

ANNUAL REPORT 2017

SOARING ABOVE



The Houston Airport System provides a safe and dynamic air services network that fosters economic vitality and strong global connectivity for a diverse and growing population throughout the greater Houston region. Our three airports – George Bush Intercontinental, William P. Hobby and Ellington – together form one of North America’s largest public airport systems and position Houston as the international passenger and cargo gateway to the south-central United States, as well as a primary gateway to Latin America.

OUR MISSION

To connect the people, businesses, cultures and economies of the world to Houston

OUR VISION

Establish Houston as a five-star global air service gateway where the magic of flight is celebrated

CORE VALUES

RELATIONSHIPS

We honor our commitments and earn trust

INNOVATION

We consider unconventional ways of thinking

SERVICE

We WOW our customers through a “can-do” attitude

EXCELLENCE

We strive for skillful execution without compromise

A photograph of the Houston skyline, featuring several prominent skyscrapers like the JPMorgan Chase Tower and the Texas Tower. The image is overlaid with several diagonal, semi-transparent grey bands that create a sense of movement and depth. The sky is blue with some clouds.

TABLE OF CONTENTS

Welcome from Mayor Sylvester Turner	2
Message from Houston Airports Director Mario Diaz	3
Leadership Team	4
Soaring Above	6
Houston Airports Celebrates Houston	8
Houston Airports Stands for Houston	10
Technology Enhances the Passenger Experience	12
George Bush Intercontinental Airport	16
William P. Hobby Airport	28
Ellington Airport	32
Partnerships	36
Awards and Recognition	40
Funding the Future	46



**The Honorable
Sylvester Turner**
Mayor
City of Houston



DEAR RESIDENTS OF HOUSTON,

It is my pleasure to welcome you to this retrospective of many of the highlights the Houston Airport System enjoyed in 2017 at George Bush Intercontinental Airport, William P. Hobby Airport and Ellington Airport.

The year was forever marked by both memorable celebrations and extreme challenges that affected all Houstonians and many of our visitors. In every case, Houston Airports soared above to play a key role in the City of Houston's economic and cultural success.

We started 2017 by successfully hosting one of the biggest sporting events in the world — the NFL's Super Bowl LI. On the day following the Super Bowl, our airports recorded their busiest day ever, with an estimated 190,000 passengers boarding more than 1,000 flights.

During the second half of the year, we faced one of the toughest challenges in our city's history when Hurricane Harvey hit. Despite unprecedented flooding, all three of our airports rose to the occasion to provide the critical transportation infrastructure necessary for the deployment of military and humanitarian missions across Houston and Southeast Texas.

Throughout the year, Houston Airports maintained its focus on enhancing the passenger experience with the latest technology, efficiency and comfort. Terminal development projects, world-class concession additions, and customer service improvements continued in 2017, reflecting Houston's standing as an exciting international city.

Whatever comes our way in the future, you can be sure that the Houston Airport System stands strong for Houston.

A handwritten signature in black ink, reading "Sylvester Turner". The signature is fluid and cursive, written on a light-colored background.



Mario Diaz
Director of Aviation
Houston Airport System



DEAR STAKEHOLDERS,

Never has the world been smaller. That's a good thing.

Today, thanks to continued technological advances in air travel and mobile connectivity, the four corners of the globe are more accessible than ever before. For Houston, which is blessed with the most diverse population in the United States, connectivity is vitally important for business opportunity, cultural enhancement, and a growing prominence on the global stage.

In 2017, the Houston Airport System commemorated milestones — from Ellington Airport's 100th anniversary to Hobby's passenger processing record — and overcame challenges. Through it all, we remained resilient and flexible, continuing to deliver an exceptional travel experience. That's why the theme for our 2017 Annual Report — "Soaring Above" — is so appropriate.

Our commitment to expand international passenger and cargo air service from both George Bush Intercontinental Airport and William P. Hobby Airport is stronger than ever. And, as Ellington — home of the Houston Spaceport -- progresses in its mission to take that connectivity to a higher level, our pledge to provide both diverse global connections and a world-class passenger experience grows with it.

It is our privilege to bring this report to you, as it is our privilege to play a vital role in our city's grand performance on the global stage, every day.

A handwritten signature in black ink, reading "Mario Diaz".

**FROM LEFT TO RIGHT:**

Lilliana Rambo, General Manager Hobby Airport / **Arturo Machuca**, General Manager Ellington Airport / **Ian Wadsworth**, Chief Commercial Officer / **Steven Andersen**, Executive Program Manager International Terminal Redevelopment Program / **Saba Abashawl**, Chief External Affairs Officer, **Kenneth Gregg**, Interim-Chief Financial Officer / **Tanya Acevedo**, Chief Information Technology Officer / **Mario Diaz**, Director of Aviation / **Robert "Bob" Barker**, Chief Development Officer - Infrastructure / **Harleen Hines-Smith**, Chief Officer Human Capital Management, **Theodore "Ted" Kitchens**, General Manager George Bush Intercontinental Airport / **Jesus Saenz**, Chief Operations Officer.

EXECUTIVE LEADERSHIP TEAM



NEW LEADERS JOIN OUR TEAM



TANYA ACEVEDO

New Houston Airports Chief Technology Officer

As Chief Technology Officer, Tanya Acevedo oversees the strategic planning and operational activities for a variety of technology and information systems and applications at George Bush Intercontinental, William P.

Hobby and Ellington airports.

With almost three decades of experience, Tanya has a proven track record of successfully implementing innovative solutions that increase efficiency and automate processes, resulting in revenue generation and cost savings.

Tanya joins Houston Airports after serving as the Chief Information Officer for Travis County in Austin, Texas. Her work experience includes roles for the County of Orange, California; Toyota Financial Services; Edmunds.com; and Answerthink Consulting.

Tanya received the 2013 IT Woman of the Year from the Austin Innotech 16th Annual IT Executive of the Year Awards, 2016 Public Sector Chief Information Officer of the Year from Public CIO Magazine, and the 2017 Government Technology Top 25 Doers, Dreamers and Drivers Award.



LILIANA RAMBO

Named General Manager of William P. Hobby Airport

Liliana Rambo is responsible for directing the day-to-day management of William P. Hobby Airport (HOU), as well as establishing policies, procedures, guidelines and project schedules.

In this role she develops collaborative relationships with our air carriers, tenants and team members at Hobby to excel at providing passenger-friendly, safe, secure and efficient operations to the traveling public.

Liliana previously served as Director of Parking for HAS. She also served as President of Winpark, a Houston-based parking operating company that provides facilities in Houston, San Francisco and four other U.S. cities. She has held numerous leadership roles including chair of the board of directors for the International Parking Institute.

Liliana holds a Master of Science in management from St. Thomas University and a Bachelor's of Business Administration in Marketing and International Business from Florida International University.

She has served on the Board of Directors of the Florida Parking Association and the Texas Parking Association, which recognized her with its Distinguished Service Award.



SOARING ABOVE



While the Houston Airport System experienced some headwinds in 2017 driven by two major factors — a 2016 decrease in the price per barrel of oil affecting energy industry travel budgets, plus Hurricane Harvey virtually halting all passenger travel at Hobby and Bush for a week — we soared above with record passenger traffic growth at Hobby.

As a result, the overall impact on total travel at Houston Airports represented less than a one percent drop from 2016 to 54.1 million passengers in 2017. The prospects for renewed growth as the Houston economy rebounds signal clear skies ahead for the Houston Airport System. In 2017, we experienced continuation of a trend in the economics of flying as the price per seat decreased. To make up the difference, airlines are considering increased volume with new routes, providing new opportunity for Houston travelers.

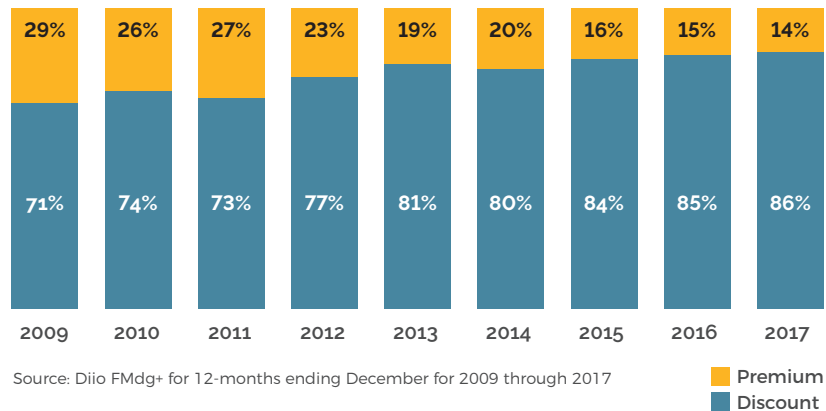
Along with United Airlines, we unveiled our new, 265,000-square-foot Terminal C North concourse at George Bush Intercontinental, a visually splendid space of which Houstonians can be proud. More than 70 new retail spaces and restaurants blending technology and design were opened at Bush and Hobby airports, adding to the array of amenities at the disposal of our travelers.

New routes continued to provide Houston Airports with an important avenue for growth, including our longest route to date when United announced plans to fly to Sydney, Australia. A variety of additional routes, including Havana and Nassau, expanded international getaway options for travelers utilizing Houston airports.

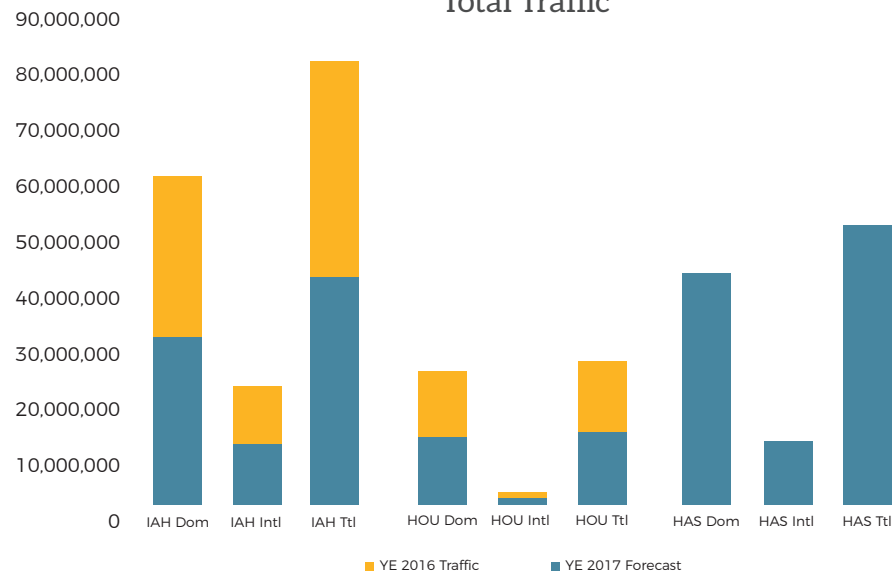
During the year, Houston Airports adopted the latest technology to improve the passenger experience and put convenience “at your fingertips” in our terminals, parking areas and shuttle service. High-tech communications have even been incorporated into our restaurants to help us respond in real-time and anticipate customer needs to ensure a quality experience.



Traffic Shift from Premium to Discount Class of Service



Total Traffic



BY THE NUMBERS

13.4 Million

For the first time, Hobby Airport saw more than 13.4 million passengers in 2017, a 4.1 percent increase over the previous record of 12.9 million passengers in 2016. In the past 10 years, passenger numbers at Hobby have grown more than 52 percent.

4.5 Percent /10 Years

Since 2007, the number of passengers traveling through Houston's two commercial airports has increased 4.5 percent, from more than 51 million in 2007 to more than 54.1 million in 2017.

10.5 Percent

Since the return of international flights in October 2015, Hobby Airport international passenger numbers have grown steadily, up from 801,163 in 2016 to 885,423 in 2017, a 10.5 percent increase.

33.6 Percent

In the past decade, international passengers at Bush Airport have increased 33.6 percent, from 7,722,990 in 2007 to the 10,314,124 in 2017.



HOUSTON AIRPORTS CELEBRATES HOUSTON

SUPER BOWL TRAVELERS TREATED TO HOUSTON HOSPITALITY

Houston's business community delivered the opportunity to host Super Bowl LI, one of the most high-profile annual travel events in the United States, and the Houston Airport System made the most of it.

Our newly renovated shopping and dining concessions were ready to wow travelers, as football fans found world-class shopping and phenomenal restaurants before ever leaving the airport. Collaborating with the Super Bowl host committee, a brigade of Houston Airports employees and volunteers were on hand to provide information and assistance for those traveling to the big game.

Then on Super Bowl departure day, the Houston Airport System experienced its busiest day ever, with an estimated 190,000 travelers boarding more than 1,000 aircraft at the city's three airports. Working closely with local and federal security and law enforcement partners, we accommodated these extremely happy and exhausted passengers with very few delays or issues.

Working closely with local and federal security and law enforcement partners, we accommodated these extremely happy and exhausted passengers with very few delays or issues.



Passenger communication was key, as was helpful visibility: Houston Airports staff and volunteers wore special bright red Super Bowl shirts to make assistance easy to find.

Lauded as one of the most successful events in Super Bowl history, Super Bowl LI brought widespread acclaim to the Houston Airport System and the City of Houston for the professional way we managed such a large-scale event.

“HOUSTON... BUSH INTERCONTINENTAL HERE... THE COMMISSIONER'S TROPHY HAS LANDED”

Houston Astros World Series MVP George Springer, hardware in hand, landed the Major League Baseball Commissioner's Trophy at Bush Intercontinental Airport in Houston after the big championship win. Adorned with golden pennants representing each of the teams in major league baseball, the trophy is presented every year to the league's World Series Champions.

United Airlines flew the returning heroes home where Houston Airports employees were on hand to provide logistical support and welcome the team when they made their triumphant return.



WORLD PETROLEUM CONGRESS: ANOTHER BIG EVENT FOR HOUSTON

On the heels of successfully hosting the Super Bowl, Houston has been selected to host yet another high-profile event — the World Petroleum Congress in 2020.

Houston Airports officials played an important role in the city's selection and will work hard to ensure that the participants' first impression of Houston will be a great one. The impact of this event on the City of Houston is estimated to be at least \$60 million.

The triennial Congress, known as the “Olympics” of the petroleum industry, showcases technological advances in both upstream and downstream operations; the role of natural gas and renewables; energy industry management techniques; and the social, economic and environmental impact of the industry.

HOUSTON AIRPORTS STANDS FOR HOUSTON



PROVIDING CRITICAL SUPPORT DURING HURRICANE HARVEY

On Friday, August 25, a steady rainfall provided the first signs that Hurricane Harvey had made landfall in southeast Texas. The storm retreated to the Gulf of Mexico before slamming directly into Houston, leaving in its wake more than 50 inches of rain and some of the worst flooding the nation had ever seen. It would become the second-most costly storm in U.S. history.



For a few hours, runways at Hobby and Ellington were inundated with water. But soon, all three of Houston's airports were providing the critical infrastructure needed to deploy military and humanitarian missions across Houston and southeast Texas.

In the middle of the storm, Ellington Airport became the base of operations for the U.S. Coast Guard, which performed more than 11,000 high-water rescue missions in our area.

The U.S. Air Force and the Texas Air National Guard conducted flights for C-5A, C130 and C-17 aircraft, providing provisions for people in the flooded area and evacuating patients needing life-sustaining health care.

Ellington also facilitated Air Force One operations as President Trump surveyed the region, supporting the effort to bring federal recovery assistance to Houston.

HELPING AIRPORT STAFF GET BACK ON THEIR FEET

No airport can run at its optimal best if its employees are wondering where each will lay their head. Hurricane Harvey's devastation impacted thousands of Houstonians, including our own Houston Airport System family. Many lost their cars, homes, and, in some cases, everything they owned.

Houston Airport Interfaith Chapels, the non-denominational organization with a presence at both Bush and Hobby Airports, stepped up to help support airport workers who suffered unimaginable losses due to the disaster.



SUPPORTING PUERTO RICO IN TIME OF NEED

On the heels of Houston's own experience with a major natural disaster, City of Houston leaders did not hesitate to reach out with direct assistance to our neighbors in Puerto Rico.

The City of Houston and the Houston Airport System partnered with local aid organizations and United Airlines to provide and ship a portion of the water, food and clothing collected for Hurricane Harvey victims to residents of Puerto Rico following Hurricane Maria.

City Council Members Robert Gallegos, Karla Cisneros, Amanda Edwards and William-Paul Thomas of Mayor Sylvester Turner's staff were among leaders who brought provisions to the island territory.

TECHNOLOGY ENHANCES THE *PASSENGER EXPERIENCE*



WORLD'S FIRST AIRPORT WAYFINDING TECHNOLOGY MAKES DEBUT AT HOUSTON AIRPORTS

Finding your way around Houston's airports is as simple as checking your smartphone now that a new wayfinding technology launched on the Houston Airport System's award-winning fly2houston.com website in June 2017. Working with San Francisco-based LocusLabs, Bush and Hobby became the first airports in the world with browser-based turn-by-turn wayfinding technology that doesn't require downloading a separate app to smart devices.

Passengers can easily access navigation tools that provide "transit path" directions to take users from their originating point to their destination. Named LocusMaps Online, this product gives both graphic and text directions. Each step of the path has turn-by-turn points listed, as well as the estimated walking time. LocusMaps Online offers searchable navigation for points of interest, including gates, ground transportation, ticket kiosks, shops, restaurants, security checkpoints and more.

Bush and Hobby became the first airports in the world with browser-based, turn-by-turn wayfinding technology that doesn't require downloading a separate app to smart devices.

Airport maps are some of the most visited pages on the fly2houston.com website. This new technology helps the Houston Airport System meet its goal of providing the most complete and useful information possible to passengers at both airports.

SMARTRESTROOM SYSTEM MEETS DEMAND FOR CLEANLINESS, COMFORT

In November, Phase One of the Houston Airport System's fully expanded SmartRestroom solution went live at both Bush and Hobby airports, making the airports the first to implement the solution facility-wide in our ongoing effort to elevate the passenger experience. Houston Airports was the first airport system to adopt the Infax SmartRestroom pilot earlier this year.

The first phase of the SmartRestroom system covers 50 restrooms split between Bush Airport and Hobby Airport. Each restroom location includes passenger counting, predictive analytics, real-time alerting, staff location monitoring, iPads on the custodial carts, and customer feedback survey tablets for passengers to use upon exiting the restroom. The airports also utilize business intelligence platforms for customer feedback and real-time restroom analytics.



SHUTTLE ROUTE CHANGES SPEED PASSENGERS FROM PARKING LOT TO TERMINAL

As part of the Houston Airport System's never-ending quest to make a passenger's transition from parking lot to airplane seat as seamless as possible, in 2017 Houston Airports parking experts went to work searching for efficiencies in the parking shuttle system.

With a few tweaks to the shuttle pick-up/drop-off area, the rides between the terminal and the ecopark lots are quicker and occur more often, reducing travel stress for passengers. To chart progress, new kiosks have been installed at the pick-up/drop-off area that let passengers know when the next shuttle will arrive. Shuttle progress can also be monitored on the ecopark pages on the fly2houston.com website.

The new routes cut trip times from 20 minutes to 10 minutes at Terminals A/B and from 25 minutes to 18 minutes at Terminals C/D/E.

BIOMETRIC SCREENING REDUCES TRAVELER WAIT TIME

In July, the Houston Airport System, Customs and Border Protection (CBP), United Airlines and Southwest Airlines unveiled a pilot program of facial recognition technology at both Bush and Hobby airports.

Using flight manifests, CBP builds a flight-specific photo gallery from passenger photographs in travel documents. CBP facial recognition software then compares the photo gallery of the passengers to a live photo to ensure the traveler is the true bearer of required documents. For travelers, this means much faster processing through the federal inspection system.

Legislative mandates now direct the Department of Homeland Security to record the arrival and departure of non-U.S. citizens by collecting biometric data.





TSA CHECKPOINT TIME-TRACKING KEEPS PASSENGERS INFORMED

The Houston Airport System dramatically expanded its ability to track wait times at security checkpoints in 2017, offering near real-time data on its website and terminal displays for all eight security locations at Bush and Hobby airports.

With the upgrade, fly2houston.com captures information from all terminal facilities and relays data from a much more precise digital system, updating travelers on the average time it will take to clear security before they head to their departure gate. The improved system has sensors in place that identify signals from Bluetooth enabled devices and follow those through security entry and exit points.

The system uses a variety of algorithms to ensure both anonymity and accuracy.



AUTOMATED SECURITY LANES IMPROVE SAFETY AND SEAMLESS TRAVEL

Houston Airports partnered with the Transportation Security Administration (TSA) in 2017 to ease traffic at security checkpoints while simultaneously beefing up security with Automated Security Lanes. The project began at Bush Intercontinental Airport's Terminal D, and a second system is being installed at Bush Airport's Terminal E in spring 2018.

Automated Security Lanes include more personal space for passengers to divest of items that need to be X-rayed, while TSA agents who conduct X-ray screenings are sequestered, so they can review baggage without distraction. The system automatically returns bins to the front of the line, eliminating the need for TSA agents to do so, allowing them to focus on screening passengers and moving lines more efficiently.





*BUSH INTERCONTINENTAL **AIRPORT***





NEW ROUTES

SYDNEY, AUSTRALIA

Houston secured its longest flight to date in 2017, when United announced plans to fly nonstop to Sydney, Australia, from Bush Intercontinental Airport. The new Sydney flight creates a much more convenient route to “The Land

Down Under” for 70 U.S. communities east of the Rockies. Prior to the Houston nonstop, these travelers were forced to fly to Chicago and then to San Francisco before crossing the Pacific.

Houston and Sydney enjoy a strong business and tourism connection. For example, nearly 591 tons of export cargo passed through Bush Airport from Sydney in 2016 alone. The prior year, the 31,000 Australians visiting Houston had an impact of \$38.1 million on our economy.

United operates the new nonstop with a 787-9 Dreamliner, which contains 252 seats and 48 flat-bed seats in its Polaris business class section.



HAVANA, CUBA

In September, United Airlines completed its application to the U.S. Department of Transportation for authorization to provide daily service from Bush Airport to Havana's José Martí International Airport.

United's proposal, subject to government approval, will expand its current service from Saturday-only to daily flights. Launched in December 2016, United's successful Saturday-only service between Bush Airport and Havana reflects the airline's optimism about future growth potential in this market.

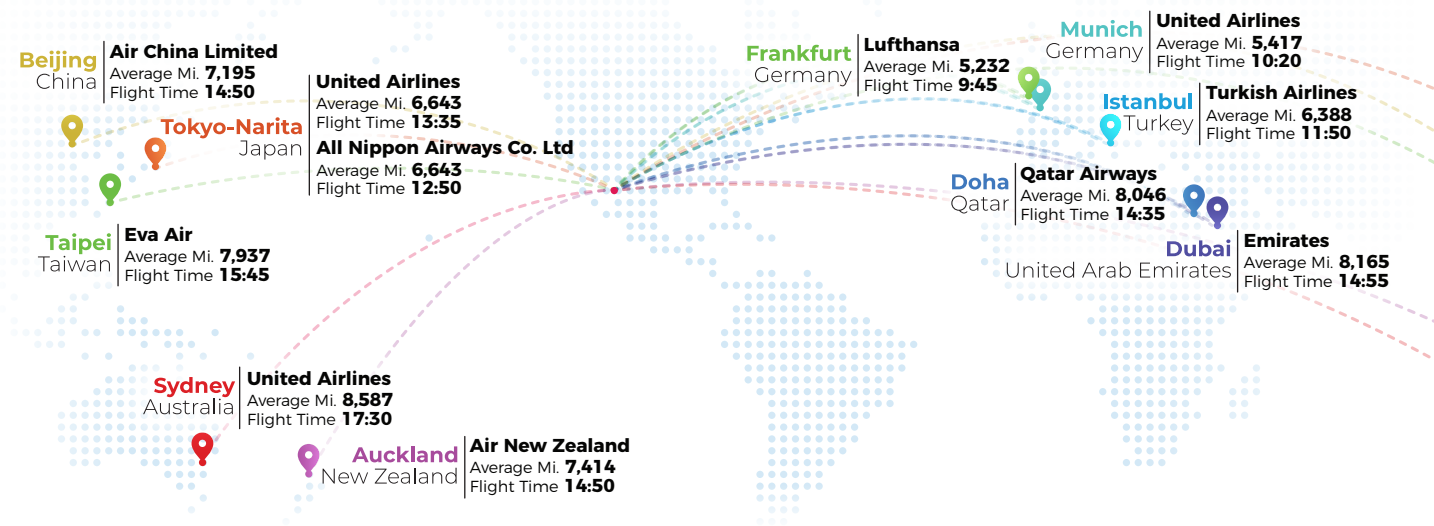
If approved, United will operate daily flights between Bush Airport and Havana with either a Boeing 737-800 or Embraer E175 regional aircraft operated by Mesa Airlines as United Express, providing customers with greater choice and convenience when planning travel to Havana.



NASSAU, BAHAMAS

In November, Bahamasair launched nonstop service from Bush Airport to Lynden Pindling International Airport in Nassau, Bahamas, connecting Houston leisure travelers with one of the top tourism destinations in the Caribbean. The twice-weekly flights depart Bush Airport at 8 a.m. every Monday and Thursday, arriving in Nassau by 11:10 a.m. Return flights leave Nassau at 4 p.m. every Sunday and Wednesday.

Top 10 Long Hauls from Bush Airport



ENHANCED AIR SERVICE

WESTJET TO CALGARY

WestJet doubled its service to Calgary with a new daily flight from Bush Airport beginning in May 2017. With this addition, the Calgary, Alberta-based airline now offers an 8 a.m. flight from Bush Airport to Calgary every day except Sundays, and a 6:45 p.m. flight from Calgary that arrives in Houston at 11:44 p.m.

WestJet started nonstop service to Houston from Calgary International Airport in September 2015. The airline continues this six-day-per-week flight that arrives at Houston at 3:24 p.m. and returns to Calgary at 5 p.m.

SINGAPORE TO MANCHESTER, ENGLAND

The Houston Airport System's history of aviation firsts added a new chapter in January when Singapore Airlines landed its first Airbus A350 at Bush Airport. Singapore Airlines offers five weekly flights from Houston to Manchester, England, each with continuing service to Singapore Changi Airport, where travelers have convenient connection options to more than 50 destinations throughout Asia.

Travelers flying Singapore Airlines to Manchester also can take advantage of new connections to Paris, Milan and Amsterdam via the carrier's partnership with Flybe, providing seamless single ticketing to these three popular European destinations. Serving the route is a twin-jet featuring Singapore Airlines' new three-class cabin (business, premium economy and economy) that can seat up to 366 passengers.

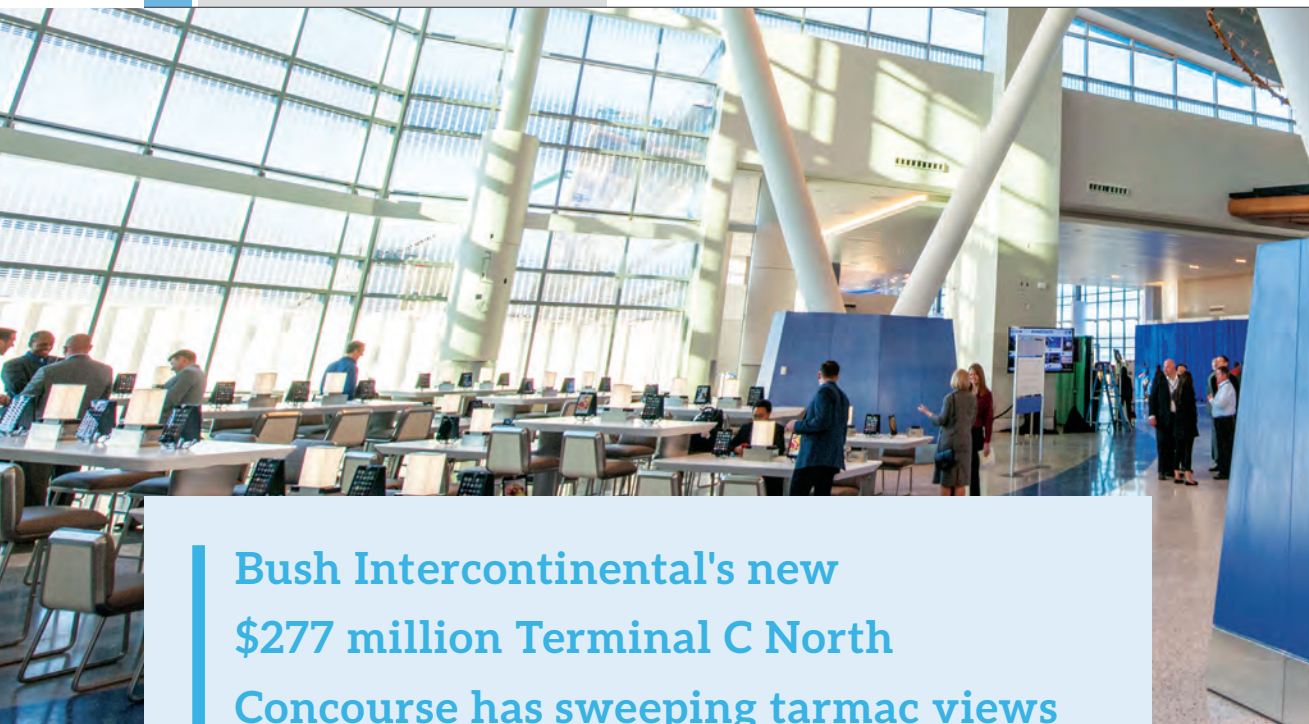
This new route replaces the previous Houston to Singapore via Moscow operation.



SPRIT TO NEWARK AND SEATTLE

Spirit Airlines strengthened its commitment to the Houston market in 2017 with the addition of two new routes from Bush Airport. The ultra-low-cost carrier began daily nonstop, year-round service from Bush Airport to Newark International Airport and a seasonal route to Seattle-Tacoma International Airport in April. With these two new destinations at Bush Airport, Spirit Airlines serves 19 markets out of Houston with 20 daily flights.





Bush Intercontinental's new \$277 million Terminal C North Concourse has sweeping tarmac views



NEW TERMINAL C NORTH CONCOURSE UNVEILED

Bush Intercontinental's new \$277 million Terminal C North Concourse has sweeping tarmac views through floor-to-ceiling concourse windows revealing the energy and intricate operations that support travel by air. The terminal provides a wonderful visual treat, from planes being loaded to the movement of these amazing aircraft as they taxi to and from the runway. All enrich the experience of flying.

Tremendous attention to design and detail makes Terminal C a remarkably luxurious space reflecting the sophistication of the city it serves. New dining opportunities, technology at your fingertips, and extremely comfortable spaces to relax and await your next flight are its hallmarks.

At 265,000 square feet, the new North Concourse at Terminal C is more than 100,000 square feet larger than the space it replaces. Under construction since September 2015 and completed in May 2017, the striking terminal enhances the Houston Airport System's efforts to make Bush Airport a 5-star global air service gateway. The massive makeover produced 43 new and diverse retail shopping options; 30 restaurants recognized for their variety, global flavors and more healthful choices; and nine new coffee shops.

WORLD-CLASS SHOPPING AND DINING OPTIONS

The best of both worlds — world-class shopping options spiced with the local flavor of Houston's renowned dining scene — now awaits customers at Bush Airport with the completion of an ambitious new restaurant and retail program executed by the Houston Airport System, United Airlines, and dining and retail partners.

OTG oversees the culinary and retail operation in the new Terminal C North concourse, which showcases some of Houston's most celebrated dining hotspots and chef-inspired cuisine. Chef Monica Pope is just one of a myriad of local culinary all-stars who have contributed to the dining experience.

The new concourse also provides a mix of global brands, including Chanel, Hugo Boss, iStore Boutique, MAC, The Body Shop, TUMI and more.

United Airlines, in conjunction with master concessionaire OTG, further supported the global/local strategy in the new C-North concourse, which opened in March. C-North features five local chef-driven restaurants, including Ember with a menu by James Beard Award-winning Chef Chris Shepherd, and upscale global retail brands, such as Jo Malone and Swarovski.

Throughout Bush Intercontinental Airport, local concepts have become an integral part of the expanded dining options include The Breakfast Klub, Cadillac Mexican Kitchen & Tequila Bar, Hubcap Grill & Beer Yard, Hugo's Cocina, Café Adobe, Pink's Pizza, and Tony's Wine Cellar & Bistro.

Through the fly2houston website and interactive map, visitors can search dining options by location, menus, hours of operation and restaurant type — including vegan, kid-friendly, gluten-free and vegetarian — at both Bush and Hobby airports.



Pink's Pizza voted #2 in U.S. for Regional Airport Dining



Pappasito's Cantina voted #4 in U.S. for Regional Airport Dining

NEW SHOPPING AND DINING OPENINGS IN 2017

Adrenaline
Bam Bam
The Breakfast Klub
Cadillac Bar and Grill
Café Adobe
CIBO
Chick-Fil-A
Culture Map News
Ember
Hard Rock Cafe
Houston!
Houston Chronicle News
Hugo's Cocina
Jo Malone
Kiehl's
KPRC
Liquid Provisions
Made:TX
Manready Mercantile
Olio
Pala
Pick Up Stix
Potbelly
Q
Rip Curl
Red Mango
Starbucks
Subway
Swarovski
Tanglewood Grill
Trip Advisor
TUMI
Victoria Secret
Vida Taqueria
Wendy's
Which Wich

HARD ROCK CAFE CELEBRATES SMASHING OPENING

In July, representatives from the Houston Airport System, Hard Rock International and SSP America celebrated with a bang or, more accurately, a “smash” at the official grand opening of the new Hard Rock Café restaurant and shop in Bush Airport’s Terminal B. The ceremonial “guitar smash” capped the rollout of a new, expansive and exciting lineup of dining and shopping choices at Bush Airport.

The Terminal B location is only the second Hard Rock Café in a North American airport. As part of the celebration, Hard Rock International and SSP America donated 10 guitars to the United States Veterans Initiative (U.S. VETS) branch in Houston. U.S. VETS is committed to the successful transition of military veterans and their families through the provision of housing, counseling, career development and comprehensive support.



NEW DINING OPTIONS REFLECT LOCAL FLAVORS

In January, diners at Bush Airport were treated to the opening of two restaurants featuring iconic regional cuisines: Hugo’s Cocina in Terminal D and Landry’s Seafood in Terminal C.

Global restaurateur HMSHost celebrated the openings with longtime partner The Houston 8 Team, LLC, Chef Hugo Ortega, representatives from Landry’s Seafood and Houston Airport System officials. Five-time James Beard Award Winner Chef Hugo Ortega founded Hugo’s restaurant in Houston’s Montrose area in 2002, where it quickly became part of the city’s culinary spirit. Now, Hugo’s Cocina provides the same authentic Mexican flavors at the airport.

Landry’s Seafood House has a storied history of serving the freshest Gulf Coast seafood, dating back to 1947 when the first location opened in Lafayette, Louisiana. With the opening of Landry’s Seafood in Terminal C, in partnership with OTC and United Airlines, travelers have the chance to experience the popular menu at the airport.



IAH TERMINAL REDEVELOPMENT PROGRAM (ITRP)

When completed, Bush Intercontinental's international terminal complex will handle Houston operations for more than a dozen foreign flag carriers and United Airlines' international service. All gates will accommodate international airline growth trends, such as the new A380. Bush Airport is the nation's eighth-busiest international gateway. The completion of ITRP will enable IAH to remain competitive with similarly-sized airports and respond to the growth in international traffic.

THE SCOPE OF THE PROJECT INCLUDES:

- New Terminal C North, ramp and apron completed by United Airlines
- New Terminal D facilities
- Terminal roadway improvements
- New airside packages (ramp areas)
- Training center
- Federal Inspection Service (FIS) modifications
- Enabling projects: Program management office building, site utilities, and Terminal D baggage-handling system modifications

Construction on the enabling projects started in 2017, and completion for most of the ITRP program is slated for 2024.



NEW TERMINAL C NORTH



Terminal C North has been providing passengers with a cutting-edge, enjoyable, and efficient travel experience since it opened in March 2017. Giving United Airlines a new, state-of-the-art U.S. hub, the \$277 million, 265,000-square-foot concourse is the enabling phase for Terminal D's redevelopment.

Interior improvements include 11 new and three renovated gates that can successfully accommodate both widebody and narrow-body aircraft. Unique concessions, extraordinary lighting, judicious use of color, and award-winning dining all contribute to a superlative passenger experience. The project employed a phased approach to design and construction to eliminate disruption.

MICKEY LELAND INTERNATIONAL TERMINAL (MLIT)



The planning, programming and design of the new International Terminal Project includes coordination of airside, landside and roadway improvements, and utilities to serve the project area. The project will provide additional international gate capacity within the central terminal area and replace aging infrastructure, provide a single international processor, improve

the passenger experience while ensuring a focus on the maintainability and total cost of ownership of the new assets. In addition, the International Terminal Project will maximize the airside envelope to establish flexible and high gate utilization. During construction, Bush Airport will maintain existing operations and the number of wide body gates.

FEDERAL INSPECTION SERVICES FACILITY



The IAH Terminal Redevelopment Program includes the renovation and expansion of the existing Federal Inspection Services (FIS) building, modernizing and enlarging the facility to accommodate future international passenger growth, including coordination of roadway improvements and utilities to serve the project

boundary. This project also covers demolition and replacement of the existing parking structure.

PROGRAM MANAGEMENT OFFICE BUILDING



In December 2017, the Houston Airport System began work on the Program Management Office building, which ultimately will be a single-story, approximately 50,900-square-foot facility located east of the airport. Scheduled for completion in December 2018, the building will house the integrated program delivery team of Houston

Airports staff, consultants, designers and contractors, all working together to deliver one of the signature projects in the history of the Houston Airport System.

The building is comprised of three distinct areas — the public space of the reception/lobby, the multi-purpose meeting room, and the main bullpen area — designed with an overarching vision of encouraging collaboration and maximizing the use of ample natural light.



*DELIGHTING **PASSENGERS***

CARGO OPERATIONS

George Bush Intercontinental offers two air cargo centers, which specialize in handling industrial machinery, oil and gas equipment, medical equipment, aircraft parts, engines, perishables, computers and auto parts. The airport's 120-acre cargo area has more than 600,000 square feet of on-airport warehouse facilities and parking space for 20 widebody freighters.

The cargo facility provides direct access to foreign trade zones, hydrant fueling and a full-service, refrigerated warehouse space for perishables, in addition to animal and plant inspection facilities and on-site fumigation. This allows shippers to move their time-and-temperature-sensitive freight quickly, thereby preserving its value.

CargoLogicAir LAUNCHES ALL-CARGO SERVICE TO HOUSTON

In November, representatives from Houston Airports and CargoLogicAir celebrated the launch of all-cargo service from George Bush Intercontinental Airport. The only British all-cargo airline now offers service from Houston to Frankfurt, Germany, and Abu Dhabi, United Arab Emirates, with twice-weekly flights using Boeing 747-400 freighters.

2017 IAH

Air Cargo Traffic

METRIC TONS

	DEPLANED	ENPLANED	TOTAL	YOY GROWTH	SHARE
DOMESTIC	115,082.0	88,280.0	203,362.1	2.90%	47.9%
INTERNATIONAL					
Mexico	763.6	744.4	1,508.0	1.1%	0.4%
Europe	59,265.9	52,852.2	112,109.2	3.5%	26.4%
Central/South America	17,445.9	11,107.5	28,553.4	0.7%	6.7%
Asia, Africa, Australia	31,927.7	25,427.7	53,267.3	7.7%	13.5%
Middle East	6,009.8	15,140.4	21,150.2	9.2%	5.0%
TOTAL INTERNATIONAL	115,464.5	105,535.5	221,000	4.7%	52.1%
TOTAL	230,546.5	193,815.6	424,362.1	3.8%	100%

Source: IAH Airlines Traffic Reports | Copyright 2017 Houston Airport System. All rights managed.





2017 IAH TRADE SUMMARY

National Rank including all modes of transportation (airports, seaports and land border crossings)

	BY VALUE	BY WEIGHT
All Gateways	58	112
Airports	15	11

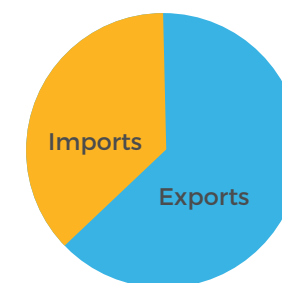
Trade Snapshot

	BY VALUE*	BY WEIGHT**
Total Trade	14B	194k
Exports	8.56B	105k
Imports	5.4B	88.5k

*Measured in Billions

**Measured in Kilotons

Surplus (Deficit) 3.1B



Source: U.S. Department of Commerce
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HOUSTON HOBBY *AIRPORT*

Hobby Airport soared to new heights in 2017, with more than 13 million travelers — 13,435,672 to be exact — passing through the airport. Hobby experienced an increase of 4.1 percent over the record-setting 12.9 million passengers that passed through the airport in 2016. In the past 10 years, passenger numbers at Hobby have grown more than 52 percent from 8.8 million in 2007.

SKYTRAX: HOBBY RATES AMONG NATION'S TOP AIRPORTS FOR PASSENGER SATISFACTION

In 2017, for the second consecutive year, Houston Hobby was rated a four-star airport by Skytrax, a leading aviation industry passenger satisfaction and operations rating firm. Only three airports in the U.S. have achieved this distinction.



Among the reasons Hobby rates so highly are its: design that gets passengers to and from the gates quickly, growing dining and shopping options, cleanliness, and attention to aesthetics, including artwork and programs such as "Harmony in the Air," which brings live musical entertainment to the terminals.

And Houston Hobby isn't done yet. The airport is on a mission to deliver service worthy of that fifth Skytrax star.



William P. Hobby Airport
90th
 Anniversary

The City of Houston purchased the private airfield in 1937 and expanded it to 1,240 acres. One year later, it opened as the city's first commercial airport, complete with its own control tower.

HOBBY HITS 90 STILL GOING STRONG

Houston's first commercial airport celebrated its 90th anniversary in June 2017 and shows no signs of slowing down. Things certainly have changed since Hobby was a 600-acre pasture used as a landing field in the early days of aviation.

The City of Houston purchased the private airfield in 1937 and expanded it to 1,240 acres. One year later, it opened as the city's first commercial airport, complete with its own control tower.

Known then as Howard Hughes Airport and served only by Braniff Airways and Eastern Airlines, the name eventually was changed to Houston Municipal Airport and its wooden structure replaced by a more permanent building. Along with its commercial operations, the facility was used during World War II as a training site for the Women's Flying Training Detachment. By the end of the war, the airport had paved



runways, city-built hangars and a lighting system, and four additional airlines had begun service.

The first international flights started a short time later, prompting a name change to Houston International Airport in 1954. The 1950s saw many additions and improvements in keeping with the airport's international status.



Hobby Becomes a Modern Demand

As flight demand grew, so did the airport. A new terminal was built in the mid-1960s and named in honor of longtime Houston civic leader and Texas Governor William P. Hobby. When Bush Airport opened in 1969, Hobby Airport briefly shifted its focus to general aviation service, but commercial flights returned to the facility in 1971, and the steady expansion resumed.

Today, Hobby Airport boasts a modern terminal complex, with a new Federal Inspection Services facility to accommodate the return of international air service in 2015. The final pieces of Hobby's ambitious \$250 million expansion, which included another successful partnership with Southwest Airlines, produced a \$156 million, 280,000-square-foot terminal. A new \$55 million, one-million-square-foot parking facility — along with improvements to the existing terminal parking garage and expansion of the ecopark lot — showcases the \$100 million invested by the City of Houston and Houston Airports to complement the expansion.

VIVA! MEXICO TRAVEL

In late 2015, Hobby expanded its operation once again to international travel when Southwest Airlines started international service to Mexico, the Caribbean and South America. Those decisions continue to pay dividends. The increased availability of moderately priced airfare helped elevate Mexico passenger numbers by 33 percent over the last five years. Overall, Houston Airports experienced a 7.6 percent increase in international travel for the past five years. While overall international travel for 2017 was down slightly, Mexico helped to buttress the overall figure with a 3 percent increase during the one-year timeframe.



33% OVER 5 YEARS
INCREASE MEXICO TRAVEL

11.2 Million
PASSENGERS IN 5 YEARS



HOBBY RANKS A TOP 10 AIRPORT IN PASSENGER SATISFACTION

After drawing the curtain on a newly constructed terminal and new concessions, Hobby Airport returned to its place among the top “large” airports in the nation for customer satisfaction. Conducted by J.D. Power, the survey showed that Hobby had the most significant improvement. Hobby consistently has ranked among the best airports in the U.S. and now holds the No. 7 slot in passenger satisfaction among “large” airports.

Hobby consistently has ranked among the best airports in the U.S. and now holds the No. 7 slot in passenger satisfaction among “large” airports.

TECH-ENABLED TOUR GUIDE PUTS HOUSTON AT YOUR FINGERTIPS

To help travelers new to Houston, Hobby Airport and Houstonfirst have teamed up to create Houston Interactive. Located at Hobby's baggage claim level, the new kiosk allows visitors to view a map of Houston and locate a variety of amenities, including restaurants, theatres and shopping near their hotels or anywhere they want to explore.

In addition, money-saving excursions to Houston's most popular destinations can be purchased. And all this information can be downloaded to personal computing devices.





ELLINGTON AIRPORT

Ellington Airport celebrated a century of aviation — and the promise of a space-age future — on May 20, 2017. Joining City of Houston Mayor Sylvester Turner and Houston Airports Aviation Director Mario Diaz at the special 100th anniversary event were mayors from neighboring cities; local, state and federal elected officials; and military and NASA leaders.



100

**ELLINGTON
AIRPORT**

*Celebrating 100 Years
1917 - 2017*

Approximately 1,500 aviation enthusiasts and community members from throughout Houston enjoyed food, live music, games and aircraft displays at the family-friendly event. When Ellington was established in 1917, few could envision that the new military aviation training facility would become such a vital part of aviation and enable Houston to take a lead role in the commercial space sector in the 21st century.

Acquired by the City of Houston in 1984, Ellington Airport now supports the operations of the United States military, NASA, and a variety of general aviation tenants. The airport is home to the annual Wings Over Houston Airshow and the place where many of the astronauts from the world-renowned Johnson Space Center receive their ongoing space training.

In June 2015, Ellington Airport started the next chapter in its illustrious history when it was licensed as the nation's 10th commercial Spaceport to provide launch support services for government and commercial space initiatives, such as spacecraft manufacturing and testing, space tourism, and launching telecommunications and GPS satellites. This new role promises continued growth at Ellington and even more aviation milestones to celebrate in the future.

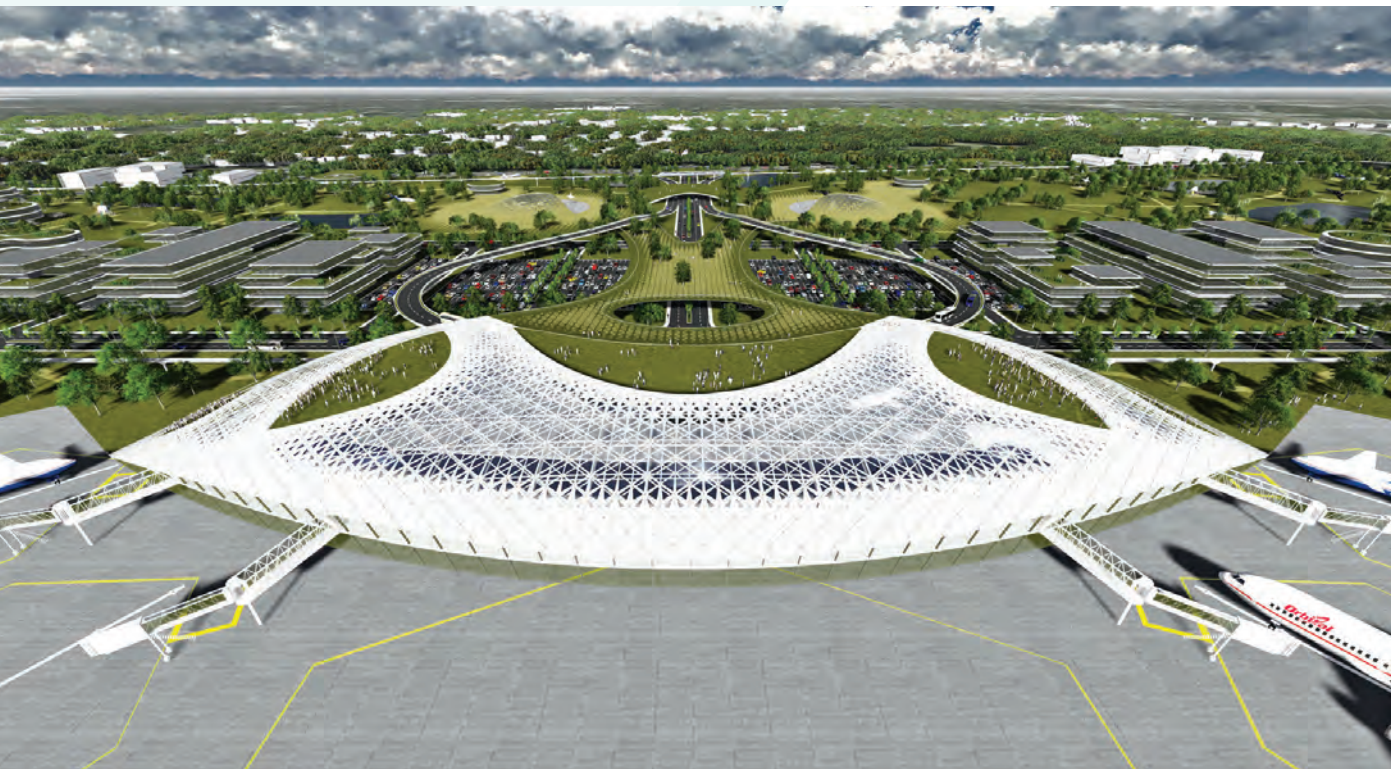


ELLINGTON'S NEW TOWER BUILT FOR THE FUTURE

In 2017, Houston City Council paved the way for Ellington Airport to break ground and make significant progress on a new Control Tower, which will be vital to ensure that Ellington remains a viable base of operation for the Joint Reserve and has the capability to support mission control for future Houston Spaceport operations.

At 143 feet, the new tower is nearly twice as tall as the existing structure. It features improved radio communications with aircraft, plus a new automated weather observation system. Construction of the \$12.4 million project was made possible by a \$3.1 million Defense Economic Adjustment Assistance Grant from the state and \$9.3 million from the Houston Airport System Airport Improvement Fund. The project also is eligible for a \$2 million grant from the Federal Aviation Administration.





GROUNDWORK FOR HOUSTON SPACEPORT GETS STARTED

The future of the Spaceport took another step forward as the Houston Airport System issued requests for proposals to design-build firms for the first phase of the project. This stage encompasses the necessary infrastructure, including roads, waterlines and communications cable, to attract aerospace and aviation development and manufacturing businesses.

The \$18.5 million project, which will require Houston City Council approval, would be supported, in part, by a grant from the U.S. Department of Commerce Economic Development Administration.



SPACE COMMERCE CONFERENCE AND EXPOSITION SPONSOR

The competition to attract partnership firms leading America's space industry is intense. To keep Houston front and center, Ellington Airport sponsored the 2017 SpaceCom Conference and Exposition held for the third year in Houston at the George R. Brown Convention Center.

The conference is designed to address the massive transformation and growth taking place across the aerospace market as more privately-funded companies develop innovative technologies to reach space and utilize its resources. Through the conference, Houston Spaceport officials are collaborating with international partners to ensure that our Spaceport is seen as an internationally respected entity in the race for space.



PARTNERSHIPS

CREATING A "HOUSTON FRIENDLY" SERVICE CULTURE

More than 54 million passengers travel through Houston's airports on a yearly basis. It's our top priority that each of them leaves our facilities with a favorable impression of Houston.

Houston Airports works with our concessionaires and other business partners to create a culture that we call "Houston Friendly." Our goal is to reflect the positive energy associated with travel by air, greeting passengers with a smile and enthusiastic service that are the hallmarks of Houston hospitality.

Behind the scenes, we strive to understand the needs of our business partners with monthly meetings, continuous communication, and reward and recognition for those employees who exemplify what it means to be "Houston Friendly."

In the competitive business of air travel, passenger expectations are ever-increasing. We are committed to work as a team with our business partners to ensure we understand and meet those expectations.



VOLUNTEER AMBASSADORS DEMONSTRATE WHAT BEING A TEXAN MEANS

The word, "Texas," means "friend." No one embodies what being a Texan is all about more than our Houston Airports Volunteer Ambassadors, who give their own time to help airport travelers visiting Houston for fun, to start a new career, on a mission of mercy, or for any reason.

Our volunteers show these travelers that they care with a smile and information to help them take the next step with confidence. You might say that our volunteers free people to truly enjoy their travel.

The Airport Volunteer Ambassadors program continues to grow, with more than 140 volunteers on board at both Bush Intercontinental and Hobby Airports.

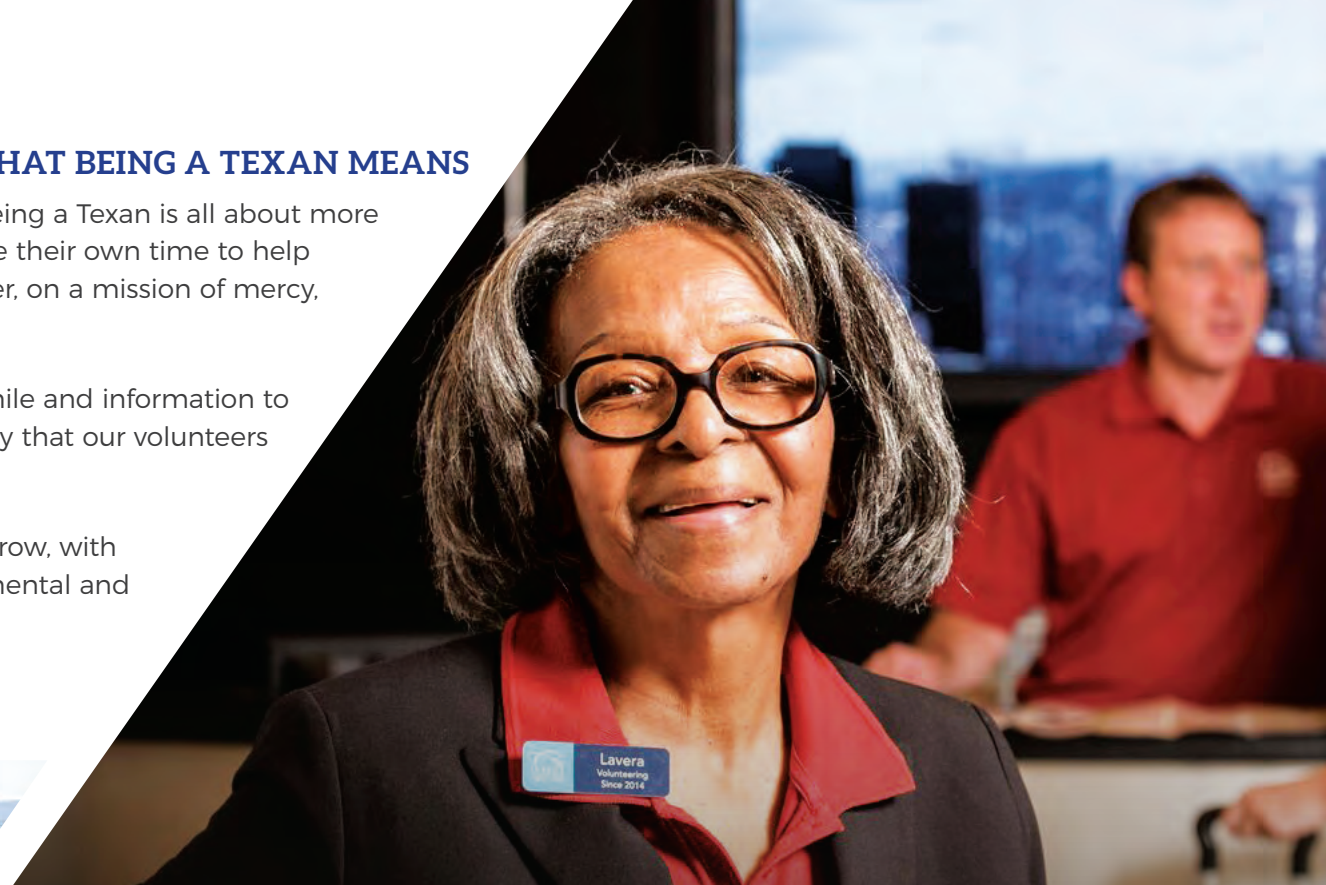


HARMONY IN THE AIR: A PASSENGER FAVORITE

A father soothes his newborn to the sound of a violin. A traveler arriving in Houston takes a few moments before leaving the airport just to listen. Business passengers awaiting the next leg of their journey catch up on emails while tapping their feet. All were among those captivated by one of hundreds of live musical performances at Houston's airports in 2017.

During the year, our Harmony in the Air program presented 461 performances from 14 musical groups in six different genres, including classical baroque, contemporary classical, smooth jazz, R&B, pop, and international music. The program showcases local talent, provides a warm impression of Houston, and helps Houston Airports fulfill its strategic goal to wow its passengers.

461 PERFORMANCES | **14** MUSICAL GROUPS | **6** GENRES





SO ALL CAN SOAR

The line at the security checkpoint, the massive flow of people through a terminal, and the intimate space in an aircraft cabin are all experiences that can be daunting for someone with autism.

In partnership with the Transportation Security Administration and United Airlines, the Houston Airport System hosts a “practice” experience for people with autism and their families known as Wings for All. Parents and families who support members with autism are invited to the airport to simulate the travel experience, learn techniques to reduce stress, and understand how their loved ones respond to the intricacies of air travel.

The program's goal is to enable families to experience what it is like to take a flight, eliminating the trepidation associated with the airport experience, so families have increased confidence and will be more likely to fly in the future.



In addition to the Transportation Security Administration and United Airlines, the Houston Airport System's partners in the Wings for All program include:

- The Arc of Greater Houston
- The Arc of Fort Bend County
- The Arc of Texas
- The Doug Flutie Foundation





AIRPORT RANGERS

For 14 years, Airport Rangers at George Bush Intercontinental have given Houston's equestrian community a chance to play an active role in the stewardship of this important asset that stretches across 10,000 acres in northwest Houston.

Created to increase the security of IAH, the Airport Rangers program mobilizes mounted patrols to keep an eye out and report suspicious activity in the patrol area. This partnership is mutually beneficial: Our equestrians ride in a pristine location that includes wooded trails, and the airport has extra eyes and ears in areas that most security patrols cannot access easily.

THE SKY IS NO LIMIT FOR AVIATION CAREERS

The world of aviation is quickly changing and highly competitive. To find its future leaders, we started the Houston Airports Aviation Club, which is open to Houston area high school students and managed by the Houston Airports Human Capital Management Division. For many, the club provides their first look at opportunities in the thriving aviation industry and helps them open the door to a potential new career.

Students marvel at the variety of aircraft during an exclusive behind-the-scenes look at the Wings Over Houston Air Show. They explore educational opportunities at Houston area colleges and universities, and get the chance to apply critical thinking and analyze leadership challenges related to airport and aviation management.



HOU AWARDS & RECOGNITION



In 2017, the Houston Airport System achieved major advancements in technology and the look and feel of our airports, reflecting the strength and sophistication of the city we serve.



HOBBY ATTAINS A FOUR-STAR AIRPORT SERVICE RATING FROM SKYTRAX FOR THE SECOND YEAR

Skytrax, recognized as a leading global air transport rating organization, awarded Hobby Airport a 4-star rating for the second year in a row in 2017. Hobby was one of just three airports in the United States to earn a 4-star rating. Skytrax maintains Hobby has the potential to build onto its existing facilities to offer an experience that is efficient, truly special and moving ever-closer to a 5-star service level.

The Airport Star Ratings are recognized as a global benchmark of airport standards.

J.D. POWER: BUSH INTERCONTINENTAL AND HOBBY RATE AMONG THE BEST AND MOST IMPROVED AIRPORTS IN U.S.

George Bush Intercontinental and William P. Hobby Airport passengers expressed their growing satisfaction, according to the J. D. Power 2017 North America airport satisfaction study.

Bush Intercontinental Airport ranked No. 11 among “mega” airports with a score of 752, jumping up from 709 in 2016. Hobby Airport showed the most significant gains, according to the survey. Hobby Airport was ranked No. 7 among “large” airports with a score of 765 — up from last year’s 737.

Bush Intercontinental and Hobby opened more than 70 new retail and dining options following extensive renovations to terminals at each airport.



IAH AWARDS & RECOGNITION

RewardExpert.com ranked Bush Airport No. 5 overall in its 2017 Airport Dining Scorecard and ranked No. 1 among the top 20 most trafficked airports for vegetarian and vegan dining options.





BUSH INTERCONTINENTAL AIRPORT EARNS A PERFECT REVIEW FROM THE FAA FOR A SECOND YEAR

Consistent excellence in ensuring the safest, most efficient facility possible earned George Bush Intercontinental Airport the Federal Aviation Administration's 2017 Airport Safety Achievement Award for the Southwest Region.

Bush Airport was honored after receiving a perfect score in the annual FAA Part 139 inspection both in 2016 and 2017. The detailed review by the FAA of operations at the airport came back without a discrepancy, meaning in all aspects of operating an airport safely and efficiently, the FAA found that Bush Airport met or exceeded the requirements.

"The core of customer service — the most essential responsibility in that vital goal for the Houston Airport System — is ensuring the safety of everyone who uses or works at our airports," said HAS Chief Operating Officer Jesus Saenz. "It is more than a point of pride; it is a duty we take seriously."

BUSH AIRPORT RECOGNIZED AS A TOP-CHOICE FOR AIRPORT DINING IN THE U.S.

When it comes to finding great dining options, George Bush Intercontinental Airport is one of the top airports in the United States, according to a top travel industry website.

RewardExpert.com ranked Bush Airport No. 5 overall in its 2017 Airport Dining Scorecard released this month and ranked No. 1 among the top 20 most trafficked airports for vegetarian and vegan dining options.

RewardExpert.com determined the final overall rankings using three indicators: satisfaction, price and quality. Satisfaction rankings were determined by measuring the average Yelp score per venue and the average Yelp score per reviewer at each airport.

BUSH INTERCONTINENTAL RECOGNIZED AS BEST AIRPORT IN THE U.S. FOR VEGAN AND VEGETARIAN OPTIONS

In the categories judged, Bush Airport was ranked as the best airport in the U.S. for vegetarian and vegan options. The website, Rewardexpert.com, noted: “Situated in a meat-loving state, it may be surprising that Houston’s Bush Airport is such a haven for vegetarian eaters. All but a few of the nearly 90 restaurants in the airport have multiple vegetarian entrée options.”

BUSH AIRPORT RATES AMONG THE TOP-5 AIRPORTS FOR MILLENNIALS

What is special about Bush Airport for millennial travelers?

Choice, choice and more choice, according to Trazee Travel, a web and print publication that targets the sought after under-35 market. Bush’s free Wi-Fi, rated second-fastest in the U.S., and mobile-responsive website are especially well-suited for digital natives. And Bush Airport is adding power outlets for mobile device charging throughout the airport, most recently adding 360+ outlets in airport dining areas.

Bush Airport offers destination choices in abundance. Millennials are more interested in international travel, constituting 20 percent of international tourists, according to a UN study, and Bush Airport offers more than 70 non-stop international destinations, including Mexico, Central America, South America, Europe, Canada, the Caribbean, the Middle East, Asia, and last, but not least, Auckland, New Zealand. In total, Bush Airport has more than 180 non-stop destinations spanning five continents.





HOUSTON AIRPORTS NAMED TRANSPORTATION MARKETER OF YEAR BY THE AMERICAN MARKETING ASSOCIATION

For the second straight year, the Houston Airport System was named Marketer of the Year in the transportation category and won the Sysco's Marketing Innovator of the year award. The award was bestowed by the American Marketing Association, Houston Chapter. The Airport competed with more than 20 companies for the honor. The Airport System earned the honor thanks to its use of digital technology to enhance the passenger experience and to increase non-airline revenues.



HOUSTON AIRPORT SYSTEM'S GOODMAN HONORED AS ACI-NA CONCESSIONS PERSON OF THE YEAR

Dedicated service for more than two decades and a level of excellence recognized by industry experts earned Randy Goodman, the Director of Concessions for the Houston Airport System, the 2017 Airports Council International – North America, Concessions Person of the Year award.

Goodman and his team were honored for leading innovative concepts, collaborative strategic planning, and continuous improvement in the re-imagining of the concessions program at Bush Airport, resulting in the opening of 86 new food and beverage, coffee, retail, and duty-free facilities.



FINANCIAL HIGHLIGHTS

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

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

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Fund's financial statements. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. An enterprise fund is used to account for a business-like activity within a government. The Airport System Fund is an enterprise fund of the City of Houston. The Houston Airport System (HAS), consisting of George Bush Intercontinental Airport (IAH), William P. Hobby Airport (HOU), and Ellington Airport (EFD), is managed and operated as a department of the City. The Airport System Fund is also included in the City of Houston's Comprehensive Annual Financial Report (CAFR).

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

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

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

NET POSITION

Total net position at June 30, 2017 was \$1,473.8 million, a 9.5 percent increase from June 30, 2016.

Total net position at June 30, 2016 was \$1,345.8 million, a 5.0 percent increase from June 30, 2015.

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

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

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

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

CHANGES IN NET POSITION

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

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

CHANGES IN NET POSITION YEARS ENDED JUNE 30, 2017, JUNE 30, 2016, and JUNE 30, 2015

(in thousands)

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

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

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

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

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

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

CAPITAL ASSETS

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

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

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

At IAH, HAS is proceeding with the planning and procurement of design and construction support for the IAH Terminal Redevelopment Program (ITRP) that includes the newly constructed 11-gate concourse just west of the existing Terminal C North (becoming the "New Terminal C North") and reconstructing and integrating the existing Terminal C North and Terminal D into a new single, common-use international facility, the Mickey Leland International Terminal (MLIT). The expansion of the terminal facilities will also necessitate an enlargement of certain components of the existing Federal Inspection Services (FIS) facility as well as related improvements to aircraft parking aprons and roadways. The terminal will be used by United Airlines and all foreign-flag airlines serving IAH and share the existing FIS Facility. The City awarded contracts for executive program manager and program management support services in FY 2015 and in FY 2017 began the selection process for architectural/engineering and construction management firms.

At HOU, capital improvements are planned for the airfield as required by the FAA, as well as normal pavement management, and customer service enhancements for the HOU Central Concourse. Additionally, a new parking office is planned for development starting in late FY 2018.

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

DEBT

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

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

OUTSTANDING DEBT JUNE 30, 2017, JUNE 30, 2016, AND JUNE 30, 2015

(in thousands)

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

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

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



ANNUAL REPORT 2017

Chief External Affairs Officer

Saba Abashawl

Design & Layout

Gilbreath Communications, Inc.

Director of Communications

Patrick Trahan

Photography

John Bowling

David Tamez

Vision Production Group

Writers

Bill Begley

Kenneth Hall

Katena Carvajales

Patrick Trahan

Contributors

Kathleen Boyd

Randy Goodman

Kenneth Gregg

Ian Wadsworth

Editor

Carole Minor

Encore Communications



HOUSTON AIRPORT SYSTEM

16930 John F. Kennedy Boulevard
Houston, Texas 77032
281.233.3000

FLY2HOUSTON.COM