or the Senior Lien Bond Reserve Fund, and such Senior Lien Obligations shall not be regarded as being Outstanding except for the purpose of being paid with the moneys credited to such Funds. Moneys credited to the Senior Lien Bond Interest and Sinking Fund shall be used solely for the purpose of paying principal (at maturity or prior redemption or to purchase Senior Lien Obligations issued as term bonds in the open market to be credited against mandatory redemption requirements), interest and redemption premiums on the Senior Lien Obligations, plus all bank charges and other costs and expenses relating to such payment, including those described above. On or before each principal and/or interest payment date on the Senior Lien Obligations, the City shall transfer from the Senior Lien Bond Interest and Sinking Fund to the Paying Agent/Registrar for the Senior Lien Obligations an amount equal to the principal, interest and redemption premiums payable on the Senior Lien Obligations on such date, including all amounts due and payable on Credit Agreements or Qualified Hedge Agreements relating to such Senior Lien Obligations

Senior Lien Bond Reserve Fund. After making all required payments and provision for payment of Operations and Maintenance Expenses and after making all required transfers to the Senior Lien Bond Interest and Sinking Fund, the City shall transfer into the applicable accounts of the Senior Lien Bond Reserve Fund (including the 2009A Reserve Account, the Senior Lien Bond Reserve Account, the Senior Lien Note Reserve Account, or other designated account, as applicable) from the Revenue Fund, on such date and in such amounts (but not to exceed in any month one-twelfth (1/12th) of the maximum Debt Service Requirements scheduled to occur in any future Fiscal Year on all Senior Lien Obligations then Outstanding) as may be provided in the Ordinance and other ordinances authorizing the issuance of the Senior Lien Obligations.

The City shall maintain a balance in the 2009A Reserve Account equal to the Reserve Fund Requirement for the 2009A Bonds, which amount shall be initially funded with proceeds of the 2009A Bonds. The City shall maintain a balance in the Senior Lien Bond Reserve Account of the Senior Lien Bond Reserve Fund equal to the Reserve Fund Requirement for the Senior Lien Bonds that are secured thereby. The City shall maintain a balance in the Senior Lien Note Reserve Account of the Senior Lien Bond Reserve Fund equal to the Reserve Fund Requirement for the Senior Lien Notes that are secured thereby. With respect to any other series of Senior Lien Bonds that are not Reserve Fund Participants, the City shall maintain a balance in the account created within the Senior Lien Bond Reserve Fund for such series equal to the Reserve Fund Requirement for each such series of Senior Lien Bonds secured thereby. The Reserve Fund Requirement shall be fully satisfied at the time of the initial issuance and delivery of each series of 2009 Bonds.

Each increase in the Reserve Fund Requirement resulting from the issuance of any Additional Senior Lien Obligations shall be satisfied at the time of issuance and delivery of such series of Additional Senior Lien Obligations. The Reserve Fund Requirement shall be satisfied by depositing to the credit of the Senior Lien Bond Reserve Account (in the case of Additional Senior Lien Bonds that are Reserve Fund Participants) or the Senior Lien Note Reserve Account (in the case of Additional Senior Lien Notes) or such other designated accounts (in the case of Additional Senior Lien Bonds that are not Reserve Fund Participants) of the Senior Lien Bond Reserve Fund either (i) proceeds of such Additional Senior Lien Obligations or other lawfully appropriated funds in not less than the amount which, together with investment earnings thereon as estimated by the City, will be sufficient to fund fully the Reserve Fund Requirement by no later than the end of the period of time for which the payment of interest on such Additional Senior Lien Obligations has been provided out of proceeds of such Additional Senior Lien Obligations or investment earnings thereon as estimated by the City or from other lawfully available funds other than Net Revenues or (ii) a Senior Lien Bond Reserve Fund Surety Policy in a principal amount equal to the amount required to be funded, provided that, at the time of deposit, either the rating for the long term unsecured debt of the issuer of such Senior Lien Bond Reserve Fund Surety Policy or the rating for obligations insured, secured or guaranteed by such issuer are required to be in one of the two highest letter categories by at least one major municipal securities evaluation service (or, if such entities are no longer in existence, by comparable services) and which Senior Lien Bond Reserve Fund Surety Policy shall be payable on demand of the City for the benefit of the Owners of the Senior Lien Obligations that are secured thereby.

In any month in which any account of the Senior Lien Bond Reserve Fund contains less than the applicable Reserve Fund Requirement (or so much thereof as shall then be required to be therein if the City has elected to accumulate the Reserve Fund Requirement for any series of Additional Senior Lien Obligations as above provided), then on or before the last business day of such month, after making all required payments and provision for payment of Operation and Maintenance Expenses, and after making all required transfers to the Senior Lien Bond Interest and Sinking Fund, there shall be transferred on a pro rata basis into the 2009A Reserve Account (in the case of the 2009A Bonds), the Senior Lien Bond Reserve Account (in the case of Senior Lien Bonds that are Reserve Fund Participants), the Senior Lien Note Reserve Account (in the case of Senior Lien Notes) and such other designated accounts (in the case of Additional Senior Lien Bonds that are not Reserve Fund Participants) of the Senior Lien Bond Reserve Fund from the Revenue Fund, such amounts as shall be required to permit the City to pay all reimbursement obligations under Senior Lien Bond Reserve Fund Surety Policies allocable to the 2009A Reserve Account, Senior Lien Bond Reserve Account or Senior Lien Note Reserve Account or such other designated accounts, as applicable, within a twelve (12) month period and such additional amounts as shall be sufficient to enable the City within a twelve (12) month period to reestablish in the 2009A Reserve Account, Senior Lien Bond Reserve Account or Senior Lien Note Reserve Account or such other designated accounts, as applicable, the Reserve Fund Requirement for the Senior Lien Bonds or Senior Lien Notes secured thereby; provided, however, that in the event that such monthly transfer requirements ever exceed 1/12th of the maximum Debt Service Requirements scheduled to occur in any future Fiscal Year on all Senior Lien Obligations then Outstanding (being the maximum transfer permitted by Section 5.07 of the prior ordinances authorizing the Subordinate Lien Bonds), any remaining required transfers shall be accomplished pursuant to Section 5.13 of the Ordinance and described below under "Deficiencies in Funds." After such amounts have been accumulated in the 2009A Reserve Account, Senior Lien Bond Reserve Account and Senior Lien Note Reserve Account and such other designated accounts (as described above), and so long thereafter as such accounts contain such amounts, no further transfers shall be required to be made into the 2009A Reserve Account, Senior Lien Bond Reserve Account or Senior Lien Note Reserve Account or such other designated accounts, and any excess amounts in such accounts shall be transferred to the Revenue Fund. But if and whenever the balance in the 2009A Reserve Account, Senior Lien Bond Reserve Account or Senior Lien Note Reserve Account or such other designated accounts is reduced below such amount, monthly transfers to such account shall be resumed and continued in such amounts as shall be required to restore the 2009A Reserve Account, Senior Lien Bond Reserve Account and the Senior Lien Note Reserve Account and such other designated accounts, as applicable, to such amount within a twelve (12) month period.

The 2009A Reserve Account shall be used to pay the principal of and interest on the 2009A Bonds at any time when there is not sufficient money available in the Senior Lien Bond Interest and Sinking Fund for such purpose (with the requirement that all cash and investments on deposit in such account be depleted before drawing upon any Senior Lien Bond Reserve Fund Surety Policy, unless provided otherwise in each of the Senior Lien Bond Reserve Fund Surety Policies, if any, allocable to the 2009A Reserve Account) and to repay amounts drawn under any Senior Lien Bond Reserve Fund Surety Policy (if any) allocable to such 2009A Reserve Account for such purpose, together with interest thereon, in accordance with the terms of the City's reimbursement obligations incurred in connection with such Senior Lien Bond Reserve Fund Surety Policy. The 2009A Reserve Account may also be used to make the final payments for the retirement or defeasance of the 2009A Bonds then Outstanding that are secured thereby.

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

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

With respect to any other series of Senior Lien Bonds that are not Reserve Fund Participants, any account created within the Senior Lien Bond Reserve Fund for the benefit of such series of Senior Lien Bonds shall be used to pay the principal and interest on such series of Senior Lien Bonds at any time when there is not sufficient money available if the Senior Lien Bond Interest and Sinking Fund for such purpose (with the requirement that all cash and investments on deposit in such account be depleted before drawing upon any Senior Lien Bond Reserve Fund Surety Policy, unless provided otherwise in each of the Senior Lien Bond Reserve Fund Surety Policies allocable to such account) and to repay amounts drawn under any Senior Lien Bond Reserve Fund Surety Policy allocable to such account for such purpose, together with interest thereon, in accordance with the terms of the City's reimbursement obligations incurred in connection with such Senior Lien Bond Reserve Fund Surety Policy. Any such account may also be used to make the final payments for the retirement and defeasance of the series of Senior Lien Bonds then Outstanding that are secured thereby.

The City directs and requires the paying agent for any series of Senior Lien Obligations to ascertain the necessity for claim or draw upon the applicable Senior Lien Bond Reserve Fund Surety Policy, to provide notice to the issuer thereof in accordance with its terms and to make such claims or draws thereon as may be necessary to provide for the timely payment of principal of and interest on the Senior Lien Obligations to which it pertains

Subordinate Lien Bond Interest and Sinking Fund. After making all required payments and provision for payment of Operation and Maintenance Expenses and making all required transfers to the Senior Lien Bond Interest and Sinking Fund and the Senior Lien Bond Reserve Fund, the City shall transfer into the Subordinate Lien Bond Interest and

Sinking Fund such amounts on such dates as may be provided in the ordinances authorizing the issuance of the Subordinate Lien Bonds in order to provide for the full and timely payment of all principal of, interest on and any redemption premiums on all Subordinate Lien Bonds and all expenses relating to such payment, including without limitation, all fees charged or incurred in connection with bond insurance, letters of credit, lines of credit, standby bond purchase agreements, or other credit or liquidity facilities, remarketing agreements, interest rate indexing agreements and tender agent agreements obtained or entered into by the City in connection with any Subordinate Lien Bonds.

Subordinate Lien Bond Reserve Fund. After making all required payments and provision for payment of Operation and Maintenance Expenses and making all required transfers to the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund and the Subordinate Lien Bond Interest and Sinking Fund, the City shall transfer into the Subordinate Lien Bond Reserve Fund such amounts on such dates as required to maintain a balance therein equal to the Reserve Fund Requirement for the Subordinate Lien Bonds as provided in the ordinances authorizing such Subordinate Lien Bonds.

Operation and Maintenance Reserve Fund. Amounts from time to time credited to the Operation and Maintenance Reserve Fund may be used at any time first, to pay for any Operation and Maintenance Expenses for which amounts are not otherwise available in the Revenue Fund; second, to pay any costs or expenses payable from the Renewal and Replacement Fund for which there are insufficient amounts in the Renewal and Replacement Fund; and third, to the extent such amounts are available, to be transferred to the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Reserve Fund or any similar fund created to provide for the payment, or reserves for the payment, of Inferior Lien Bonds to the extent of any deficiency therein.

Renewal and Replacement Fund. Amounts from time to time credited to the Renewal and Replacement Fund may be used at any time first, to pay for any costs of replacing depreciable property and equipment of the Houston Airport System and making repairs, replacements or renovations of the Houston Airport System; second, to pay any Operation and Maintenance Expenses for which insufficient amounts are available in the Revenue Fund and the Operation and Maintenance Reserve Fund; and third, to the extent any amounts are remaining, to be transferred to the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Reserve Fund or any similar fund created to provide for the payment, or reserves for the payment, of Inferior Lien Bonds to the extent of any deficiency therein.

Airports Improvement Fund. Amounts credited to the Airports Improvement Fund may be used only for lawful Houston Airport System purposes, including without limitation, to pay for any capital expenditures or to pay costs of replacing any depreciable property or equipment of the Houston Airport System, to make any major or extraordinary repairs, replacements or renewals of the Houston Airport System, to acquire land or any interest therein, to pay any lease or contractual obligations not paid as Operation and Maintenance Expenses and to make any transfers required to cure any deficiencies in the Renewal and Replacement Fund; provided, however, that if at any time any unappropriated, unbudgeted, unreserved or otherwise unencumbered amounts in the Airports Improvement Fund exceeds (1) the unfunded amount of the Houston Airport System capital improvements program for the next 24 months or (2) $50,000,000, whichever is greater, such excess amount 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.

Deficiencies in Funds. If in any month there shall not be transferred into any Fund the full amounts required herein, amounts equivalent to such deficiency shall be set apart and transferred to such Fund or Funds from the first available and unallocated moneys in the Revenue Fund, and such transfer shall be in addition to the amounts otherwise required to be transferred to such Funds during any succeeding month or months.

Investment of Funds; Transfer of Investment Income. Money in the Revenue Fund, the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Reserve Fund, the Operation and Maintenance Reserve Fund, the Renewal and Replacement Fund and the Airports Improvement Fund shall, at the option of the City, be invested in time deposits or certificates of deposit secured in the manner required by law for public funds, or be invested in direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, in obligations of any agencies or instrumentalities of the United States of America or in any other investments authorized by Texas law; provided that all such deposits and investments shall be made in such manner that the money required to be expended from any Fund will be available at the proper time or times. All such investments shall be valued no less frequently than the last business day of the City's Fiscal Year at their market value, except that any direct obligations of the United States of America - State and

Local Government Series shall be continuously valued at their par value or principal face amount. For purposes of maximizing investment returns, money in such Funds may be invested, together with money in other Funds or with other money of the City, in common investments of the kind described above, or in a common pool of such investments maintained by the City which shall be kept and held at an official depository of the City, which shall not be deemed to be a loss of the segregation of such money or Funds provided that safekeeping receipts, certificates of participation or other documents clearly evidencing the investment or investment pool in which such money is invested and the share thereof purchased with such money or owned by such Fund are held by or on behalf of each such Fund. If and to the extent necessary, such investments or participations therein shall be promptly sold to prevent any default.

All interest and income derived from deposits and investments credited to the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Reserve Fund and the Operation and Maintenance Reserve Fund, shall remain in such funds to the extent necessary to accumulate the Reserve Fund Requirements or other required balance therein. All interest and income derived from deposits and investments of any amounts held in any construction fund, including amounts held therein as capitalized interest, created by any ordinance authorizing the issuance of Senior Lien Obligations, Subordinate Lien Bonds or Inferior Lien Bonds, shall remain in such construction fund for application in the manner provided in such applicable ordinance.

To the extent it is not otherwise provided for above or specifically excluded from the definition of Gross Revenues, all interest and income derived from deposits and investments credited to the Revenue Fund, the Senior Lien Bond Interest and Sinking Fund, the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Interest and Sinking Fund, the Subordinate Lien Bond Reserve Fund, the Operation and Maintenance Reserve Fund, the Renewal and Replacement Fund and the Airports Improvement Fund, shall be transferred or credited monthly to the Revenue Fund.

Notwithstanding anything to the contrary contained in the Ordinance, any interest and income derived from deposits and investments of any amounts credited to any fund or account may be paid to the federal government if in the opinion of nationally recognized bond counsel such payment is required in order to prevent interest on any Bonds from being includable within the gross income of the owners thereof for federal income tax purposes.

Security for Uninvested Funds. So long as any Senior Lien Obligations remain Outstanding, all uninvested moneys on deposit in, or credited to, the Revenue Fund, the Senior Lien Bond Interest and Sinking Fund and the Senior Lien Bond Reserve Fund, shall be secured by the pledge of security, as provided by law for cities in the State of Texas.

Annual Budget

The Ordinance provides that prior to the commencement of each Fiscal Year, the Aviation Director of the Houston Airport System is required to prepare and deliver to the Mayor, for submission to the City Council of the City, a recommended annual budget for the Houston Airport System in compliance with the definitional and accounting requirements and the Rate Covenant contained in the Ordinance. The City is required to adopt annual budgets for the Houston Airport System each Fiscal Year, each of which shall contain an estimate of revenues and only such budgeted expenditures as will produce Net Revenues of the Houston Airport System in an amount not less than the Net Revenues of the Houston Airport System necessary to comply with the Rate Covenant. The Ordinance requires that total Operation and Maintenance Expenses will not exceed total expenditures authorized for such purposes by the budget, as it may from time to time be amended.

Additional Senior Lien Obligations and Additional Subordinate Lien Bonds

General Provisions. Under the Ordinance, the City reserves the right to issue, for any lawful Houston Airport System purpose, one or more series of Additional Senior Lien Bonds, Additional Senior Lien Notes, and Additional Subordinate Lien Bonds, provided that no Additional Houston Airport System Bonds may be issued unless all of the following conditions are satisfied (the "Additional Bonds Test"):

(1) The Mayor and the Director of the Houston Airport System certify that, upon the issuance of each of such series of Additional Houston Airport System Bonds, the City will not be in default under any term or provision of any Houston Airport System Bonds then Outstanding or any ordinance pursuant to which any of such Houston Airport System Bonds were issued;

(2) The City Controller certifies that, upon the issuance of each such series of Additional Houston Airport System Bonds, the Senior Lien Bond Interest and Sinking Fund and the Subordinate Lien Bond Interest and Sinking Fund

will contain the amounts required to be on deposit therein and the Senior Lien Bond Reserve Fund and the Subordinate Lien Bond Reserve Fund will contain the applicable Reserve Fund Requirement or so much thereof as is required to be funded at such time;

(3) The City Controller certifies that, for either the City's most recent complete Fiscal Year or for any consecutive 12 out of the most recent 18 months, the Net Revenues of the Houston Airport System were equal to at least (a) 125% of the Debt Service Requirements on all then-Outstanding Senior Lien Obligations for such period plus (b) 110% of the Debt Service Requirements on all then-Outstanding Subordinate Lien Bonds for such period;

(4) Either:

(a) An Airport Management Consultant provides a written report setting forth projections which indicate the estimated Net Revenues of the Houston Airport System for each of three consecutive Fiscal Years beginning in the earlier of (i) the first Fiscal Year following the estimated date of completion and initial use of all revenue-producing facilities to be financed with such series of Additional Houston Airport System Bonds, based upon a certified written estimated completion date by the consulting engineer for such facility or facilities, or (ii) the first Fiscal Year in which the City will have scheduled payments of interest on or principal of the series of the Additional Houston Airport System Bonds to be issued for the payment of which provision has not been made as indicated in the report of such Airport Management Consultant from proceeds of such series of Additional Houston Airport System Bonds, investment income thereon or from other appropriated sources (other than Net Revenues) are equal to at least (A) 125% of the Debt Service Requirements on all Senior Lien Obligations plus (B) 110% of the Debt Service Requirements on all Subordinate Lien Bonds scheduled to occur during each such respective Fiscal Year after taking into consideration the additional Debt Service Requirements for the series of Additional Houston Airport System Bonds to be issued (such projections being referred to herein as the "Future Earnings Test"); or

(b) In lieu of the certification described in (a), the City Controller may provide a certificate showing that, for either the City's most recent complete Fiscal Year or for any consecutive 12 out of the most recent 18 months, the Net Revenues of the Houston Airport System were equal to at least (i) 125% of the maximum Debt Service Requirements on all Senior Lien Obligations plus (ii) 110% of the maximum Debt Service Requirements on all Subordinate Lien Bonds scheduled to occur in the then-current or any future Fiscal Year after taking into consideration the issuance of the series of Additional Houston Airport System Bonds proposed to be issued (such certification being referred to herein as the "Historical Earnings Test");

(5) If Additional Houston Airport System Bonds are being issued for the purpose of refunding less than all of the previously issued Houston Airport System Bonds which are then Outstanding, none of the certifications described in paragraphs (3) or (4) under "General Provisions" above are required (except if Senior Lien Obligations are being issued to refund Subordinate Lien Bonds) so long as the Debt Service Requirements in any Fiscal Year after the issuance of such Additional Houston Airport System Bonds will not exceed the scheduled Debt Service Requirements in the same Fiscal Year prior to the issuance of such Additional Houston Airport System Bonds;

(6) In the ordinance authorizing the series of Additional Houston Airport System Bonds proposed to be issued, provision is made for (a) additional payments into the applicable Interest and Sinking Fund sufficient to provide for any principal and interest requirements resulting from the issuance of the series of Additional Houston Airport System Bonds including, in the event that interest on the series of Additional Houston Airport System Bonds is capitalized and/or to be paid from investment earnings, a requirement for the transfer from the capitalized interest fund or account and/or from the construction fund to the applicable Interest and Sinking Fund of amounts fully sufficient to pay interest on such series of Additional Houston Airport System Bonds during the period specified in the ordinance and (b) satisfaction of the Reserve Fund Requirement (if such Additional Houston Airport System Bonds are to be secured by a reserve fund) by not later than the date required by the Ordinance or any other ordinance authorizing a series of Additional Senior Lien Bonds, Senior Lien Notes, or Subordinate Lien Bonds, as the case may be;

(7) The provisions of paragraphs (4) and (5) above shall not apply to the issuance of Additional Senior Lien Obligations, or Additional Subordinate Lien Bonds for the purpose of refunding Short Term/Demand Obligations such as the Refunded Notes;

(8) The provisions of paragraphs (3) and (4) above shall not apply to the issuance of Completion Bonds in accordance with the Ordinance;

(9) The City may enter into Credit Agreements with respect to any Houston Airport System Bonds or Qualified Hedge Agreements if (a) prior to entering into such Credit Agreement, the City, to the extent required by law, shall cause the proceedings authorizing the Credit Agreement and any contracts or reimbursement agreements relating thereto to be submitted to and approved by the Attorney General of Texas; and (b) for any Credit Agreement that obligates the City to make any future payments for the availability of such Credit Agreement, the City's financial advisor for the Houston Airport System must certify that the inclusion of such payments within the Debt Service Requirements on the Houston Airport System Bonds or Qualified Hedge Agreement to which the Credit Agreement relates will not cause such Houston Airport System Bonds or Qualified Hedge Agreement to fail to comply with the applicable coverage requirements for their issuance or incurrence. The issuer of any Credit Agreement shall be entitled to be subrogated to the rights of the Owners of the Houston Airport System Bonds or the counterparty to the Qualified Hedge Agreement secured by such Credit Agreement, and the City's reimbursement and repayment obligations to the issuer of the Credit Agreement shall be secured by Net Revenues as provided in the Ordinance; and

(10) The City may enter into Qualified Hedge Agreements contemporaneously with or following the issuance of any Houston Airport System Bonds or in conjunction with the payment, sale, resale or exchange of any Houston Airport System Bonds for any purpose authorized by law if (a) the proceedings authorizing the Qualified Hedge Agreement and any contracts or reimbursement agreements relating thereto shall, to the extent required by law, be submitted to and approved by the Attorney General of Texas; (b) the City shall have received written confirmation from each rating agency then rating the Houston Airport System Bonds that entering into such Qualified Hedge Agreement will not, in and of itself, result in a withdrawal or reduction of any rating assigned to the Houston Airport System Bonds; and (c) the City's financial advisor for the Houston Airport System shall certify that the Houston Airport System Bonds to which the Qualified Hedge Agreement relates could have been issued in satisfaction of all the applicable coverage requirements contained in the Ordinance if the Debt Service Requirements with respect to such Houston Airport System Bonds are recalculated (as provided in the definition of Debt Service Requirements) to take into account payments due under the Qualified Hedge Agreement.

For a discussion of proposed additional Houston Airport System financings, see "THE HOUSTON AIRPORT SYSTEM–Houston Airport System Capital Improvement Program."

Special Provisions for Short Term/Demand Obligations. In the Ordinance, the City has reserved the right to issue, from time to time, one or more series of Additional Senior Lien Bonds, Additional Senior Lien Notes, and/or Additional Subordinate Lien Bonds as Short Term/Demand Obligations, provided that the aggregate principal amount of Short Term/Demand Obligations Outstanding at any time may not exceed the greater of $150,000,000 or 30% of the aggregate principal amount of Houston Airport System Bonds Outstanding at the time of issuance of the last series of Short Term/Demand Obligations, and further provided that the other conditions for issuing Additional Houston Airport System Bonds are met. In addition, no Short Term/Demand Obligation shall be subject to the limitations as to maximum principal amount as set forth above during any period of time that the City's financial advisor for the Houston Airport System certifies that the City's variable or adjustable interest rate exposure under such Short Term/Demand Obligation is substantially hedged pursuant to an interest rate swap, interest rate cap or other interest rate hedging mechanism with a counterparty having a rating in one of the two highest credit rating categories by at least one major rating agency (or with a counterparty whose payment obligations under such interest rate swap, interest rate cap, or other interest rate hedging mechanism are insured or guaranteed by an entity having such rating) pursuant to which the maximum net rate of interest that the City is obligated to pay (after taking into account all payments to be made by such counterparty) does not exceed the interest rate certified with respect to such Short Term/Demand Obligation by such financial advisor pursuant to paragraph (ii) clause (1) of the definition of Debt Service Requirements.

Special Provisions for Completion Bonds. The City has also reserved the right in the Ordinance to issue one or more series of Houston Airport System Bonds to pay the cost of completing any Project (as defined in the following paragraph) for which Houston Airport System Bonds have been previously issued. Prior to the issuance of any series of Completion Bonds the City must provide, in addition to all of the applicable certificates required in "General Provisions" above, (1) a certificate from the consulting engineer engaged by the City to design the Project for which the Completion Bonds are to be issued stating that such Project has not materially changed in scope since the issuance of the most recent series of Houston Airport System Bonds for such purpose (except as permitted in the applicable ordinance authorizing such series of Houston Airport System Bonds) and setting forth the aggregate cost of the Project which, in the opinion of such consulting engineer, has been or will be incurred; and (2) a certificate of the Director of the Houston Airport System (a) stating that all amounts allocated to pay the costs of the Project from the proceeds of the most recent series of Houston Airport System Bonds issued in connection with the Project for which the Completion Bonds are being issued were used or are still available to be used to pay costs of such Project, (b) containing a calculation of the amount by which the aggregate cost of that Project (furnished in the consulting engineer's certificate described above) exceeds the sum of the costs of the Project paid to such date plus the moneys available at such date within any construction fund established therefor or other-like account applicable to the Project plus any other moneys which the Director of the Houston Airport System, in his discretion, has determined are available to pay such costs in any other fund, and (c) certifying that, in the opinion of the Director of the Houston Airport System, the issuance of the Completion Bonds is necessary to provide funds for the completion of the Project.

For purposes of the provisions for Completion Bonds, the term "Project" shall mean any Houston Airport System facility or project which shall be defined as a Project in any ordinance authorizing the issuance of Additional Houston Airport System Bonds for the purpose of financing such Project. Any such ordinance may contain such further provisions as the City shall deem appropriate with regard to the use, completion, modification or abandonment of such Project.

Exception for Special Facilities Bonds. In the Ordinance, the City has also reserved the right to issue, from time to time, in one or more series, Special Facilities Bonds to finance and refinance the cost of any Special Facilities, including all reserves required therefor, all related costs of issuance and other amounts reasonably relating thereto, provided that such Special Facilities Bonds shall be payable solely from payments by Special Facilities lessees and/or other security not provided by the City. In no event shall any Gross Revenues or any other amounts held in any other fund or account maintained by the City as security for the Houston Airport System Bonds or for the construction, operation, maintenance or repair of the Houston Airport System be pledged to the payment of Special Facilities Bonds or to the payment of any expenses of maintenance and operation of Special Facilities.

Exception for Inferior Lien Bonds. The City has also reserved the right in the Ordinance to issue or incur, for any lawful Houston Airport System purpose, bonds, notes or other obligations, secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the lien on Net Revenues securing payment of the Senior Lien Obligations and the Subordinate Lien Bonds. Such Inferior Lien Bonds may be further secured by any other source of payment lawfully available for such purposes.

Exception for PFC Obligations. The City has reserved the right to issue or incur for any lawful Houston Airport System purpose bonds, notes, or other obligations secured in whole or in part by a lien on all or any designated portion of the PFC Revenues. Such PFC obligations may be further secured by any other source of payment lawfully available for such purpose.

Exception for Excluded Fee and Charge Revenues Obligations. The City has reserved the right to issue or incur for any lawful Houston Airport System purpose bonds, notes or other obligations secured in whole or in part by a lien on all or any designated portion of the Excluded Fee and Charge Revenues for periods after the Amendment Effective Date. Such obligations may be further secured by any other source of payment lawfully available for such purposes.

Discharge by Deposit

The Ordinance provides that the City may discharge its obligation to the Owners of any or all of the 2009 Bonds or Additional Senior Lien Obligations to pay principal, interest and redemption premium (if any) thereon by depositing with the Paying Agent/Registrar cash in an amount equal to the principal amount and redemption premium, if any, of such Senior Lien Obligations plus interest thereon to the date of maturity or redemption; or by depositing either with the Paying Agent/Registrar or with any national banking association with capital and surplus in excess of $100,000,000, pursuant to an escrow or trust agreement, cash and/or any obligation authorized under Texas law to be deposited for the payment or redemption of the 2009 Bonds in principal amounts and maturities and bearing interest at rates sufficient, based upon a verification report of an independent nationally recognized certified public accountant, to provide for the timely payment of the principal amount and redemption premium, if any, of such Senior Lien Obligations, plus interest thereon to the date of maturity or redemption. Upon such deposit, such Senior Lien Obligations, shall no longer be regarded as being Outstanding or unpaid. The City shall give irrevocable instructions to the Paying Agent/Registrar to give notice of redemption of said Senior Lien Obligations, to be redeemed in the manner required in the ordinance or ordinances authorizing such Senior Lien Obligations. For any Senior Lien Obligations not to be redeemed or paid in full within the next succeeding 60 days from the date of deposit provided for any such ordinance, the City shall give the Paying Agent/Registrar irrevocable instructions to mail, by certified mail, a notice (containing certain specified information) to the Registered Owner of each such Subordinate Lien Bond that the deposit required by such ordinance has been made and that said Senior Lien Obligations are deemed paid in accordance with such ordinance and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal amount and redemption premium (if any) on such Senior Lien Obligations plus interest thereon to the date of maturity or redemption. Any failure, error or delay in giving such notice shall not affect the defeasance of such Senior Lien Obligations.

Certain Covenants and Agreements of the City

Maintenance of Airport System. The City covenants in the Ordinance that it will at all times maintain and operate the Airport System, or, within the limits of its authority, cause the same to be maintained and operated, in good and serviceable condition.

Limitation on City Charges for Operation and Maintenance Expenses. The City covenants in the Ordinance that it will not charge the Airport System any amounts for overhead expenses relating to the administration, operation and maintenance of the Airport System except to the extent that such amounts are reasonably allocable to the Airport System based upon a stated policy of allocation, reasonably applied to the Airport System and all other departments of the City and further covenants that the City will not charge the Airport System for any property provided or services rendered by the City unless such services are reasonably necessary and required for the Airport System and are not otherwise provided to the Airport System. All such charges imposed by the City upon the Airport System shall be reasonable, fair and consistent with similar charges imposed upon other departments of the City and shall be consistent with all applicable federal laws, regulations and other requirements applicable to the Airport System or imposed upon the Airport System in connection with the acceptance by the Airport System of any federal grants or aid.

Sale or Encumbrance of Airport System. Except for the use of the Airport System or services pertaining thereto in the normal course of business, neither all nor a substantial part of the Airport System shall be sold, leased, mortgaged, pledged, encumbered, alienated, or otherwise disposed of until all Senior Lien Obligations have been paid in full, or unless provision has been made therefor, and the City shall not dispose of its title to the Airport System or to any useful part thereof, including, without limitation, any property necessary to the operation and use of the Airport System, except for the execution of leases, licenses, easements, or other agreements in connection with the operation of the Airport System by the City, or in connection with any Special Facilities, except for any pledges of and liens on revenues derived from the operation and use of the Airport System, or any part thereof, or any Special Facilities pertaining thereto, for the payment of Senior Lien Obligations, Subordinate Lien Bonds, Special Facilities Bonds and any other obligations pertaining to the Airport System, and except as otherwise provided in the next two paragraphs.

The City may sell, exchange, lease, or otherwise dispose of, or exclude from the Airport System, any property constituting a part of the Airport System which the Aviation Director certifies (i) to be no longer useful in the construction or operation of the Airport System, or (ii) to be no longer necessary for the efficient operation of the Airport System, or (iii) to have been replaced by other property of at least equal value. The net proceeds of the sale or disposition of any Airport System property (or the fair market value of any property so excluded) pursuant to this paragraph shall be used for the purpose of replacing properties at the Airport System, or shall be paid into the Airports Improvement Fund for the purposes thereof.

Nothing herein shall prevent any transfer of all or a substantial part of the Airport System to another body corporate or politic (including, but not necessarily limited to a joint action agency or an airport authority) which assumes the City's obligations under this Ordinance and under any ordinance authorizing the issuance of Senior Lien Obligations or Subordinate Lien Bonds, wholly or in part, if, in the written opinion of the Airport Management Consultant, the ability to meet the rate covenant and other covenants under this Ordinance and under any ordinance authorizing the issuance of Senior Lien Obligations or Subordinate Lien Bonds, are not materially and adversely affected. In the event of any such transfer and assumption, nothing herein shall prevent the retention by the City of any facility of the Airport System if, in the written opinion of the Airport Management Consultant, such retention will not materially and adversely affect nor unreasonably restrict such other body's ability to comply with the requirements of the rate covenant and the other covenants of this Ordinance and in any ordinance authorizing the issuance of Senior Lien Obligations or Subordinate Lien Bonds.

Insurance. The City agrees in the Ordinance that it will keep the Airport System insured with insurers of good standing against risks, accidents or casualties against which and to the extent customarily insured against by political subdivisions of the State of Texas operating similar properties, to the extent that such insurance is available. All net proceeds of such insurance shall be applied to repair or replace the insured property that is damaged or destroyed or to make other capital improvements to the Airport System or to redeem Senior Lien Obligations or Subordinate Lien Bonds, except for proceeds of business interruption insurance, which shall be credited to the Revenue Fund.

Accounts, Records, and Audits. The City covenants and agrees that it will maintain a proper and complete system of records and accounts pertaining to the Gross Revenues and the operation of the Airport System in which full, true and proper entries will be made of all dealings, transactions, business and affairs which in any way affect or pertain to the Gross Revenues and the Airport System. The City shall, within 120 days after the close of each of its Fiscal Years or as soon thereafter as practicable, cause an audit report of such records and accounts to be prepared by an independent certified public accountant or independent firm of certified public accountants, which shall calculate the Gross Revenues, Net Revenues and Debt Service Requirements for such Fiscal Year and shall set forth a calculation to demonstrate whether the City has satisfied the rate covenant contained in the Ordinance. In addition, the City shall each year, as a part of its annual audit, cause an independent certified public accountant or independent firm of certified public accountants to prepare a report containing an analysis of any overhead and direct charges imposed on the Airport System by the City to determine whether such charges were imposed in conformity with the covenant described above under "Limitation on City Charges for Operation and Maintenance Expenses." Each year promptly after such reports are prepared, the City shall furnish copies thereof to any Owners of Senior Lien Obligations who shall request same. All expenses of obtaining such reports shall constitute Operation and Maintenance Expenses of the Airport System.

Proposed Amendments to Outstanding Ordinances

The Ordinance amends the definition of Gross Revenues to expressly exclude any revenues derived from Excluded Fee and Charge Revenues and Taxable Bond Credit Revenues. The Ordinance also amends the definition of Debt Service Requirements to exclude any or all of the interest on or principal of Houston Airport System Bonds which has been irrevocably committed to be paid from Houston Airport System funds other than Net Revenues, including, but not limited to, PFC Revenues or Excluded Fee and Charge Revenues. See "THE BONDS – Amendments of Outstanding Houston Airport System Bond Ordinances" and this Appendix under "Defined Terms" for additional information.

The amendments to the definitions of Gross Revenues and Debt Service Requirements are being adopted as part of the Ordinance for the Series 2009 Bonds and shall thus be binding upon all Owners of the Series 2009 Bonds. However, the amendments will not become effective (and the City will not exercise its rights thereunder) until the date on which they have become incorporated into every ordinance pursuant to which Houston Airport System Bonds are currently Outstanding (the "Amendment Effective Date"). The Amendment Effective Date will be evidenced by a certificate executed by the City to the effect that all of the conditions precedent have been satisfied.

DEFINED TERMS

Except as otherwise indicated, the following terms are defined in the Ordinance or otherwise used in the Official Statement. Proposed amendments are underlined and designated with an asterisk and will become effective from and after the Amendment Effective Date.

"1997 Bonds" shall mean the City of Houston, Texas Airport System Subordinate Lien Revenue Refunding Bonds, Series 1997 (NON-AMT).

"1997A Special Facilities Bonds" shall mean the City of Houston, Texas Airport System Special Facilities Revenue Bonds (Automated People Mover Project), Series 1997A.

"1998 Bonds" shall mean the City of Houston, Texas, Airport System Subordinate Lien Revenue Forward Refunding Bonds, Series 1998A (AMT), Subordinate Lien Revenue Bonds, Series 1998B (AMT), and Subordinate Lien Revenue Bonds, Series 1998C (Non-AMT).

"2000 Bonds" shall collectively mean the City of Houston, Texas Airport System Subordinate Lien Revenue Bonds Series 2000A (AMT) and Series 2000B (Non-AMT) and Subordinate Lien Revenue Bonds (Periodic Auction Reset Securities), Series 2000P-1 (AMT) and P-2 (AMT).

"2001 Bonds" shall mean the City of Houston, Texas Airport System Subordinate Lien Revenue Refunding Bonds, Series 2001A (AMT).

"2002 Bonds" shall collectively mean the City of Houston, Texas, Airport System Subordinate Lien Revenue Bonds Series 2002A (AMT), the Series 2002B (Non-AMT), the Series 2002C (AMT) (Auction Rate Securities), the Series 2002D-1 (AMT) (Auction Rate Securities), and the Series 2002D-2 (AMT) (Auction Rate Securities).

"2005A Bonds" shall mean the City of Houston, Texas Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005A (AMT).

"2007B Bonds" shall mean the City of Houston, Texas Airport System Subordinate Lien Revenue Refunding Bonds, Series 2007B (NON-AMT).

"2009 Bonds" shall mean, whether issued separately or concurrently, one or more series of the City of Houston, Texas Airport System Senior Lien Revenue Bonds, Revenue Refunding Bonds, or Revenue and Refunding Bonds authorized by and issued pursuant to the Ordinance and the Officers Pricing Certificate(s) therein, and as may be further designated and described in the Officers Pricing Certificate(s). As provided in the Ordinance, each series of 2009 Bonds, when issued, may be captioned and designated with such year (e.g. 2009 or 2010) and/or letter suffix as provided in the Officers Pricing Certificate for such series of 2009 Bonds, and may be further designated in the Officers Pricing Certificate and/or in the Form of Bond for such series as "PAB" or "Non-PAB" and/or as "Tax-Exempt" or "Taxable." The term "2009 Bonds" shall refer collectively to all series of bonds issued pursuant to the Ordinance, notwithstanding the year of issuance or captioned name or designation of any such series.

"2009A Bonds" means the City of Houston, Texas Airport System Senior Lien Revenue and Refunding Bonds, Series 2009A.

"Act" shall mean, collectively, Chapters 1201, 1207, 1371, and 1503, Texas Government Code, as amended.

"Additional Houston Airport System Obligations," for purposes of this Appendix, shall mean Additional Senior Lien Obligations and Additional Subordinate Lien Bonds.

"Additional Senior Lien Bonds" shall mean the additional senior lien revenue bonds and obligations permitted to be issued by the City pursuant to the Ordinance.

"Additional Senior Lien Notes" shall mean the additional senior lien revenue notes permitted to be issued by the City pursuant to the Ordinance.

"Additional Senior Lien Obligations" shall mean Additional Senior Lien Bonds and/or Additional Senior Lien Notes.

"Additional Subordinate Lien Bonds" shall mean the additional subordinate lien revenue bonds, notes and obligations permitted to be issued by the City pursuant to the Ordinance.

"Airport Management Consultant" shall mean a nationally recognized independent firm, person or corporation having a widely known and favorable reputation for special skill, knowledge and experience in methods of development, operation, financing and management of airports of approximately the same size as the properties constituting the Houston Airport System.

"Amendment Effective Date" shall have the meaning provided in the Ordinance and described in this Appendix under "Proposed Amendments to Outstanding Ordinances".

"Authorized Representative" shall mean, the person from time to time holding the office of the City Controller; or the deputy controller, or any officer or manager in the Debt Section of the Office of the City Controller designated in writing by the City Controller to serve in such capacity, with a copy of such written designation provided to Paying Agent/Registrar.

"Aviation Director" shall mean the Director of the Houston Airport System (a department of the City which operates the Airport System), or his successor or person acting in such capacity.

"City" shall mean the City of Houston, Texas, and, where appropriate, the City Council thereof, or any successor thereto as the owner and operator of the Houston Airport System.

"Completion Bonds" shall mean each series of Additional Senior Lien Obligations, or Additional Subordinate Lien Bonds issued to pay the cost of completing any project for which Senior Lien Obligations, or Subordinate Lien Bonds, respectively, have previously been issued.

"Comptroller" shall mean the Comptroller of Public Accounts of the State of Texas.

"Credit Agreement" shall mean any agreement between the City and a third party financial institution pursuant to which such third party financial institution issues a letter of credit, municipal bond insurance policy, line of credit, standby bond purchase agreement, surety policy, surety bond or other guarantee for the purpose of enhancing the creditworthiness or liquidity of any of the City's obligations pursuant to any Houston Airport System Bonds or Qualified Hedge Agreements and in consideration for which the City may agree to pay, but solely from Net Revenues as provided in the Ordinance, (i) periodic payments for the availability of such Credit Agreement and/or (ii) reimbursements or repayments of any amounts advanced under such Credit Agreement, together with interest and other stipulated costs and charges related to such amounts advanced. Obligations of the City pursuant to a Credit Agreement shall be deemed to be, and shall be included within, the Debt Service Requirements for the series of Houston Airport System Bonds to which the Credit Agreement relates. Further, obligations of the City to make payments under a Credit Agreement as reimbursements or repayments of amounts paid or advanced under such Credit Agreement for interest on or principal of any Houston Airport System Bonds (including interest and other stipulated costs and charges related to such amounts advanced) shall be deemed to be payments of interest on or principal of such Houston Airport System Bonds. Each Credit Agreement shall be deemed to be a part of the Houston Airport System Bonds to which it relates for the purpose of securing its payment or repayment by the pledge of Net Revenues as provided in Articles V, VI, and VII of the Ordinance. However, issuers of Credit Agreements shall not be treated as Owners of Houston Airport System Bonds for purposes of any voting rights to approve amendments or to direct the exercise of any remedies under the Ordinance.

"Debt Service Requirements" shall mean, as of any date of calculation, an amount equal to the sum of the following for any period and with respect to all or any portion of the Houston Airport System Bonds:

A. Current interest scheduled to accrue during such period on such Houston Airport System Bonds, except to the extent that provision for the payment of such interest has been made by (i) appropriating for such purpose amounts sufficient to provide for the full and timely payment of such interest either from proceeds of Houston Airport System Bonds, from interest earned or to be earned thereon, from other Houston Airport System funds other than Net Revenues, or from any combination of such sources and (ii) depositing such amounts (except in the case of interest to be earned, which shall be deposited as received) into a fund or account for capitalized interest, the proceeds of which are required to be transferred as needed into the Senior Lien Bond Interest and Sinking Fund or the Subordinate Lien Bond Interest and Sinking Fund, as the case may be, plus

B. That portion of the principal amount of, or compounded interest on, such Houston Airport System Bonds scheduled to be payable on or before the next July 1 (either at maturity or by reason of scheduled mandatory redemptions, but after taking into account all prior optional and mandatory Bond redemptions) which would accrue if such principal amount were deemed to accrue daily in equal amounts from the next preceding July 1;

[*]<u>less</u> C. <u>In addition to the amounts credited under paragraph A above, any portion or all of the interest on or principal of Houston Airport System Bonds which has been irrevocably committed to be paid from other Airport System funds other than Net Revenues, including, but not limited to, PFC Revenues or Excluded Fee and Charge Revenues</u>.

provided, however, that the following rules shall apply to the computation of Debt Service Requirements on certain series of Short-Term/Demand Obligations and on any series of Houston Airport System Bonds bearing interest at a floating or variable rate:

> (i) For any series of Short-Term/Demand Obligations issued pursuant to a commercial paper program or similar program, Debt Service Requirements shall be computed on the assumption that the principal amount shall continuously be refinanced under such program and remain outstanding until the first Fiscal Year for which interest on such Short-Term/Demand Obligations has not been capitalized or otherwise funded or provided for, at which time (which shall not be beyond the term of such program) it shall be assumed that the outstanding principal amount thereof shall be refinanced with a series of Senior Lien Bonds or Subordinate Lien Bonds which shall be assumed to be amortized over a period not to exceed 25 years and shall be assumed to be amortized in such a manner that the maximum Debt Service Requirements in any twelve month period shall not exceed 110% of the minimum Debt Service Requirements for any other 12-month period, and shall be assumed to bear interest at a fixed interest rate estimated by the City's financial advisor or underwriter to be the interest rate such series of Houston Airport System Bonds would bear if issued on such terms on the date of such estimate.

[*] Effective from and after the Amendment Effective Date.

(ii) For any series of Houston Airport System Bonds bearing interest at a variable or adjustable rate or a rate to be negotiated or revised from time to time such that the actual future rate of interest thereon cannot be ascertained at the time of calculation, it shall be assumed that such Houston Airport System Bonds will bear interest at the higher of (1) a long-term interest rate estimated by the City's financial advisor or underwriter to be the average rate of interest such Houston Airport System Bonds would bear if issued as long-term bonds bearing interest at fixed interest rates to be amortized over 30 years with level debt service or (2) a short-term interest rate calculated as follows: (a) for any series of Bonds then Outstanding, at the greater of (i) the average interest rate derived from the variable or adjustable interest rate formula or computation applicable to, or average interest rate borne by, such series of Bonds during a 12-month period ending within 30 days prior to the date of computation or (ii) the actual interest rate derived from such variable or adjustable interest rate formula or computation, or the actual interest rate payable on such series of Bonds, on the date of such calculation, and (b) for any series of Bonds then proposed to be issued, at an interest rate estimated by the City's financial advisor or underwriter to be the average rate of interest such series of Bonds will bear during the period or periods for which the Debt Service Requirements are being calculated.

Debt Service Requirements shall be calculated on the assumption that no Bonds Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of scheduled principal maturities or scheduled mandatory redemptions of such Bonds, except as provided above for Short-Term/Demand Obligations.

Credit Agreements shall cause Debt Service Requirements to be increased only to the extent of scheduled payments and charges for the availability of the Credit Agreement without regard to any repayment or reimbursement obligations or interest thereon or other stipulated costs or charges related thereto.

Qualified Hedge Agreements shall cause Debt Service Requirements to be (i) increased by the amount of any scheduled payments and charges for the availability of the Qualified Hedge Agreement, (ii) decreased by the amount of any scheduled interest payments on the related Bonds which the City's financial advisor certifies to be substantially hedged pursuant to the Qualified Hedge Agreement, and (iii) increased by the gross payments of the City under the Qualified Hedge Agreement (without regard to netting); provided, however, that any variable or adjustable payment obligation of the City under the Qualified Hedge Agreement shall be deemed to be a fixed rate obligation based upon the provisions contained in paragraph (ii) above of the definition of Debt Service Requirements, as certified by the City's financial advisor.

"DTC" means The Depository Trust Company, New York, New York, or any successor thereto.

"Excluded Fee and Charge Revenues" shall mean all income and revenues (i) derived from fees and charges imposed by City ordinance adopted after July 1, 2007 and declared in such ordinance to constitute fees and charges of the kind that will generate Excluded Fee and Charge Revenues and (ii) related to periods after the Amendment Effective Date. Such Excluded Fee and Charge Revenues may be authorized pursuant to any federal, state or local authority and may include, but not be limited to, any charge or fee relating to providing, enhancing or maintaining security for the Airport System or any fee or charge imposed on any commercial cargo activity of the Airport System.

"Federal Payments" shall mean those funds received by the Houston Airport System from the federal government or any agency thereof as payments for the use of any facilities or services of the Houston Airport System.

"Fiscal Year" shall mean the City's fiscal year as from time to time designated by the City, which is currently July 1 to June 30.

"Funds" shall mean any fund or account established or maintained under the Ordinance.

"Gross Revenues" shall mean all income and revenues derived directly or indirectly by the City from the operation and use of and otherwise pertaining to the Houston Airport System, or any part thereof, whether resulting from extensions, enlargements, repairs, betterments or other improvements to the Houston Airport System, or otherwise, and includes, except to the extent hereinafter expressly excluded, all revenues received by the City from the Houston Airport System, including, without limitation, all rentals, rates, fees and other charges for the use of the Houston Airport System, or for any service rendered by the City in the operation thereof, interest and other income realized from the investment or deposit of amounts credited to any fund required to be maintained pursuant to the Ordinance or any other ordinance authorizing the issuance of Bonds. Gross Revenues expressly exclude:

(i) proceeds of any Houston Airport System Bonds;

(ii) interest or other investment income derived from Bond proceeds deposited to the credit of any construction fund, or applied to fund capitalized interest, or interest or investment income required to be retained in the Senior Lien Bond Reserve Fund, the Subordinate Lien Bond Reserve Fund, the Operation and Maintenance Reserve Fund or any escrow fund in order to accumulate therein any amount or balance required to be accumulated or maintained therein pursuant to any ordinance authorizing any series of Bonds;

(iii) any monies received as grants, appropriations, or gifts, the use of which is limited by the grantor or donor to the construction or acquisition of Houston Airport System facilities, except to the extent any such monies shall be received as payments for the use of the Houston Airport System facilities;

(iv) any revenues derived from any Special Facilities which are pledged to the payment of Special Facilities Bonds;

(v) insurance proceeds other than loss of use or business interruption insurance proceeds;

(vi) the proceeds of any passenger facility charge or other per-passenger charge as may be hereafter authorized under federal law, including but not limited to, those revenues defined as PFC Revenues;

(vii) sales and other taxes collected by the Houston Airport System on behalf of the State of Texas and any other taxing entities;

(viii) Federal Payments received by the Houston Airport System unless the City first receives an opinion from nationally recognized bond counsel to the effect that such payments, if included in Gross Revenues, would not cause the interest on the Bonds to be includable within the gross income of the Owners thereof for federal income tax purposes;

(ix) the net proceeds received by the City from the disposition of any Houston Airport System property;

(x)[*] any Excluded Fee and Charge Revenues; and

(xi)[*] any Taxable Bond Credit Revenues.

"Houston Airport System" for purposes of this Appendix, shall have the same meaning assigned to the term "Airport System" in the Ordinance, and shall mean all airport, heliport and aviation facilities, or any interest therein, now or from time to time hereafter owned, operated or controlled in whole or in part by the City, together with all properties, facilities and services thereof, and all additions, extensions, replacements and improvements thereto, and all services provided or to be provided by the City in connection therewith, but expressly excluding Special Facilities. The Houston Airport System currently includes the present airports of the City, known as "George Bush Intercontinental Airport/Houston," "William P. Hobby Airport," and "Ellington Field."

"Houston Airport System Bonds" for purposes of this Appendix, shall have the same meaning assigned to the term "Bonds" in the Ordinance, and shall mean any or all Outstanding or additional series of Senior Lien Bonds, Senior Lien Notes, and/or the Subordinate Lien Bonds, as the context may indicate, including Completion Bonds and Short Term/Demand Obligations.

"Inferior Lien Bonds" shall mean each series of bonds, notes or other obligations permitted to be issued or incurred by the City pursuant to the Ordinance as Inferior Lien Bonds secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the lien on Net Revenues securing payment of the Senior Lien Obligations and Subordinate Lien Bonds. Inferior Lien Bonds include but are not limited to the Series C Commercial Paper Obligations.

"Net Revenues" shall mean Gross Revenues remaining after the deduction of the Operation and Maintenance Expenses of the Houston Airport System.

[*] Effective from and after the Amendment Effective Date.

"Officers Pricing Certificate(s)" shall mean the certificate(s) or any other supplemental certificate(s) executed by the Mayor, the City's Director of Finance, the City Controller or the Deputy City Controller with respect to pricings of the 2009 Bonds pursuant to the Ordinance.

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

(i) any allowance for depreciation;

(ii) costs of capital improvements;

(iii) reserves for major capital improvements, Houston Airport System operations, maintenance or repair;

(iv) any allowance for redemption of, or payment of interest or premium on, Bonds;

(v) any liabilities incurred in acquiring or improving properties of the Houston Airport System;

(vi) expenses of lessees under Special Facilities Leases and operation and maintenance expenses pertaining to Special Facilities to the extent they are required to be paid by such lessees pursuant to the terms of the Special Facilities Leases;

(vii) any charges or obligations incurred in connection with any lawful Houston Airport System purpose, including the lease, acquisition, operation or maintenance of any facility or property benefiting the Houston Airport System, provided that the payment of such charges or obligations is expressly agreed by the payee to be payable solely from proceeds of the Airports Improvement Fund;

(viii) liabilities based upon the City's negligence or other grounds not based on contract; and

(ix) so long as Federal Payments are excluded from Gross Revenues, an amount of expenses that would otherwise constitute Operation and Maintenance Expenses for such period equal to the Federal Payments for such period.

Operation and Maintenance Expenses shall only include those current expenses due or payable within the next 30 days.

"Ordinance" shall mean the Ordinance adopted by the City Council of the City authorizing the issuance of the 2009 Bonds and all amendments and supplements thereto.

"Outstanding" when used with reference to the Senior Lien Bonds, Senior Lien Notes or Subordinate Lien Bonds, as the case may be, means, as of a particular date, all such bonds or notes theretofore and thereupon delivered except: (a) any such bond or note cancelled by or on behalf of the City at or before said date; (b) any such bond or note defeased pursuant to the defeasance provisions of the ordinance authorizing its issuance, or otherwise defeased as permitted by applicable law; and (c) any such bond or notes in lieu of or in substitution for which another bond shall have been delivered pursuant to the ordinance authorizing the issuance of such bond or note.

"Owner" or **"Registered Owner"**, when used with respect to any Senior Lien Bond, Senior Lien Note or Subordinate Lien Bond shall mean the person or entity in whose name such bond or note is registered in the Register. Any reference to a particular percentage or proportion of the Owners shall mean the Owners at a particular time of the specified percentage or proportion in aggregate principal amount of all Senior Lien Bonds, Senior Lien Notes or Subordinate Lien Bonds then Outstanding under the Ordinance.

"Participant" means, with respect to DTC or another Securities Depository, a member of or participant in DTC or such other Securities Depository, respectively.

"Paying Agent/Registrar" shall mean, for the 2009 Bonds, initially Wells Fargo Bank, N.A., and its successors in that capacity.

"PFC Revenues" shall mean, during any Fiscal Year, proceeds of any charges and fees collected by the Houston Airport System, including passenger facility charges collected by the City pursuant to the authority granted by the Aviation Safety and Capacity Expansion Act of 1990 and 14 CFR Part 158, as amended from time to time, in respect to any component of the Airport System, and interest earnings thereon.

"Qualified Hedge Agreement" shall mean any agreement between the City and a qualifying financial institution (as described in the following sentence) for the purpose of providing an interest rate swap, exchange, cap, collar, floor, forward or other hedging mechanism, arrangement or security, however denominated, expressly identified pursuant to its terms as being entered into in connection with and in order to hedge interest rate fluctuations on any portion of any Houston Airport System Bonds and in consideration for which the City may agree to pay, but solely from Net Revenues as herein provided, (i) periodic payments for the availability of such Qualified Hedge Agreement and/or (ii) net amounts as a result of fluctuation in hedged interest rates or in the value of any index of payment and/or (iii) termination charges. A Qualified Hedge Agreement may only be entered into with a financial institution which has long term credit ratings or the obligations of which are unconditionally guaranteed by a financial institution with long term credit ratings in one of the two highest generic rating categories by each nationally recognized rating service then rating the Bonds. Obligations of the City pursuant to a Qualified Hedge Agreement shall be included within the definition of Debt Service Requirements for the series of Bonds to which the Qualified Hedge Agreement relates. Further, obligations of the City to make payments under a Qualified Hedge Agreement derived from or resulting from a fluctuation in hedged interest rates or in the value of any index of payment shall be deemed to be payments of interest on the Bonds so hedged. Each Qualified Hedge Agreement shall be deemed to be a part of the Bonds of the series to which it relates for the purpose of securing its payment by the pledge of Net Revenues as provided in Articles V, VI, and VII of the Ordinance. However, issuers of and counterparties to Qualified Hedge Agreements shall not be treated as Owners of Bonds for purposes of any voting rights to approve amendments or direct the exercise of any remedies under the Ordinance.

"Refunded Notes" shall mean all or a portion of the outstanding Series A Commercial Paper Notes and/or Series B Commercial Paper Notes designated in the Officers Pricing Certificate to be refunded from proceeds of the Series 2009 Bonds.

"Register" shall mean the books of registration kept by the Paying Agent/Registrar in which are maintained the name and address of, and the principal amounts registered to, each Owner.

"Regulations" shall have the meaning assigned to that term in Section 11.07 of the Ordinance.

"Renewal and Replacement Fund Requirement" shall mean the amount required to be maintained in the Renewal and Replacement Fund pursuant to the Ordinance, or any greater amount required by any ordinance authorizing any series of Additional Senior Lien Bonds, Additional Senior Lien Notes or Additional Subordinate Lien Bonds.

"Reserve Fund Participants" shall mean: (i) with respect to Senior Lien Bonds, any series of Senior Lien Bonds designated by the City as "Reserve Fund Participants" and secured by a lien on the Senior Lien Bond Reserve Account of the Senior Lien Bond Reserve Fund, and (ii) with respect to Senior Lien Notes, the Series A Commercial Paper Notes, the Series B Commercial Paper Notes, and any other series of Senior Lien Notes secured by a lien on the Senior Lien Note Reserve Account of the Senior Lien Bond Reserve Fund. The 2009A Bonds have been designated as non-Reserve Fund Participants in the related Officers Pricing Certificate, and therefore are *not* Reserve Fund Participants.

"Reserve Fund Requirement" shall mean the amount required to be maintained in the Senior Lien Bond Reserve Fund (and the accounts therein) or the Subordinate Lien Bond Reserve Fund, as the case may be, as further set forth in the applicable ordinance and/or Officers Pricing Certificate authorizing a series of Bonds. For Senior Lien Bonds that are Reserve Fund Participants, such amount shall be computed upon the issuance of each series of Senior Lien Bonds that are Reserve Fund Participants and on each date on which Senior Lien Bonds that are Reserve Fund Participants are paid at maturity or optionally or mandatorily redeemed, to be the greatest amount of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for all Senior Lien Bonds then Outstanding that are Reserve Fund Participants, including any series of Senior Lien Bonds then being issued that are Reserve Fund Participants. For any series of Senior Lien Bonds that are not Reserve Fund Participants (including the 2009A Bonds), such amount shall be computed upon the issuance of such series of Senior Lien Bonds and on each date on which any of such series of Senior Lien Bonds are paid at maturity or optionally or mandatorily redeemed, to be the greatest amount of the Debt Service Requirements scheduled to occur in the then current and each future Fiscal Year for such series of Senior Lien Bonds then Outstanding. Upon the issuance of any series of 2009 Bonds, the Reserve Fund Requirement for the Senior Lien Bonds shall be as set forth in the Officers Pricing Certificate. Notwithstanding the foregoing, the amount of the Reserve Fund Requirement properly allocable to each issue of Bonds, whether or not such issue is a Reserve Fund Participant, shall at no time exceed, the lesser of (a) the maximum annual debt service on such issue of Bonds, (b) one hundred twenty-five percent (125%) of the average annual debt service on such issue of Bonds or (c) ten percent (10%) of the initial principal amount of such issue of Bonds, all within the meaning of Section 1.148-2(f)(2)(ii) of the Regulations.

"Securities Act" means the Securities Act of 1933, as amended, and any successor thereto.

"Senior Lien Bond Interest and Sinking Fund" shall mean the fund so designated which was created and established pursuant to the ordinances authorizing the Senior Lien Obligations and which is maintained pursuant to the Ordinance.

"Senior Lien Bond Reserve Fund" shall mean the fund so designated which was created and established pursuant to the ordinances authorizing the Senior Lien Obligations and which is maintained pursuant to the Ordinance.

"Senior Lien Bond Reserve Fund Surety Policy" shall mean any surety bond, insurance policy or letter of credit as further described in the Ordinance, whether heretofore or hereafter acquired, which, at the time of deposit, is rated as set forth in the Ordinance and is for the purpose of satisfying all or any part of the applicable Reserve Fund Requirement for the any Senior Lien Bonds or Senior Lien Notes.

"Senior Lien Bonds" shall mean the 2009 Bonds and each series of Additional Senior Lien Bonds from time to time hereafter issued.

"Senior Lien Notes" shall mean the Outstanding Series A and B Commercial Paper Obligations and any Additional Senior Lien Notes from time to time hereafter issued.

"**Senior Lien Obligations"** shall mean the Senior Lien Bonds and the Senior Lien Notes.

"Series A and B Commercial Paper Obligations" shall mean the Series A Commercial Paper Notes and the Series B Commercial Paper Notes and credit agreements related thereto.

"Series A Commercial Paper Notes" shall mean the City of Houston, Texas Airport System Senior Lien Commercial Paper Notes, Series A (AMT).

"Series B Commercial Paper Notes" shall mean the City of Houston, Texas Airport System Senior Lien Commercial Paper Notes, Series B (NON-AMT).

"Series C Commercial Paper Obligations" shall mean the City of Houston, Texas Airport System Inferior Lien Commercial Paper Notes, Series C and any credit agreements related thereto.

"Short Term/Demand Obligations" shall mean each series of bonds, notes and other obligations issued in accordance with the Ordinance, (a) the payment of principal of which is either (i) payable on demand by or at the option of the holder at a time sooner than a date on which such principal is deemed to be payable for purposes of computing Debt Service Requirements, or (ii) scheduled to be payable within one year from the date of issuance and is contemplated to be refinanced for a specified period or term through the issuance of additional Short Term/Demand Obligations pursuant to a commercial paper or other similar financing program, and (b) the purchase price, payment or refinancing of which is additionally secured by a letter of credit, line of credit, standby bond purchase agreement, bond insurance, surety bond or other credit or liquidity facility which does not impose upon the City a reimbursement obligation payable over a period shorter than three years.

"Special Facilities" shall mean structures, hangars, aircraft overhaul, maintenance or repair shops, heliports, hotels, storage facilities, garages, in-flight kitchens, training facilities, consolidated rental car facilities, terminal facilities, cargo facilities and any and all other facilities and appurtenances being a part of or related to the Houston Airport System, the cost of the construction or other acquisition of which is financed with the proceeds of Special Facilities Bonds.

"Special Facilities Bonds" shall mean any bonds heretofore or from time to time hereafter issued by the City pursuant to the Ordinance, including but not limited to, the 1997A Special Facilities Bonds which are to be refunded and defeased upon the issuance of the 2009 Bonds.

"Special Facilities Lease" shall mean any lease or agreement, howsoever denominated, pursuant to which a Special Facilities are leased by the City to the lessee in consideration for which the lessee agrees to pay (i) all debt service on the Special Facilities Bonds issued to finance the Special Facilities (which payments are pledged to secure the Special Facilities Bonds) and (ii) the operation and maintenance expenses of the Special Facilities.

"Subordinate Lien Bond Interest and Sinking Fund" shall mean the fund so designated which is required to be maintained pursuant to the Ordinance.

"Subordinate Lien Bond Reserve Fund Surety Policy" shall mean any surety bonds, insurance policies, letters of credit or other instruments as provided in any ordinance authorizing the issuance of any Subordinate Lien Bonds, whether heretofore or hereafter acquired for the purpose of satisfying all or any part of the Reserve Fund Requirement for the Subordinate Lien Bonds.

"Subordinate Lien Bond Reserve Fund" shall mean the fund so designated which is required to be maintained pursuant to the Ordinance.

"Subordinate Lien Bonds" shall mean the Outstanding 1997 Bonds, 1998 Bonds, 2000 Bonds, 2001 Bonds, 2002 Bonds, 2005A Bonds, and the 2007B Bonds, and each series of Additional Subordinate Lien Bonds which the City has reserved the right to issue from time to time, payable from and secured by a lien on and pledge of Net Revenues junior and subordinate to the lien and pledge securing the Senior Lien Obligations.

APPENDIX D

FORM OF OPINION OF CO-BOND COUNSEL

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1001 FANNIN STREET
HOUSTON, TEXAS 77002-6760

BATES & COLEMAN, P.C.
1402 ALABAMA STREET
HOUSTON, TEXAS 77004-3910

[CLOSING DATE]

WE HAVE ACTED as co-bond counsel for the CITY OF HOUSTON, TEXAS (the "City") in connection with the issuance of the CITY OF HOUSTON, TEXAS AIRPORT SYSTEM SENIOR LIEN REVENUE AND REFUNDING BONDS, SERIES 2009A in the original aggregate principal amount of $449,660,000 (the "Bonds").

The Bonds mature, bear interest and may be transferred and exchanged as set forth in the Bonds, City Ordinance No. 2009-600 adopted on June 24, 2009 (the "Ordinance") and the officers pricing certificate dated July 30, 2009 (the "Officers Pricing Certificate") authorizing their issuance. Capitalized terms used herein but not otherwise defined shall have the meaning assigned to them in the Ordinance.

WE HAVE ACTED as co-bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of certified proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the City, including the Airport System, or the disclosure thereof in connection with the offer and sale of the Bonds. Our role in connection with the City's Official Statement prepared for use in connection with the offer and sale of the Bonds has been limited as described therein.

IN OUR CAPACITY as co-bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the authorization and issuance of the Bonds and the commercial paper notes being refunded with a portion of the proceeds of the Bonds (the "Refunded Notes") on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the City Council of the City; certificates of the issuing and paying agent for the Refunded Notes verifying the sufficiency of the deposits made for the defeasance of the Refunded Notes; customary certificates of officials, agents and representatives of the City, and certain other persons; and other certified showings relating to the authorization and issuance of the Bonds and firm banking and financial arrangements for the discharge and final payment of the Refunded Notes. We have also examined a specimen of the form of registered bond of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

1. The transcript of certified proceedings referenced above evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and the laws of the State of Texas presently effective and that therefore the Bonds constitute legal, valid and binding special obligations of the City;

2. The Bonds, together with all Outstanding Senior Lien Notes and any Additional Senior Lien Bonds and Additional Senior Lien Notes hereafter issued, are payable from and equally and ratably secured by a lien on the Net Revenues of the Airport System (which lien is senior to the lien on Net Revenues securing any Outstanding Subordinate Lien Bonds or Inferior Lien Bonds and any Additional Subordinate Lien Bonds or Inferior Lien Bonds hereafter issued) and the Senior Lien Bond Interest and Sinking Fund, as provided

in the Ordinance. The Bonds are also secured by a lien on the account of the Senior Lien Bond Reserve Fund created for the Bonds pursuant to the Ordinance and the Officers Pricing Certificate; and

3. Under the terms of the Ordinance and certain certificates and letters of instruction delivered thereunder, firm banking and financial arrangements have been made for the discharge and final payment of the Refunded Notes, and therefore the Refunded Notes are deemed to be fully paid and no longer outstanding except for the purpose of being paid from funds provided for such purpose on deposit with the issuing and paying agent for the Refunded Notes.

THE RIGHTS OF THE OWNERS of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions, and may be limited by general principles of equity which permit the exercise of judicial discretion. The Bonds are secured solely by a lien on and pledge of Net Revenues of the Airport System as described above and certain funds as provided in the Ordinance and do not constitute an indebtedness or general obligation of the City. Owners of the Bonds shall never have the right to demand payment of principal or interest out of any funds raised or to be raised by taxation.

THE CITY HAS RESERVED THE RIGHT TO ISSUE ADDITIONAL SENIOR LIEN BONDS, SENIOR LIEN NOTES, SUBORDINATE LIEN BONDS AND INFERIOR LIEN BONDS, subject to the restrictions contained in the Ordinance, secured by liens on the Net Revenues that are on a parity with or junior and inferior to, respectively, the lien on Net Revenues securing the Bonds.

IT IS OUR FURTHER OPINION THAT:

1. Interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, except as provided in section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"), for any Bond for any period during which such Bond is held by a "substantial user" or a "related person" thereto, as such terms are defined in the Code and the regulations adopted pursuant thereto; and

2. The Bonds are "private activity bonds" within the meaning of the Code, the interest on which is not, pursuant to the American Recovery and Reinvestment Act of 2009, (i) a specific preference item subject to the alternative minimum tax on individuals and corporations or (ii) included in a corporation's adjusted current earnings for purposes of the alternative minimum tax.

In providing such opinions, we have relied on representations of the City, the City's co-financial advisors and the Underwriters with respect to matters solely within the knowledge of the City, the City's co-financial advisors and the Underwriters, respectively, which we have not independently verified, and we have assumed continuing compliance with the covenants of the City pertaining to those sections of the Code that affect the exclusion from gross income of the interest on the Bonds for federal income tax purposes. If such representations are determined to be inaccurate or incomplete, or if the City fails to comply with the foregoing described covenants, interest on the Bonds could become includable in gross income from the date of their original delivery, regardless of the date on which the event causing such includability occurs.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt or accrual of interest on or disposition of the Bonds.

Owners of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the new "branch profits tax" on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Bonds).

The opinions set forth above are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given regarding whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures, the Service is likely to treat the City as the taxpayer. We observe that the City has covenanted in the Ordinance not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

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APPENDIX E

SUMMARY OF SCHEDULES RELATED TO CONTINUING DISCLOSURE OF INFORMATION

Schedule 1	Passenger Statistics (including Schedule 1A — Total Enplaned Passengers for the Houston Airport System)
Schedule 2	Airline Market Shares
Schedule 3	Total Aircraft Operations and Aircraft Landed Weight
Schedule 4	Selected Financial Information
Schedule 5	Summary of Certain Fees and Charges
Schedule 6	Houston Airport System Debt Service Requirements Schedule
Schedule 7	Houston Airport System Outstanding Debt
Schedule 8*	Municipal System Pension Plan Assets, Liabilities, and Unfunded Actuarial Accrued Liability

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* The City agrees and is obligated to update Schedule 8 only to the extent that the City receives updated actuarial reports from the board of the Municipal Employees Pension System (the "Pension System"). The City is not empowered to require the board of the Pension System to obtain updated actuarial reports. The Pension System will periodically receive additional actuarial reports with regard to the City's pension plans, to the extent required under State law or requested by the board of the Pension System. Accordingly, an updated Schedule 8 may not be available in every annual continuing disclosure filing.

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APPENDIX F

DEPOSITORY TRUST COMPANY

The information in this APPENDIX F describes the securities clearance procedures of The Depository Trust Company ("DTC") in the United States. The information in this APPENDIX concerning DTC has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy of such information.

The Depository Trust Company

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2009A Bonds. The Series 2009A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Series 2009A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 2009A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2009A Bonds on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2009A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2009A Bonds, except in the event that use of the book-entry system for the Series 2009A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2009A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2009A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2009A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2009A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2009A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2009A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the financing documents. For example, Beneficial Owners of the Series 2009A Bonds may wish to ascertain that the nominee holding the Series 2009A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2009A Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such a maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2009A Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2009A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Series 2009A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from Issuer or Bond Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Trustee, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Bond Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2009A Bonds at any time by giving reasonable notice to the Issuer or the Bond Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2009 Bond certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2009 Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

HOUSTON AIRPORT SYSTEM

CITY OF HOUSTON, TEXAS • AIRPORT SYSTEM SENIOR LIEN REVENUE AND REFUNDING BONDS, SERIES 2009A, $449,660,000

Mixed Sources
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