

SHAPING THE JOURNEY

Houston Airport System • Annual Report 2013



The Houston Airport System

The Houston Airport System provides a safe and dynamic air services network that fosters economic vitality for the transportation industry and the greater Houston region.

Bringing air service to the six million people living in the Houston area are three individual airport facilities: George Bush Intercontinental Airport, William P. Hobby Airport and Ellington Airport. The three-airport system served more than 50 million passengers in 2013, including more than 8.9 million international travelers.

Mission:

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

Vision:

Establish the Houston Airport System as the standard of excellence and success in the Americas.

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





TABLE OF CONTENTS

Message from Mayor Parker	1
Message from Mario Diaz	2
Leadership Team	3
Bush Intercontinental Airport	5
William P. Hobby Airport	17
Ellington Airport	27
Improving the Experience	34
Our World, Our Community	40
Industry Headlines	45
Technology	47
Parking	48
Good Stewardship	49
Planning Design & Construction	51
Office of Business Opportunity	53
Art	54
Corporate Strategy & Performance	55
Human Capital Management	56
Finance	57

Dear Citizens of Houston,

The Houston Airport System (HAS) routinely enjoys an eventful calendar, but 2013 stands out as an incredibly momentous time, even by HAS standards. Record passenger totals, new facilities and the unveiling of exciting visions for the future of Houston air travel; these are just a few of the things that kept Houston's three airport facilities in the spotlight over the course of last year.


George Bush Intercontinental Airport, William P. Hobby Airport and Ellington Airport each play a key role in the overall success of Houston and each facility enhances the overall quality of life in its own unique and individual way. That's why I was so excited to hear the news that passenger traffic had reached all-time record highs in two key areas of measurement at both of Houston's commercial airports.

At William P. Hobby Airport, the total number of passengers from 2013 reached the 11 million mark for the first time in the facility's history. The final tally also represented the fourth consecutive year that Hobby Airport had set a new benchmark in regards to overall passenger totals. Combine this with the fact that construction is already underway on a new terminal facility that will help bring international air travel back to Hobby Airport and you get a sense of why there's so much excitement currently surrounding Houston's original commercial airport.

"Global connectivity" was the key phrase heard over and over at George Bush Intercontinental Airport throughout 2013. Houston's largest airport set an important passenger record of its own last year, handling more international passengers than ever before in its 44-year history. This record-setting volume was inextricably intertwined with the other major story unfolding at Bush Intercontinental Airport in 2013, which was the arrival of two new international air carriers. Turkish Airlines launched nonstop air service to Istanbul, Turkey, while Air China connected Houston with the capital city of Beijing. Each of these flights will bring an economic benefit to the city that is easily measured in the millions of dollars, but they also represent a cultural connection that is even more valuable.

Meanwhile, Ellington Airport has the City of Houston once again reaching for the stars. More than four decades after "Houston" became the first word ever uttered from the surface of the moon, a plan is moving forward that would establish Ellington Airport as a licensed commercial Spaceport. The plan would allow for a broad range of spaceport activities, including space vehicle assembly and eventually, space tourism.

Together, all of these measures are helping to "shape the journey" of Houston and guide our city towards heights never before imagined. We welcome this bright future together.



Mayor Annise D. Parker



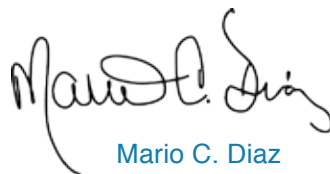
Dear Houston Airport System Stakeholder,

The theme for the Houston Airport System's latest Annual Report is "Shaping the Journey" and in 2013 that phrase was brought to life in a number of new and exciting ways. A series of major announcements were made regarding new and expanded air service, each of them bringing an enhanced level of connectivity for the millions of people living throughout the Houston region. Major investments were made in infrastructure improvements, including the opening of a new terminal facility at George Bush Intercontinental Airport and the launch of construction on another at William P. Hobby Airport. Each of these steps were taken while accommodating a record-setting number of passengers and collectively, each of these steps represents an effort on the part of HAS to "shape the journey" of Houston in a positive and meaningful way.

Now, we seek to enhance that impact moving forward by improving the manner in which HAS team members work together and the manner in which we interact with the various customer groups that we serve on a daily basis. In short, the focus in 2013 included a diligent effort to upgrade the journey being undertaken by the individual passenger, as well as the collective journey that included the entire HAS team. As part of this effort, the Houston Airport System began the process of completely revamping its "Houston Friendly" customer service program in 2013 and also announced the creation of a Corporate Strategy & Performance division, a group that is tasked with establishing and maintaining a "culture of excellence" throughout the entire HAS operation. Some of the results from these efforts will be clearly visible to members of the traveling public, while others will likely go unnoticed. But each of the items are designed with the same purpose, to improve the overall customer experience at all three airport facilities found within the Houston Airport System.

Of course we will continue to focus on excelling at the basic and fundamental elements of our industry, including expanding air service options, initiating infrastructure improvements and utilizing the latest technological advancements in expediting the travel process. But to truly succeed in the 21st century, a business, corporation or governmental agency must develop itself into a "high performance organization." There must be a clear understanding of the customer's expectations and desires and then each and every employee must feel an individual sense of empowerment in regards to turning those expectations into reality. I am extremely proud to say that throughout the past year, the 1,300 employees that make up the Houston Airport System team made incredible strides in this regard.

We are not only sharing this journey together. We are truly shaping it.


Mario C. Diaz



SHAPING TH



Samar Mukhopadhyay, Marie Anderson, Lance Lyttle, Mario C. Diaz, Carl Newman, Harleen Smith, Saba Abashawl, Ian Wadsworth, Lisa Kent, Chuck Farina, Perry Miller, Michael Lee

THE JOURNEY





Mark Bull, Peter Ferguson, Carl Newman, Steve Hennigan, Jesus Saenz

GEORGE BUSH INTERCONTINENTAL AIRPORT



George Bush Intercontinental Airport

Since the summer of 1969, George Bush Intercontinental Airport (IAH) has stood as the City of Houston's flagship airport facility, with approximately 40 million passengers traveling through its gates on an annual basis.

Accommodating air travel to each and every corner of the globe, IAH routinely operates with daily nonstop flights to more than 160 destinations, connecting the nation's fourth-largest city on a global scale.

"George Bush Intercontinental Airport is the global gateway facility for millions of people living in the Houston region," says Houston Mayor Annise Parker. "It provides a vital connection between Houston and the rest of the world, both from an economic standpoint as well as culturally."

At IAH, the phrase "shaping the journey" has taken on both a literal and a figurative meaning, with construction projects improving the overall customer experience and additional air service options bringing added convenience and efficiency to the customers' travel itinerary.

As George Bush Intercontinental Airport draws closer to its 45th year of service, its value to the Houston community grows stronger with each departing and arriving flight. IAH connects the people, the businesses, the cultures and the economies of the world to Houston and helps shape the journey for 40 million people each and every year.



Air China

Air China, the exclusive national flag carrier for the People's Republic of China, arrived to the Houston market on July 11, 2013, expanding its North American route map for the first time in three decades. With the new service, Air China connected Beijing Capital International Airport (PEK) in Beijing, China and George Bush Intercontinental Airport in Houston.

The service began with four nonstop flights operating each week but by early January 2014, the airline had already expanded that schedule to include daily service to the capital city of Beijing.

The inaugural flight from Beijing, CA 995, arrived at 3:40 in the afternoon to a Texas-sized welcome which included a traditional water cannon salute.

Houston Mayor Annise Parker was on hand to greet the delegation from China led by Ms. Yinxiang Wang, Co-Chairwoman of Air China Limited; Chinese Consul General for Texas and seven U.S. southern states and Puerto Rico, Ms. Erwen Xu; and, former Houston Rockets star and now Houston's Honorary Goodwill Ambassador, Yao Ming.

With the launch of the nonstop service, Houston becomes Air China's fifth gateway in North America, joining Los Angeles, New York, San Francisco and Vancouver. Air China will operate inside Terminal D at George Bush Intercontinental Airport, Houston's gateway for all foreign carriers.



Terminal B South

Passengers are now enjoying a fresh new look at the south concourse of Terminal B at George Bush Intercontinental Airport. A new \$97 million facility was opened to the public in the spring of 2013, bringing with it 225,000 square feet worth of comfort and efficiency.

Terminal B is the primary facility in Houston for United Express flights operated by regional partners ExpressJet, SkyWest, Trans States and Shuttle America. Together, they operate more than 300 daily flights from Bush Intercontinental Airport to business and leisure destinations in the United States, Canada, Mexico and the Caribbean.

United Airlines opened the Terminal B South by utilizing 15 gates with an additional 15 gates to come online at a later date. The facility is nearly four times the size of the previous south concourse, offering customers 15,000 square feet worth of food/beverage and retail concession space.



Turkish Airlines

Turkish Airlines, one of the world's fastest growing airlines, launched nonstop air service in Houston on April 1, 2013.

The national carrier of Turkey began flying between Houston's George Bush Intercontinental Airport (IAH) and Istanbul's Ataturk International Airport (IST), utilizing its Boeing 777-300ER aircraft.

For Houstonians, the arrival of Turkish Airlines not only brought about more efficient access to the Middle East region of the world, but also introduced the Houston market to Turkish Airlines' award-winning gourmet cuisine and overall service.

Turkish Airlines has been named "Best Airline in Europe" for the last three consecutive years, winning in 2011, 2012 and 2013.

The new Houston service began with four frequencies per week but quickly expanded to include six departures.



New Signage



The installation of new wayfinding signage is already underway at IAH and will continue until more than 200 individual pieces have been put into place.

Each sign features a solid black background, with Terminals A, B, C, D and E assigned their own unique and individual color.

The metal framing used to hang the signage features a curved, artistic arch that routinely stretches completely across the roadway, representing a design that not only maximizes visibility but also highlights the features of the overall aesthetic design.

The first signs to go up lined the airport's southern entryway along John F. Kennedy Boulevard and at the facility's eastern entrance at Will Clayton Parkway. After that, construction crews focused their attention on signage located closer to the terminal facilities.

All 200 signs are expected to be installed by the end of the first quarter of 2014.

The signs are created using several special techniques designed to maximize visibility, especially for drivers traveling through the airport facility at night.

Air Service – IAH

October 2012

Spirit Airlines to Chicago (O'Hare), Illinois, 2X daily

Spirit Airlines to Las Vegas, Nevada, daily

Sun Air to Victoria, Texas, 4X daily

February 2013

Spirit Airlines to Orlando, Florida, daily

March 2013

China Airlines Cargo to Taipei, Taiwan, 2X per week

United Airlines to London England, increase frequency to 3X per day

April 2013

Turkish Airlines to Istanbul, Turkey, 4X per week

American Airlines to New York (JFK), New York, daily

Lufthansa Cargo to Frankfurt, Germany, increase frequency to 3X per week

Spirit Airlines to Los Angeles, California, daily

May 2013

Singapore Airlines to Singapore, increase frequency to daily

June 2013

Spirit Airlines to Denver, Colorado, daily

Spirit Airlines to Detroit, Michigan, daily

July 2013

Air China to Beijing, China, expanded to daily in 2014

Aeromexico to Mexico City, increase frequency to 4X per day

August 2013

United Airlines to Lagos, Nigeria, aircraft upgrade to 787-800

December 2013

Lufthansa Cargo to Frankfurt, Germany upgrade aircraft to 777F

Future Routes

March 2014

United Airlines to Narita, Japan, increase frequency to 2X daily

April 2014

United Airlines to Atlantic City, New Jersey, daily

KLM Royal Dutch to Amsterdam, increase frequency to 9X per week

United Airlines to Lagos, Nigeria, increase frequency to 6X per week

United Airlines to Munich, Germany, daily

VivaAerobus to Monterrey, Mexico, increase frequency to 4X per week

May 2014

Korean Air to Seoul, South Korea

Spirit Airlines

Spirit Airlines, the ultra low cost carrier based out of Florida, continues to see new opportunities waiting for them in the Houston market. Since arriving to George Bush Intercontinental Airport in September 2012, Spirit Airlines has launched a series of new nonstop flights to the following destinations:

Chicago (O'Hare), Denver, Detroit, Las Vegas, Los Angeles and Orlando.

Operating inside the Terminal A facility, Spirit Airlines offers passengers low base fares with a range of optional services for a fee, allowing customers the freedom to choose only the extras they value.



IAH International Route Map



Africa

Lagos, Nigeria
Luanda, Angola

Asia

Beijing, China
Tokyo, Japan

Caribbean

Bonaire, Saint Eustatius & Saba
Grand Cayman Islands
Montego Bay, Jamaica
Trinidad & Tobago

Central America

Belize City, Belize
Guatemala City, Guatemala
Liberia, Costa Rica
Managua, Nicaragua
Panama City, Panama
Roatan, Honduras
San Jose, Costa Rica
San Pedro Sula, Honduras
San Salvador, El Salvador
Tegucigalpa, Honduras

Europe

Amsterdam, Netherlands
Frankfurt, Germany
Istanbul, Turkey
London, England
Moscow, Russia
Paris, France

Middle East

Doha, Qatar
Dubai, United Arab Emirates

North America - Canada

Calgary
Edmonton
Montreal
Toronto
Vancouver

North America – Mexico

Acapulco
Aguascalientes
Cancun
Chihuahua
Ciudad Del Carmen
Cozumel
Durango
Guadalajara
Huatulco
Ixtapa/Zihuatanejo
Leon/Guanajuato
Manzanillo
Merida
Mexico City
Monterrey
Morelia
Oaxaca
Puebla
Puerto Vallarta
Queretaro
Saltillo
San Jose Cabo
San Luis Potosi
Tampico
Torreon
Veracruz
Villahermosa

South America

Bogota, Colombia
Buenos Aires, Argentina
Caracas, Venezuela
Lima, Peru
Quito, Ecuador
Rio De Janeiro, Brazil
Sao Paulo, Brazil

Growth in International Traffic

One of the most exciting areas of growth currently taking place within the Houston Airport System is the increase in the number of international passengers traveling through George Bush Intercontinental Airport.

Heading into the 21st century, the City of Houston was seeing approximately 5.6 million international air passengers on an annual basis. By the end of 2013, that number had skyrocketed to almost 9 million international travelers, a staggering increase of approximately 60 percent.

During that time, the City of Houston welcomed numerous additions to the family of international air carriers operating at George Bush Intercontinental Airport, including Air China, Emirates, Qatar Airways & Turkish Airlines.

Over the past 10 years, Houston has experienced dynamic growth in air travel to regions well beyond its solid foundation of Latin America. For example, the number of travelers flying between Houston and Europe has increased 47 percent since 2003, while traffic between Houston and Canada has gone up approximately 93 percent during that same time period. As for the Caribbean, Central and South American regions, traffic has increased by 74 percent in that 10-year span alone.

Houston's status as a "global gateway" city is expanding as never before and the Houston Airport System is proud to play a leading role in strengthening that level of connectivity by accommodating the ever-increasing amount of international air traffic traveling through Houston.

IAH Passenger Growth



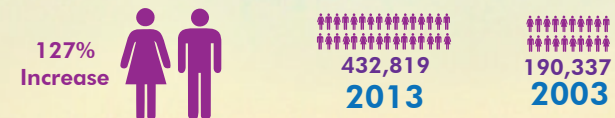
Europe



Caribbean / Central / South America



Asia / Africa / Australia





For those in charge of the concessions program at George Bush International Airport, the one question that dominated the conversation throughout 2013..."How do we make a great program even better?" The final solution involved the arrival of new and exciting food and retail options along with the expansion of existing shops and restaurants, already proven popular by millions of Bush Airport customers.

Below is a sampling of the new arrivals and exciting new looks.

3rd Bar Oyster & Eating House:
Expertly prepared seafood from Houston's own Chef Bryan Caswell.

Auntie Annie:
Freshly made, soft pretzels with a variety of toppings or dipping sauces at Auntie Anne's.

Barcuterie:
Barcuterie offers cured meats and classic cheeses in a bar setting.

Bullritos:
Create your own burrito, bowl or tacos. Just choose your bag, grab a marker and run with it.

Dunkin Donuts:
World's leading baked goods and coffee chain, selling more than 70 varieties of donuts, coffee beverages, bagels, breakfast sandwiches and other baked goods.

Eddie Bauer:
Premium quality clothing, accessories and gear for men and women including classic outerwear, casual denim and khakis.

Famous Famiglia Pizzeria:
Famous Famiglia brings a taste of Italy to passengers serving up gourmet pizzas, pastas, Italian specialties, and calzones.

Fresh Gourmet Express:
Serves Arabica, espresso and decaffeinated coffee produced in Ecuador. Fresh bagels, pastries & other treats available.

Murphy's Deli:
Full service delicatessen offering a combination of quality and affordable food that makes it suitable for all occasions

Panda Express:
Panda Express serves high-quality Chinese offerings with speedy, attentive service.

Ruby's Diner:
Ruby's Diner offers delicious burgers, salads, famous fries and Rubyrings, shakes, and floats. Full service restaurant and bar

The Frutería:
The Frutería features torta sandwiches, Mexican-inspired tostadas, fruit cocktails, fruit/veggie juices, smoothies & Mexican coffee.

Vitos's Bar & Deli:
Vitos offers delicious deli choices, snacks, and beverages.

Whataburger:
Hamburgers made to order, chicken sandwiches, salads, breakfast tacos and more.





IAH Recognized as Industry Leader

Houston's largest airport was singled out by experienced travelers in 2013, receiving recognition in Executive Travel Magazine's Leading Edge Awards as the "Best Domestic Airport in the United States." IAH was also highlighted in the passenger survey for having "the best airport lounge in North America."

Readers of the publication are primarily global business travelers who take an average of 38 roundtrip flights a year. According to the magazine, the Leading Edge Awards were developed to honor travel providers that offer the most innovative, high-quality products to business travelers.

"We are constantly working to improve the overall customer experience at George Bush Intercontinental Airport," says IAH General Manager Carl Newman. "So it's always gratifying when we get positive feedback from our passengers. It tells us that we're on the right track and provides us with motivation to work even harder in the future."

Moving Forward



TERMINAL D:

Improving the overall customer experience for passengers inside the Terminal D facility at George Bush Intercontinental Airport continues to be a primary focus for team members with the Houston Airport System.

Operating as the primary gateway facility for international air travel in Houston, the Mickey Leland Terminal D building fills a vital role in the city's transportation network and provides a first impression for millions of passengers arriving in the city for the first time.

MASTER PLAN:

The Houston Airport System is currently in the midst of drafting its Master Plan for George Bush Intercontinental Airport, a document that will specifically lay out the facility's growth plan for the next 10 years. A large portion of that plan will be designated to the future of international air service in Houston and how best to accommodate the demand for that service. HAS leaders recognize the fact that dramatic improvements are required in providing the City of Houston with a premiere international gateway facility and the Master Plan represents a major step forward in addressing those needs.



FREE WI-FI:

The Houston Airport System is committed to bringing passengers access to free Wi-Fi service in the near future.

The free Wi-Fi service will dramatically improve the overall customer experience by bringing faster and richer bandwidth to e-connected travelers.



AIRPORT HOTEL:

A \$40 million renovation program will soon bring an updated look to the Airport Marriott Hotel, located between Terminal B and Terminal C at IAH.

The transformation will also add a state-of-the-art lobby and bar area with dining service, a trendy reception and lounge space, an upgraded fitness room and improvements to the infrastructure.



Ross Underhill, Tom Blake, Perry J. Miller

WILLIAM P. HOBBY AIRPORT



William P. Hobby Airport



William P. Hobby Airport is in the midst of its eighth decade of service and it has never been stronger than it is today. Fresh on the heels of a \$350 million makeover that touched virtually every corner of the operation, Hobby Airport is handling record passenger totals, routinely attracting new air service routes and is moving forward with plans to accommodate international air service to the Latin American and Caribbean regions of the world.

Few airport facilities can count their brightest years as the ones that come directly before their century mark of operation but William P. Hobby Airport is in that unique position. According to the final passenger totals, Hobby Airport set an all-time record in 2013, accommodating 11 million people for the first time in its history. This marked the fourth consecutive year that an all-time high was reached at Hobby.

In just the past five years alone, passenger traffic at Hobby Airport has risen by a remarkable 27 percent and the addition of international air service is expected to bring with it an additional 1 million passengers in the future.

“Hobby Airport is convenient, efficient and it fits the needs of those passengers who place a premium on value,” says Hobby Airport General Manager Perry J. Miller. “Those characteristics are ingredients for long term success and Hobby Airport is proof of that fact.”

Hobby Airport is served by four airlines, operating nonstop service to 50 different locations: American Airlines, Delta Airlines, jetBlue Airways and Southwest Airlines.

International Service Coming to Hobby Airport

Without a doubt, the arrival of international air service to William P. Hobby Airport ranks as one of the most exciting advancements in the history of the Houston Airport System. By choosing to partner with Southwest Airlines in bringing international air service to Hobby Airport, the City of Houston is looking to increase competition for international travelers, boost the local economy and strengthen the economic and cultural ties that already exists with Latin America.

"The partnership that exists between Southwest Airlines and the City of Houston dates back to the earliest days of the company," says Houston Aviation Director Mario C. Diaz. "It's a partnership that was nurtured by both sides in the second half of the 20th century and now it's poised to produce a great many benefits to our mutual customers in the 21st century."

In order to make this goal a reality, several construction projects will be required before the first international flight can take off from Hobby Airport in 2016.

Southwest Airlines, in partnership with the Houston Airport System, will construct a \$156 million five-gate terminal facility, designed to accommodate international air traffic.

A U.S. Customs & Border Protection processing facility will also be necessary, in addition to the expansion of Southwest Airlines' existing ticket counter space.

In support of the project, the Houston Airport System is moving forward with the construction of a new multi-level covered parking garage and will make dramatic improvements to the entryway road system in order to better accommodate the expected increase in passenger traffic.

A 2012 study commissioned by the Houston Airport System indicates that the new terminal will generate more than 10,000 jobs across the Greater Houston metropolitan area. The same study says that international air service at Hobby Airport will provide an economic impact of \$1.6 billion and will bring in an additional 1 million passengers per year to the totals currently being recorded at Hobby Airport.



International Terminal Facility

- 5 gates/280,000 square feet
- \$156 million (paid for by Southwest Airlines)
- Offering regional international service to Latin America & Caribbean
- First flight slated for 2016

Parking Garage & Roadway:

- Multi-level parking garage brings 2,500+ new spaces
- \$55 million structure
- Third-floor pedestrian bridge to terminal
- Roadway improvements impact entry road circling new garage

Impact:

- 1 million additional passengers at HOU
- Economic impact of \$1.6 billion
- Creation of 10,000 jobs



Hobby Airport Has Record-Breaking Year

For the fourth consecutive year, the annual passenger total recorded at William P. Hobby Airport hit an all-time high. Hobby Airport finished 2013 handling 11,109,449 passengers, the highest total ever recorded at the facility and the first time that Hobby Airport has ever topped the 11 million passenger mark.

The growth in traffic experienced at Hobby Airport over the past 10 years has been nothing short of spectacular, with annual totals increasing by more than 42 percent during that time period. In seven of the past 10 years, Hobby Airport has recorded an increase in the overall amount of passenger traffic, with the few declines being directly tied to downturns in the national economy.

During that same time period, Hobby Airport has also enjoyed a dramatic increase in the number of destinations made available through nonstop air service. At the beginning of 2003, Hobby Airport offered nonstop flights to a total of 32 destinations located across the United States but by the beginning of 2014, that number had skyrocketed to 50 destinations, an increase of 56 percent.

HOU PASSENGER GROWTH



NONSTOP DESTINATIONS



Southwest Airlines & AirTran Airways Continue to Combine Operations

The merger between low cost air carriers Southwest Airlines and AirTran Airways officially occurred in 2011, with Southwest acquiring the rival carrier in a \$1.6 billion deal. But the customer impacts of that deal were not significantly felt at Hobby Airport until 2013, when noticeable items such as aircraft livery and ticketing/check-in locations began to be impacted. Throughout the year, Southwest Airlines took various steps to merge operations between the two carriers, including:

- Adopting many of the nonstop routes previously offered through the AirTran Airways brand
- Processing all AirTran customers at the Southwest Airlines ticket counter
- Integration of the two carriers' booking systems and Web sites

All AirTran planes will eventually integrate into the Southwest brand forming a single network, reservation system, and loyalty program. Combined, Southwest and AirTran serve 97 destinations in the United States, Mexico, and the Caribbean.

The plan is to have AirTran Airways completely integrated into Southwest Airlines by the end of 2014.

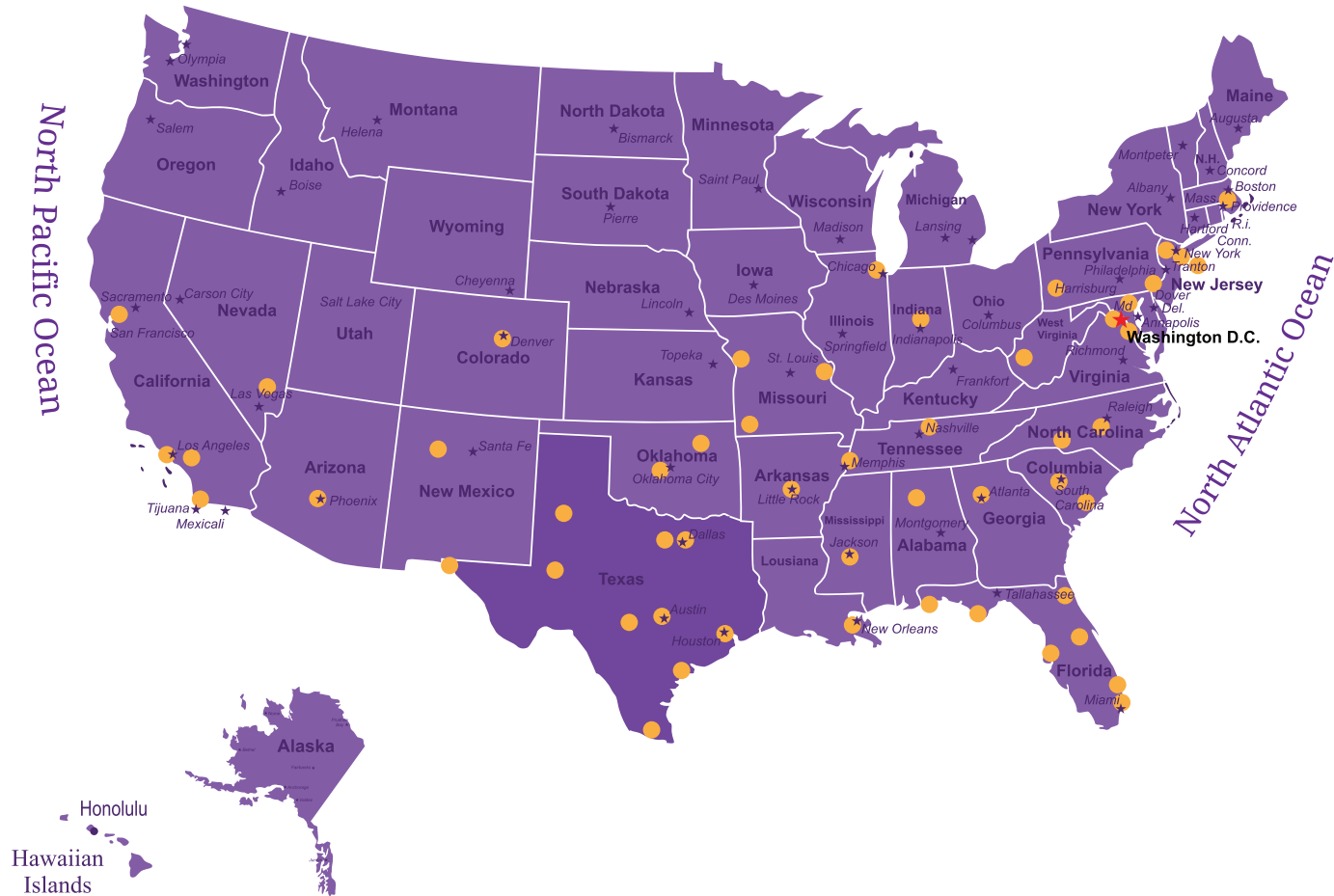


Air Service – HOU

While the arrival of international air service in 2016 is certain to bring about a substantial increase in the overall number of passengers at William P. Hobby Airport, that is not to imply that the number of current flight options is staying put. Multiple new nonstop flights were unveiled in 2013 at William P. Hobby Airport, driving a record-setting passenger total to even greater heights and promising even more success in the future.

- Southwest Airlines to San Diego, California
- AirTran Airways to Orlando, Florida
- Southwest Airlines to Charlotte, North Carolina
- Southwest Airlines to Pittsburgh, Pennsylvania
- Southwest Airlines to New York (LaGuardia Airport), New York
- AirTran Airways to Tampa, Florida
- Southwest Airlines to Boston, Massachusetts
- jetBlue Airways to Boston, Massachusetts
- Southwest Airlines to Washington, D.C. (Reagan National)
- Southwest Airlines to Memphis, Tennessee
- Southwest Airlines to Pensacola, Florida

HOU Route Map





Concessions HOU Growth



2013
9.9 Million



2012
8.7 Million



2011
7.3 Million

As William P. Hobby Airport enjoyed an unprecedented level of passenger traffic in 2013, the demand for increased concession and retail options was also a key part of the discussion for members of the Airport's leadership team. With Hobby Airport seeing more than 11 million passengers on an annual basis, the focal point of the concessions program centered on the expansion of Hobby Airport's food and retail offerings, along with the introduction of "quick-serve" offerings through stationed and electronic kiosks. This expansion program brought improvements to the following areas:

Digiboo:

This movie download service offers customers quick and convenient access to hundreds of titles, available for playing on a variety of electronic devices.

Food Court:

Hobby Airport's Food Court, located near the rotunda beyond the security checkpoint, was re-designed to offer passengers additional seating options.

Pappadeaux Seafood Kitchen:

This popular Texas restaurant offers sushi, oysters, gumbos, salads, sandwiches, and specialty seafood, chicken, and beef entrees.

Pappasito's Cantina:

Pappasito's brings the local Tex-Mex flavor to travelers featuring burritos, enchiladas, and tacos.

Retail Manufacturing Units:

Four retail kiosk stations were established in various locations at Hobby Airport throughout 2013, offering passengers an "on-the-fly" option to their shopping experience



\$350 Million Makeover



Lobby:

- Expanded sight lines and more open design
- Dramatic entryway to ticketing area and baggage claim

Ticketing:

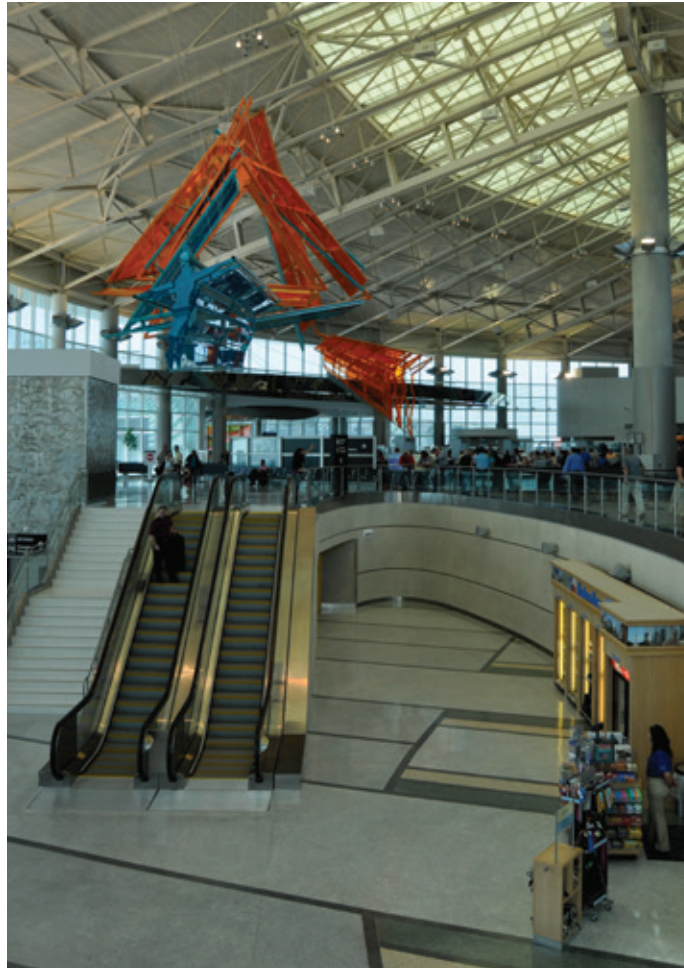
- New ticket counter space was completed along western end of facility
- All airlines (except Southwest) are now located in new wing of Hobby Airport

Baggage Claim:

- Features three new baggage carousels with better sign indication system
- Improved lighting
- Terrazzo flooring

Art:

- Program called for multiple art pieces, both indoors and outside
- "Take Off", "Over Houston" and "Vector HH" are all results of remodeling project



Customers entering the airport lobby are now greeted with a more open and airy design that allows guests to quickly familiarize themselves with the facility's overall layout. Terrazzo flooring and new lighting features are also part of the improvements.

New ticketing counter space was constructed along the eastern portion of the airport facility. The check-in area is now utilized by all airlines operating at Hobby Airport, except for Southwest Airlines which processes passengers in its familiar location near the security checkpoint.

A new multi-carousel baggage claim area was also part of the renovation program, once again featuring improved lighting and terrazzo flooring. Passengers arriving to Houston access the new baggage claim area by making their way through a remodeled stairwell area, which features the dramatic suspended work of art "Vector HH," by artist Luca Buvoli.

"Passengers at Hobby Airport will enjoy the best of both worlds. They'll still find the convenience and efficiency they've grown accustomed to when visiting Hobby Airport, but they'll also enjoy facility improvements that in many cases, make them feel like they're walking through a new airport."

Perry J. Miller,
General Manager
William P. Hobby
Airport





Ready for Close-up

William P. Hobby Airport twice looked like the set of a major Hollywood motion picture in 2013, as Southwest Airlines used the facility as part of its backdrop in shooting two new national television ads.

Actors, technical experts and actual air passengers were all thrown together in the same mix, as a California film crew moved from location to location across the Hobby Airport facility shooting Southwest Airlines' new commercial entitled "Welcome Aboard." Production crews returned to Hobby Airport later in the year as the facility was once again featured in the company's advertisement efforts.

The 60 second spot, which featured the song "Some Nights" from the popular rock band Fun, brought vibrant images of Hobby Airport to a national audience, as cameras captured footage from the concourse area, gate 50 and the facility's moving walkway.

Moving Forward



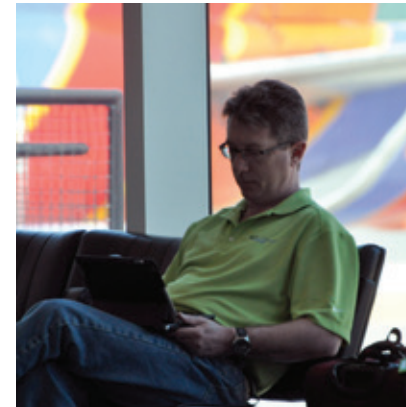
ENTRY ROADWAY: While not a project being spearheaded by the Houston Airport System, a major roadway renovation effort will have a significant impact on the day-to-day experience for customers visiting Hobby Airport. Broadway Boulevard represents one of the major thoroughfares for entry to Hobby Airport from Interstate Highway 45 and is currently in need of substantial repair work. Those improvements are slated to occur but the construction process is not expected to be completed until the late stages of 2015. The Houston Airport System will utilize all available communication tools in attempting to notify customers of the program's progress and specific impact to traffic.



MILLION AIR:

Construction is almost complete on the renovated Million Air facility located at Hobby Airport.

The fixed-base operator (FBO), which provides general aviation and corporate flight support to the aviation community at Hobby, is investing \$15 million on a major renovation program designed to increase the company's operational capabilities and customer service features.



FREE WI-FI:

The Houston Airport System is committed to bringing passengers access to free Wi-Fi service in the near future.

The free Wi-Fi service will dramatically improve the overall customer experience by bringing faster and richer bandwidth to e-connected travelers.



WILSON AIR CENTER:

Wilson Air Center continues to move forward through its major expansion program at Hobby Airport. Construction crews completed Phase One of the program in 2013, which consisted of a total renovation of its pilots' lounges, construction of a presidential suite and more than 80,000 sq feet of hangar space. The next installment will include the construction of a G650-size 25,000 sq foot hangar with office complexes.



Pete Fress, Chuck Farina, Shawn Chittum

ELLINGTON AIRPORT



Ellington Airport

For almost 100 years, Ellington Airport has played a key role in Houston's aviation experience, whether that role involved military training in the World War I era or the zero-gravity experiments routinely taking place in the 21st century. But Ellington Airport has likely never experienced a period in time as exciting or full of new possibilities as the year 2013.

Ellington Airport continues to fill multiple aviation-related roles, such as general aviation reliever airport and host to popular public events such as the Wings Over Houston Airshow and Aeros & Autos. The joint-use airport, which is located within a 15 mile radius from the downtown Houston area, supports the operations

of Texas Army National Guard, Texas Air Guard, the Joint Reserve Center and the 75th Reserve Division. Ellington Airport also serves NASA and a wide range of general aviation tenants.

But it's the future possibilities that are generating unparalleled excitement among the team members at Ellington Airport and the possibility that's generating most of the attention once again has the City of Houston looking to the stars.



Houston Space: Looking to the Stars Again

The possible future of Ellington Airport was brought into clear focus on Sept. 4, 2013, as the Houston Airport System unveiled conceptual renderings of what a commercial Spaceport might look like, should the required licensing be obtained by the City of Houston.

The design/drawings capture various elements of the overall project, including a terminal facility, an aviation museum and the accompanying aerospace industries that would most certainly arrive should Houston become the nation's ninth licensed Spaceport.

"This is a new and exciting sector of the 21st century economy that carries amazing potential for growth," said Houston Mayor Annise Parker. "We believe a licensed Spaceport in Houston would not only serve as an economic generator for the city but it would also enhance Houston's well-deserved reputation as a leader and key player in the aerospace industry."

Should the City of Houston secure licensing, team members with the Houston Airport System would then move forward in establishing the required infrastructure and support facilities needed to accommodate enterprises such as component and composite fabrication, space vehicle assembly, launching of micro-satellites, Astronaut training, zero gravity experimentation and space tourism.

"It's important to realize that this type of work is already taking place today," said Houston Aviation Director Mario C. Diaz. "This is not a conversation based on science fiction or futuristic projections. This is a conversation about how Houston can access and enhance an industry that is already well-established and growing exponentially."

Diaz firmly believes that Houston has many of the selling points needed to support a commercial Spaceport location, such as a booming economy with a strong aerospace industrial base, a well-educated workforce with experience in the high-tech demands of space exploration and plenty of room for growth at a strategically located airport facility.

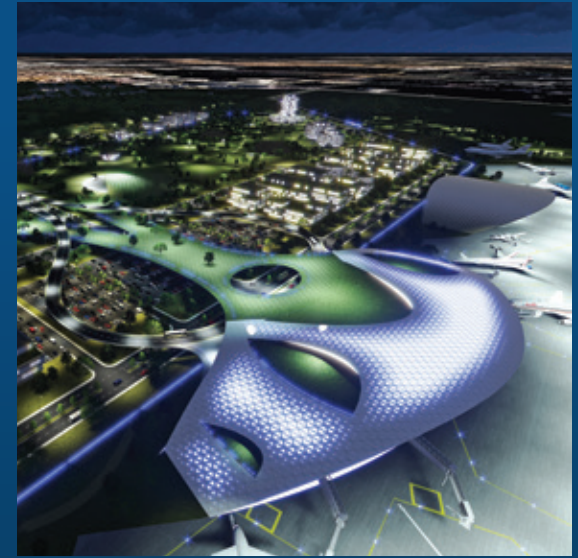
Situated near the Gulf of Mexico, and featuring ample available space for development, Ellington Airport seems tailor-made for the requirements that are associated with an operating licensed Spaceport.

The launches being proposed for Ellington Airport would involve Reusable Launch Vehicles (RLV's) executing horizontal, rather than vertical, take-offs, departing in a fashion similar to commercial aircraft.



HOUSTON SPACEPORT

To view a complete photo gallery of the Houston Spaceport renderings, visit: fly2houston.com/spaceportgallery.



The Plan:

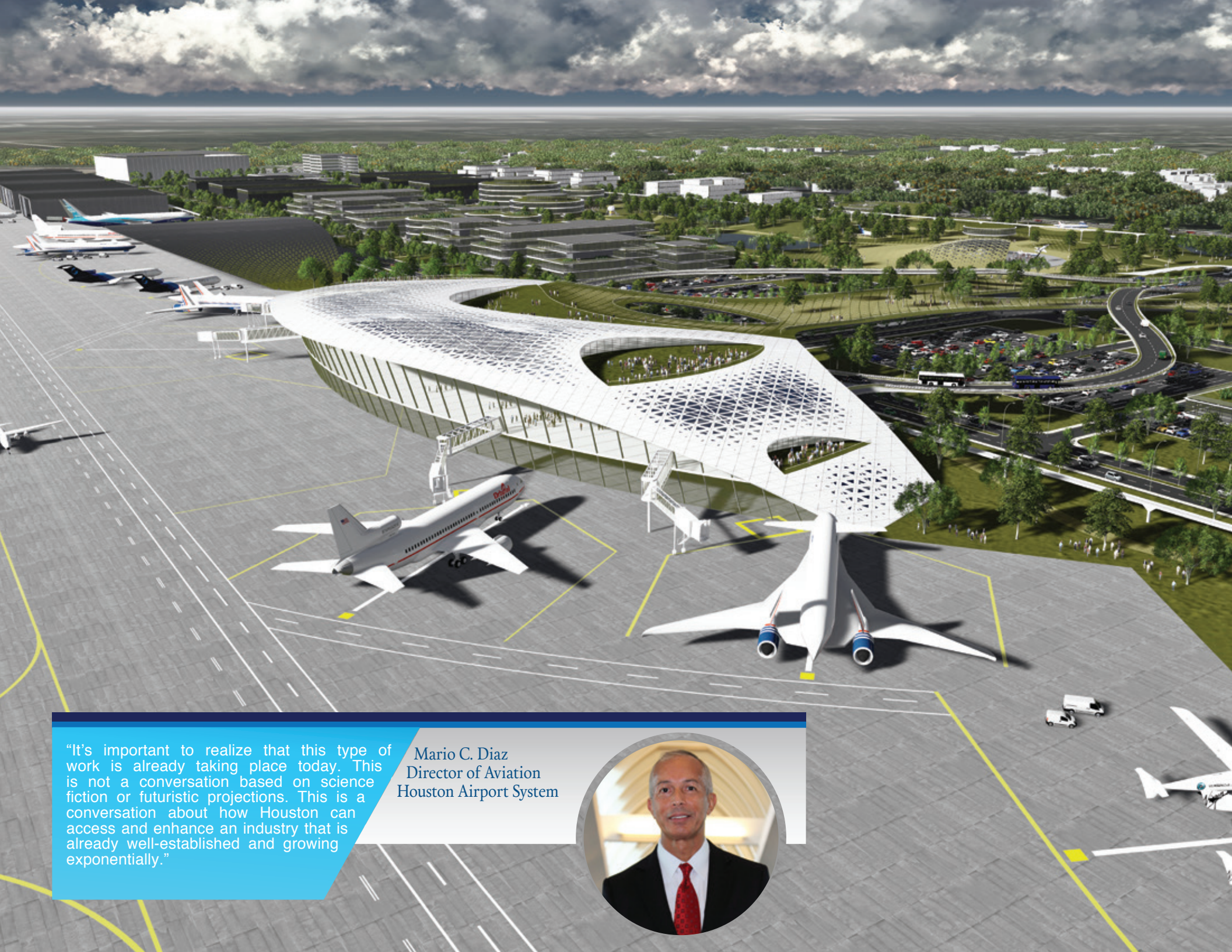
- Obtain licensing for EFD to become licensed Commercial Spaceport
- Accommodate horizontal launches for reusable launch vehicles
- Establish Houston as regional center for aerospace activities

Houston Strengths:

- Strong economy
- Educated workforce
- Proximity to Gulf of Mexico
- Presence of Johnson Space Center, NASA & others

Process:

- Feasibility study has been completed
- Approval secured from Houston City Council
- Formal license request to be filed in 2014



"It's important to realize that this type of work is already taking place today. This is not a conversation based on science fiction or futuristic projections. This is a conversation about how Houston can access and enhance an industry that is already well-established and growing exponentially."

Mario C. Diaz
Director of Aviation
Houston Airport System



Coast Guard HQ

The United States Coast Guard made significant progress in 2013 in working to establish Ellington Airport as the new home for its Houston-Galveston headquarters. Construction on a new 117,000 square-foot facility was completed in early January 2014 and Coast Guard officials immediately began moving operations and 300 employees into the new location.

The new headquarters at Ellington Airport, which was relocated from the Houston Ship Channel area, will house the Sector's command center, investigative services, electronic support, public affairs and the regional civil rights office.

The arrival of Coast Guard staff occurred almost one year to the day after the project's groundbreaking ceremony. On Jan. 31, 2013, more than one hundred people gathered together at the headquarters' site to celebrate the launch of construction with a turn of 10 ceremonial shovels. "This building will be a huge improvement for the way we do business, support commerce, ensuring security and serving the people of this great country," says Sector Commander Captain James Whitehead.

Viper Speed Record

Ellington Airport provided the perfect backdrop for a high performance automobile looking to establish a new speed record.

Members of the Hennessey Performance Team arrived to Houston in January 2013, along with their Venom GT automobile and a staff member from the Guinness Book of World Records. The Hennessey team was looking to establish the Venom GT as the world's fastest production car to reach 300 kilometers per hour (186 miles per hour) from a standing start.

That record was officially set on Jan. 10, thanks in large part to Ellington Airport providing a perfect 8,001 foot pathway on which the Venom GT could stretch its 1,244 horsepower engine.



Community Events



Wings Over Houston:

The 2013 Wings Over Houston event, held on Oct. 26 and 27, once again thrilled thousands of aviation enthusiasts from across the Houston region. The 2013 event featured breathtaking performances from aerobatic pilots, World War II battle re-enactments and up close looks at a variety of different aircraft.



9/11 Heroes Run:

Houstonians once again gathered at Ellington Airport in September to pay tribute to the uniformed heroes who have given their lives in the service of their country and community. The 9/11 Heroes Run is a 5K event that draws together thousands of participants and primarily pays tribute to those who were killed in the terrorist attacks of Sept. 11, 2001. The event also recognizes the many contributions and sacrifices made by heroes wearing a variety of uniforms, such as police officers, fire fighters, military personnel and many others.



Aeros & Autos:

Speed enthusiasts once again found a tailor-made event waiting for them at Ellington Airport, as the 5th annual Aeros & Autos gathering took place in May. Show cars and static aircraft were on display for viewing, while the more adventurous guests took part in the Houston Half-Mile Shootout event. The event gives automobile and motorcycle drivers a rare opportunity to open up their vehicles to top speeds under safe and structured surroundings.

Improving the Experience

In 2013, a new strategic priority was unveiled to the 1,300 employees of the Houston Airport System. “Serve the Customer” would join a list that included only three other priorities as absolutely essential accomplishments for the HAS team moving forward: (Build a High Performance Organization, Fund the Future & Restore Facilities to Opening Day Fresh)

In the months that followed, Houston Airports initiated several steps to make quantifiable gains in this area, including streamlining the security checkpoint process for both domestic and international travelers, the utilization of technological tools in a variety of areas, and revising and improving our customer service philosophies and training methods.

As we move into 2014, the HAS team will continue to make progress in these three key areas:

↪ Efficiency ↪ Technology Utilization ↪ Personalized Service

Faster & More Efficient

Whether arriving or departing aboard a domestic or international flight, the goal of the Houston Airport System remains the same; to move passengers through the travel process as quickly and efficiently as possible.

With this in mind, several new programs and initiatives were introduced in 2013 at both George Bush Intercontinental Airport and William P. Hobby Airport.

TSA PreCheck

The popular expedited traveler program known as PreCheck was expanded at both Bush Airport and Hobby Airport. At IAH, passengers can now find designated lanes at Terminals A, B, C and E (previously the service was only available to passengers in Terminal C). While at Hobby Airport, the service is available for the first time, with American Airlines, Delta Airlines and Southwest Airlines all participating.

Passengers enrolled in the program are typically allowed to pass through the airport security process without removing their jackets, laptops, belts, shoes and/or other items.

Karen Ellis
Director of
Customer Service



Karen Ellis was welcomed to Houston in March 2013, joining the Houston Airport System team as the Director of Customer Service. In her new role, Ellis is charged with enhancing the overall customer experience at all three airport facilities, with a special focus on serving the commercial passengers flying in and out of George Bush Intercontinental Airport and William P. Hobby Airport.

Ellis brings with her a wealth of experience in developing and maintaining robust customer service programs, as she previously served as the Senior Customer Service Manager at Atlanta’s Hartsfield-Jackson International Airport.

“My job is to empower our team members with the ability to create a positive customer experience on a consistent basis,” Ellis says.



Global Entry

While George Bush Intercontinental Airport has routinely ranked as one of the active airports for participation in the Global Entry Program, that fact has not stopped Houston Airports personnel from exploring new options designed to expand the program's popularity even further. For example, in 2013 the City of Houston opened a satellite enrollment center at the City Hall Visitor's Office, in an effort to attract even more air travelers to the program. Interested customers now have a choice between two enrollment offices at the IAH facility, along with the new enrollment center located in downtown Houston.

- Global Entry enrollment in Houston increased by 75% in 2013
- Global Entry kiosk usage in Houston increased by 90% in 2013
- Downtown enrollment center expanded hours within first year



APC

George Bush Intercontinental Airport is among the first airport facilities in North America to take advantage of Automated Passport Control kiosks in processing arriving international passengers. Twenty kiosks are now operational in the IAH Federal Inspection Services (FIS) facility, assisting passengers in entering basic passenger information electronically, rather than the traditional print method. Arriving passengers simply place their passport on the scanning portion of the kiosk and their individual data is immediately forwarded to an officer with U.S. Customs and Border Protection (CBP). This removes the need for passengers to fill out entry cards and also prevents the CBP officer from having to enter the individual's information by hand, decreasing processing time by an average of 30 to 40 percent.



automated passport control



OneStop

Passengers arriving aboard international flights will also find expedited traveler assistance with the OneStop program. A specially-designated lane located in the IAH FIS facility was made available to OneStop participants in the fourth quarter of 2012. OneStop is designed to speed the entry process for those passengers traveling without checked luggage by allowing them to bypass the baggage claim and the U.S. Customs and Border Protection Exit Control inspection area.



CLEAR

Passengers flying aboard domestic flights can now bypass the traditional lines at the TSA security checkpoint by utilizing a program called CLEAR. The CLEAR kiosks were unveiled to Houston passengers at both George Bush Intercontinental Airport and William P. Hobby Airport on Dec. 19, 2013. Passengers utilizing the CLEAR service are directed to self-serve kiosks at the TSA checkpoint location, where biometric screening techniques are used, typically allowing for entry within five minutes.



Utilizing Technology

Technology is playing a larger role in today's travel experience than ever before and the Houston Airport System is committed to strengthening its e-connection with customers through a variety of electronic and web-based improvements. In order to meet the ever increasing demand for free, fast and reliable Wi-Fi service, the Houston Airport System will be introducing a new Wi-Fi system for customers at both George Bush Intercontinental Airport and William P. Hobby Airport. The free Wi-Fi service will dramatically improve the overall customer experience by bringing faster and richer bandwidth to e-connected travelers. Our new Wi-Fi improvements will allow customers to make the most of their travel experience by staying connected at HOU and IAH, including all five terminal areas and the Consolidated Rental Car Facility at Bush Intercontinental Airport, as well as parking garages and gate holding areas.



Utilizing Technology

Power Supply

Passengers using electronic devices at George Bush Intercontinental Airport are finding more charging options, thanks to the efforts of the Houston Airport System and its partners. Throughout 2013, the Houston Airport System outfitted Terminal D with new row seating that features more than 200 power outlets and USB ports. Certain rows are specially equipped with three power stations, with each station offering passengers two electrical outlets as well as two USB ports for additional recharging options. The new Terminal B South Concourse also offers passengers a wealth of recharging options for their electronic devices.

The Personal Touch

While technological advancements can certainly have a tremendous impact in improving the overall customer experience, nothing is more important than the presence of a friendly, knowledgeable and efficient workforce. It is with this reality in mind that the Houston Airport System is adopting a uniformed and comprehensive approach to the area of customer satisfaction. We laid the groundwork for this effort in 2013 and expect to see the results of our efforts take flight in the coming year.

Houston Friendly

One of the first steps taken in the effort to improve the overall customer experience was to revitalize and reinvigorate the “Houston Friendly” program. Houston Friendly is a customer-first mindset and training philosophy that explains to employees working at the airport what is expected from them in offering assistance to passengers and other airport customers. The new Houston Friendly approach will include required training that applies to all stakeholder operators doing business at the airport, whether that work leads them to Bush Airport, Hobby Airport or Ellington Airport. The initial phase of training focused primarily on staff members with the Houston Airport System (hundreds underwent training in 2013), while Phase II calls for the outreach effort to include employees with other stakeholder organizations, such as airlines, concession/retail stores, etc.



Listening to the Customer

There is no greater resource in the quest for self-improvement than the opinion and feedback of the customer. That's why team members with the Houston Airport System are working so hard to gauge the opinions of the 50 million people that utilize our airport facilities on an annual basis. In 2013, these efforts included the execution of two major surveys, where more than 15,000 passengers were asked to voice their opinions on a variety of topics including retail options, accessibility, service at check-in, gate-area comfort and more.

Team members with HAS are also working hard to improve customer communication tools found on the fly2houston.com Web site. Customers now have access to an improved customer response form, which provides additional options in better explaining where potential shortcomings in the HAS operation may be found. The various responses generated through these communication efforts will be studied in-depth and wherever possible, changes implemented to accommodate the requests/suggestion.



Volunteers

Ambassadors: Another key to maximizing the level of customer satisfaction is the growth and expansion of the Houston Airports' Volunteer Ambassador Program. These dedicated individuals maintain a steady presence at strategic terminal locations, offering friendly, helpful assistance to millions of passengers. Whether steering passengers to a specific area of the airport or offering insight on the many activities available throughout the Houston area, these volunteers and their selfless contributions help to create a friendly and welcoming atmosphere that reflects well on the entire city.

Airport Rangers: The Houston Airports Ranger Program is yet another example of volunteers making a big difference through the donation of their time and expertise. Rangers are equine enthusiasts who undergo specialized security training in exchange for access to the many riding trails found at Bush Intercontinental Airport. The Airport Rangers not only represent an added layer of security but also an invaluable public relations tool, as they routinely represent Houston Airports through their participation in a variety of special events.



Our World, Our Community

The importance of international connectivity within the City of Houston cannot be overstated. Operating as the most diverse and dynamic major metropolitan area anywhere in the United States, the nation's fourth-largest city enhances both its economic standing and its quality of life by maintaining and enhancing an international transportation network that maximizes the presence of various viewpoints, cultures and customs.

The Houston Airport System is proud to play a major role in enhancing this cosmopolitan experience by providing the Houston market with the maximum number of international flights possible and the most efficient entry process anywhere in the U.S.

HAS enjoyed tremendous success in expanding the international route map in 2013, welcoming international air carriers Air China and Turkish Airlines, as well as formally adopting a plan to initiate regional international air service to William P. Hobby Airport.

All of these steps will undoubtedly pay enormous dividends for the entire City of Houston for decades to come.



Government Affairs

As one of the largest and most important airport systems in the national air transportation network, the Houston Airport System continues to be deeply involved in advocacy for the interests of its airports and related communities through ongoing legislative and regulatory efforts.

In addition to working closely with the FAA, the U.S. Department of Transportation, and the U.S. Department of Homeland Security, the Houston Airport System has been a consistent advocate in Congress for greater funding for U.S. Customs and Border Protection (CBP) to enhance the speed and efficiency of international passenger and cargo arrivals processing. In 2013, George Bush Intercontinental Airport was one of only three airports nationwide selected to participate in a pilot program for a public/private partnership with CBP that will enable additional staffing and increased efficiency for such processing. The Houston Airport System additionally has supported efforts to ensure ongoing TSA security for exit lanes from sterile areas in the Houston airports.

HAS representatives continued their work with team members from the FAA in the testing and implementation of “NextGen” enhancements to the air traffic control technology utilized in Houston. This included participation in a new Ground Based Augmentation System (GBAS) pilot program that decreases air traffic noise and carbon emissions by using satellite technology to offer pilots a more efficient flight path as they enter the Houston air space.

HAS also continues to play a key role in ensuring that commercial airports in Texas are presenting a unified voice to elected officials by participating in the activities of the Texas Commercial Airports Association (TCAA). Founded in 2011, TCAA looks to educate lawmakers in Austin, Texas and Washington, D.C. on the economic and cultural importance of commercial airports. Prior to stepping down in 2013, Houston’s Aviation Director Mario C. Diaz was proud to serve as the Association’s first Chairman. Diaz remains with the TCAA as a voting member and Hobby Airport General Manager Perry Miller was recently elected as the association’s secretary.

To better align the strategies of attracting and maintaining domestic and international air service, and recognizing the economic contributions airports provide to communities, states, and the nation, Houston Airports and 12 other key gateway airports joined the U.S. Travel Association (USTA). The USTA is a dynamic, mission-driven association committed to increasing travel to and within the United States. Global Airports Council (GAC), a new committee within U.S. Travel was formed to focus on ensuring that our airport facilities continually evolve - not only to keep pace with growing demand but also to secure a future air transportation system that functions optimally and on a financially sound foundation. Airports support over 10 million jobs, create annual payrolls of over \$360 billion, and produce an annual output of \$1.2 trillion.



International Relations

HAS Development Corporation (HASDC)

Houston's global influence was also enhanced through the efforts and accomplishments of the HAS Development Corporation (HASDC), an affiliate of the Houston Airport System. HASDC exports its expertise to other airport facilities around the world, helping them to identify and implement best practices within the aviation and aerospace industries.

In late 2013, senior airport officials from the Houston Airport System and the Municipality of the Metropolitan District of Quito finalized the wording on a Memorandum of Understanding (MOU), linking Houston and Quito, Ecuador into a "Sister Airport Agreement." The MOU establishes a commitment by both cities to jointly promote opportunities for increased air service between George Bush Intercontinental Airport and Quito International Airport.

The MOU aims to increase air passenger and cargo services between the two cities and develop opportunities to share knowledge in airport development and best practices. "The Houston Airport System has been a long-time partner in the development of the new Quito International Airport, and this agreement opens a new chapter of cooperation centered on enhancing air service and encouraging new trade and tourism opportunities between these two great cities," said Ian Wadsworth, Chief Commercial Officer for the Houston Airport System.

Global Aviation Initiatives

The City of Houston also influenced the adoption of best practices within the aviation industry through Global Aviation Initiatives. More than 200 government leaders and aviation executives from China and Africa came to Houston in 2013 to attend educational, professional and executive development programs. Global Aviation Initiatives not only helps to spread the experiences and lessons learned by the Houston Airport System, but it also helps to establish working relationships with aviation professionals in foreign countries potentially being targeted for new or expanded air service.

International Relations & Protocol: The City of Houston is home to the nation's third-largest consular corps, with 92 countries represented. As a result, the Houston Airport System plays a key role in facilitating the arrivals and departures of hundreds of high-level guests on an annual basis. Making sure that Houston is well represented regardless of the guest's point of origination is the responsibility of the Houston Office of Protocol & International Affairs (HOPIA), a division administered by HAS. HOPIA personnel, along with their HAS partners, also oversee the arrival and departure needs associated with the hosting of major conferences, such as the annual Offshore Technology Conference, which brings nearly 90,000 participants from 127 countries to the City of Houston.



Community Outreach

Building and maintaining positive and supportive relationships is important to the Houston Airport System, and that's why the Office of Community Relations plays such a key role in the outreach efforts undertaken by HAS. Led by Community Relations Director Rhonda Arnold, the department looks to establish close working ties with residents and business owners who are located near the three airport facilities within HAS.

Speaker's Bureau

Not surprisingly, there is a great deal of public interest when it comes to the future plans and day to day operations of all three airport facilities within HAS. The Community Relations Department looks to partner each request with the appropriate HAS representative, ensuring that the group providing the invitation is supplied with the most accurate and current information available. In 2013, HAS representatives provided public presentations to more than 30 organizations, providing valuable insight on a variety of topics ranging from construction projects to new air service options.

Chamber Partnerships

The Community Relations department within the Houston Airport System currently enjoys a well-defined working relationship with 35 individual Chambers of Commerce, representing individuals and businesses throughout the Houston region. These Chambers, and the thousands of individuals and businesses included on their membership rolls, represent an invaluable resource in regards to relaying information on upcoming economic opportunities and community impacts involving the Houston Airport System. The Community Relations Department routinely attends the various Chamber meetings occurring on a regular basis.

Education

A cornerstone mission within the HAS Community Relations division is partnering with Houston area school districts in developing new and exciting ways to expose students to the career opportunities associated with the aviation industry. This effort ranges from participation in special events such as "career days" to the facilitation of tours where students gain a firsthand understanding of the daily operations associated with a large market airport.



Airport Initiatives

Another key link within the chain connecting HAS to surrounding communities is the Airport Initiatives division, which helps organize various special events and community outreach efforts. Team members within this HAS division were especially busy in 2013, spearheading efforts designed to assist sick children, pay tribute to fallen military heroes and a host of other important outreach events.

Wreath Laying

Almost 200 employees with the Houston Airport System and their families braved cold and rainy weather for the National “Wreaths Across America” Day at Houston National Cemetery. The special wreath laying ceremony is celebrated nationally on Dec. 14 at cemeteries to honor fallen veterans.

Texas Children’s Hospital

Team members with the Houston Airport System once again brightened the holiday season for children receiving treatment at Texas Children’s Hospital and their family members. Dozens of HAS employees gather together annually to pass out gifts and holiday hats to the recovering children, in addition to offering emotional support in their time of need.

Holiday Entertainment

Students from local high schools return to help spread holiday cheer at Houston’s airports by performing holiday carols for passengers and airport employees. The entertainment is provided by orchestras, bands and choirs from neighboring elementary schools, middle schools and high schools. The Airport Initiatives division within the Houston Airport System is charged with organizing and facilitating the holiday performers.

Customer Appreciation Day

The Airport Initiatives team also engages with the community through special events, such as Customer Appreciation Day and HobbyFest. Customer Appreciation Day is held at both George Bush Intercontinental Airport and William P. Hobby Airport, with passengers receiving a host of giveaway items ranging from snacks to beach towels. Meanwhile, HobbyFest is an annual community event that promotes aviation and showcases the 1940 Air Terminal Museum. The museum offers guests a unique view of the history of commercial aviation in Houston, by bringing that history to life through rare exhibits and historical documents.



Communications

In order to ensure that the community is aware of the events, initiatives and news involving Houston Airports, the HAS Communications team works tirelessly to highlight the latest information coming from Bush Airport, Hobby Airport and Ellington Airport.

This effort involves the utilization of a variety of communication tools, including the fly2houston.com Web site, Twitter and video postings on the HAS YouTube channel. Customer response to each of these outreach efforts has been consistently overwhelming, with record numbers being posted for both web usage as well as the number of Twitter followers keeping tabs through @iah and @hobbyairport.

Twitter Stats

HOU twitter:

2011: 506 followers
2012: 1,335 followers
2013: 2,659 followers
425% Increase

IAH twitter:

2011: 1,319 followers
2012: 3,181 followers
2013: 6,108 followers
363% Increase

HOU



IAH



fly2houston stats

2013 7.2 Million
2012 5.9 Million
2011 5.3 Million



Industry Headlines

HAS Leader Named Director of the Year

Houston Aviation Director Mario C. Diaz was named Director of the Year in 2013 by Airport Revenue News (ARN), a leading trade publication within the aviation industry. Diaz was selected by ARN's editorial staff from a pool of highly qualified candidates for excelling in many key executive areas such as leadership and service.

"ARN is honored to recognize Mario's achievements and energetic brand of leadership," said Ramon Lo, Editorial Director for ARN. "The three airports under his purview are certainly benefiting from his experience working for some of the busiest airports in the United States."

Diaz arrived to Houston in 2010 after serving as the Deputy General Manager at Atlanta's Hartsfield-Jackson International Airport. During his time in Houston, Diaz has already enjoyed several major successes, including the approval of international air service at Hobby Airport, the arrival of international air carriers Air China and Turkish Airlines and the approval of city council members on establishing Ellington Airport as a licensed commercial spaceport. But Diaz says it is the significant progress made by the 1,300 HAS employees that gives him the most satisfaction.

"We are growing into a high-performance organization here at the Houston Airport System and I'm proud to represent them as we continue to secure new international air service and find ways to pilot programs that expedite and enhance the customer experience," says Diaz. "My mentors over the last 30 years have taught me to never stop learning, and I pass that enthusiasm on to our hard-working and innovative team."



In the Spotlight

Perry Miller

General Manager – William P. Hobby Airport
Alumni of the Year 2013 – Texas Southern University



Željka Momirović

Intergovernmental Relations and Protocol Manager
Honorary Partnership Award – TSA/IAH



Rhonda Arnold

Community Relations Director
Recipient of 2013 International Leadership Empowerment Award by Texas Women's Empowerment Foundation



Industry Headlines

American Airlines / US Airways Complete Merger

American Airlines officially emerged from bankruptcy in 2013, closing a blockbuster deal with US Airways to become the world's largest airline.

The parent companies of the two airlines, AMR Corp. and US Airways Group Inc., formally became American Airlines Group Inc., flying under the American Airlines name and sporting a new livery. Houston passengers will not face a significant shift as a result of the merger, since both airlines operate within the Terminal A facility at George Bush Intercontinental Airport. The two carriers are not expected to operate under a single FAA permit until 2015.

Airlines Enjoy Second Year of Profitability

After suffering through significant financial losses during the first decade of the 21st century, airlines around the globe are beginning to enjoy some success and stability. According to the International Air Transport Association (IATA), airlines worldwide are expected to post a 2013 net profit of \$12.9 billion. This would mark the second consecutive year that airlines would enjoy profitability and forecasters are projecting even greater financial success in 2014. The good news for airlines comes after a string of difficult years experienced during the period from 2008 to 2011. Stability in fuel prices and high customer demand are the two primary factors cited by industry experts as the cause behind the recent success.

787 Dreamliner Returns to Skies

After issues were resolved with the aircraft's battery supply system, the Boeing 787 Dreamliner aircraft returned to the skies in 2013. United Airlines chose Houston as the site for both its domestic and international launches featuring service aboard the Dreamliner aircraft. Domestic service was launched with a flight to Chicago's O'Hare International Airport, while the inaugural international flight connected George Bush Intercontinental Airport to Lagos, Nigeria. Since it was first designed, the 787 aircraft has received a tremendous amount of attention from industry experts, due to its minimal impact to the environment and its additional customer service features.



Technology

Today's airport customers are using technology in virtually every phase of their business and leisure trips. Whether booking their itinerary online, checking the status of their particular flight or performing a host of other technology-based tasks that are readily available in today's cyber-connected world, the 21st century passenger demands innovation and modernity from its preferred airports. Fortunately for passengers in Houston, the Houston Airport System has a Technology Department that is constantly searching for new ways to enhance the overall customer experience and improve airport efficiency by utilizing and maximizing technological capabilities.

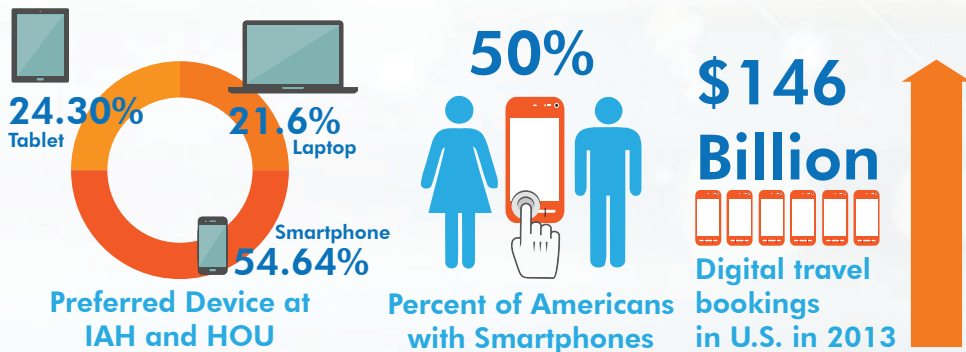
Tracking the Flow

In an effort to improve overall efficiency, the Technology Department at HAS has developed a system called "passenger cue tracking," which uses signals sent out by electronic devices to chart general trends in the flow of passenger traffic. Using this data, HAS leaders are better equipped to improve passenger processing methods, enhance retail/concession options in the appropriate locations and even maximize the level of cleanliness in terminal restroom facilities.

Minimizing the Paper Trail

Members of the Technology Department continued to utilize Web-based systems in 2013, as opposed to those dependent on paper forms and documents. For example, the entire badge renewal process is now handled through an on-line system and new badge applicants will soon have access to a similar system.

Technology Trends



Free Wi-Fi

Several significant steps were taken in 2013 in the drive to bring Houston customers free access to fast and reliable Wi-Fi service. Testing measures were carried out at various spots throughout George Bush Intercontinental Airport and William P. Hobby Airport. This service would cover all five terminal buildings at Bush Airport, along with the Consolidated Rental Car Facility. Customers at Hobby Airport will also enjoy the fast and reliable Wi-Fi service throughout the HOU facility.



Bryan Helaire, Lisa Kent, Jeff Bream, Fred McDowell

Parking

The Houston Airport System's Parking division oversees an operation that handles more than 57 million vehicles on an annual basis, entering and departing seven individual parking structures/lots and more than 30,000 spaces. Additionally, the HAS parking team also oversees a number of customer service programs, such as the courtesy shuttles (which carry passengers from their vehicles to the closest elevator) and valet parking (a service that allows customers to drive into reception areas and drop off their vehicle with an attendant prior to walking straight into their designated terminal facility).

Dramatic Growth

Customer response to these programs and others like it was overwhelmingly positive in 2013. Throughout the course of the year, HAS recorded dramatic growth in the number of people utilizing the airport's valet parking program, as well as the number of drivers taking advantage of the portable car wash service. In 2013, more than 42,000 customers took advantage of the valet parking service at Bush Intercontinental Airport, while an additional 25,000 customers were served at Hobby Airport. The car wash service was also a big hit. The service uses a high-pressure nozzle that turns water into a near vapor, minimizing the amount of water drainage and making the service extremely environmentally friendly.



Pearlousa Hurd, Kenneth Roy, Liliana Rambo, Anthony Shipp

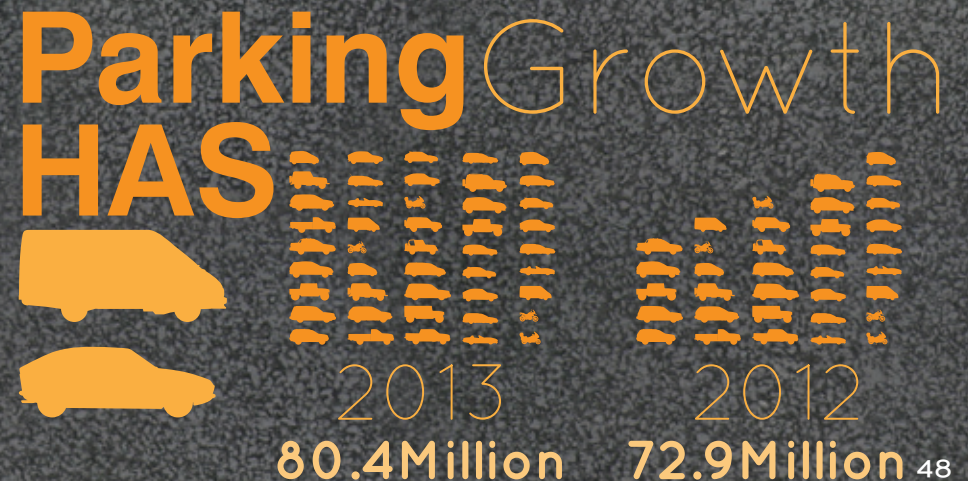
Reserve Your Space

Customer service within the HAS parking operation took another major step forward in 2013 with the unveiling of a parking space reservation system at George Bush Intercontinental Airport. Customers wishing to park in the uncovered section of the ecopark parking lot can now reserve a space prior to their arrival, simply by visiting fly2houston.com and providing some basic information. Once the process is complete, customers are guaranteed a space during their designated travel dates and the airport system even has a no-fee cancellation policy, provided the customer gives a minimum eight hour notice.

Industry Representation

The HAS parking division received international acclaim in 2013 when the ecopark parking operation at IAH was given an Award of Excellence from the International Parking Institute (IPI). The recognition from IPI is the result of a restructuring and rebranding effort involving the airport system's previous parking operation. The change involved switching the operation's fleet of 30 shuttle buses to a compressed natural gas (CNG) fueling system utilizing and changing the name from "Parking Cents" to "ecopark."

"We had one clear goal throughout this process and that was to improve the environmental impact of our parking operation," says Houston Airport System Parking Director, Liliana Rambo, CAPP. "That was the compass that kept us moving in the right direction, and the new name and the switch to CNG simply stemmed from that commitment."



Good Stewardship



Electric Vehicle Charging

Dozens of electric vehicle charging stations are now available to customers at George Bush Intercontinental Airport, as the City of Houston's green initiative takes another major step forward.

Twenty-four charging stations are now up and running at Bush Airport, with the power available to drivers at absolutely no charge.

"We've taken a number of steps in recent years in an effort to reduce the environmental impact of our airport facilities," says Houston Aviation Director Mario C. Diaz. "Hybrid vehicles, solar power utilization and energy efficient lighting are just a few of the steps that we've already taken and I'm extremely proud to add electric vehicle accommodation to that list."

The City of Houston has already made great progress in making charging stations readily available to owners of electric cars, installing more than 200 such stations at various locations across the city. The Houston Airports project is largely the result of a federal grant from the Department of Energy totaling almost \$240,000.

The 24 charging stations will be placed at various sites in parking facilities located across IAH.



GBAS Approaches

On April 22, 2013, George Bush Intercontinental Airport became one of only two airports in the nation to utilize a new precision approach system, designed to decrease air traffic noise and reduce weather-related delays.

The Ground Based Augmentation System (GBAS) utilizes global positioning satellite (GPS) signals so they can be used for precision navigation in the approach and landing phases of flight.

With more precise data, pilots are able to utilize a more direct path to their designated runway at IAH, thereby lessening the amount of fuel required for the flight and minimizing the noise impact to the surrounding communities.

"Houston Airports are among the most innovative and progressive in the nation when it comes to safety and efficiently connecting passengers to destinations around the world," said Mario Diaz, Houston Aviation Director. "It is imperative that we continue to invest in new technology that enhances the aviation sector."

GBAS represents a pilot program launched by the Federal Aviation Administration as part of its migration towards a satellite-based navigation system, utilizing the same type of GPS technology that is commonplace in most new cars today. The GBAS program is part of the FAA's overall initiative known as "NextGen," which is designed to enhance the presence of modern technology in the day-to-day operations at U.S. airports.

Vehicles

The Houston Airport System took significant steps in 2013 towards minimizing the environmental impact associated with vehicle traffic. In addition to maintaining a fleet of passenger shuttle buses that use clean natural gas, HAS also continues to utilize hybrid vehicles in meeting the transportation needs associated with its internal team members. After purchasing its first hybrid vehicle in 2005, HAS now has a total of 78 hybrids in its fleet, in addition to using clean natural gas in the fueling of all its parking shuttle buses. Good news on the environmental front was also found with the opening of a second “Cell Phone Lot” at George Bush Intercontinental Airport. Located at John F. Kennedy Boulevard and Rankin Road, the lot allows drivers a free place to park and wait for their arriving passenger. The JFK lot, and the one located along Will Clayton Parkway, helps reduce carbon emissions at the airport since drivers no longer have to loop the airport property in waiting for their arriving party.

On-Line Badging

Sometimes it's the simplest steps that have the biggest impact. One example of this common sense approach can be found in the Houston Airport System's switch to an electronic-based method of badging personnel. Employees requiring an HAS badge (which is approximately 35,000 individuals from various airlines, Transportation Security Administration and other companies and agencies) now begin the application process by filling out the required forms online, rather than on paper. The web-based approach is not only more time-efficient, but also lessens the environmental impact associated with the badging and record-keeping process.



Planning, Design & Construction

PDC

As the airport facilities of the Houston Airport System find themselves enjoying record-setting growth, members of the Planning, Design and Construction (PDC) team find themselves working with an extremely busy daily calendar that's quickly filling up with projects designed to support that growth.

During 2013, the PDC team completed the planning, design and construction of more than 200 projects, bringing improvements to a variety of areas at all three HAS airport facilities. These projects routinely enhanced both operational efficiency as well as the overall customer experience, and often did so with award-winning results.

Some examples include:

Central Utility Plant - IAH

The central utility plant (CUP) was upgraded at George Bush Intercontinental Airport in 2013, leading to greater cooling and heating efficiency within all five terminal facilities, as well as a lessened environmental impact at IAH. The project was funded in part through an \$8.8 million grant from the Federal Aviation Administration (FAA) and its Voluntary Airport Low Emission (VALE) Program. The new CUP saves the airport 5 million cubic meters of natural gas each year, eliminating an estimated 8.5 tons of ozone precursor emissions annually. These results were enough to catch the attention of company leaders with Centerpoint Energy, who recognized the project as part of its 2013 SCORE Lite Market Transformation Program.

ecopark 2 - HOU

Customers at William P. Hobby Airport gained access to hundreds of additional parking spaces, thanks to the efforts of PDC team members. The ecopark 2 parking lot was expanded by more than 600 parking spaces, lifting the total ecopark inventory to 1,022. The additional parking spaces were made available to the public on Nov. 20, just in time for the holiday rush at Hobby Airport.

ecopark 2 - IAH

ecopark 2 is also being expanded at George Bush Intercontinental Airport, with the new lot slated to be constructed off Will Clayton Parkway along the eastern entrance of the airport facility. Design work on the project was completed in 2013 and construction is slated to begin in the coming year, with more than 2,000 new covered parking spaces standing as the end result.



Parking Garage - HOU

PDC crews also spearheaded a redevelopment project designed to bring structural improvements to the covered parking garage at Hobby Airport and once again the results were enough to garner both attention and an award from industry leaders.

The project brought necessary improvements to the bridge connectors that lie between the HOU parking structure itself and the helixes that allow for driver entry and exits. The work was carried out in such a fashion that it caught the attention of the International Concrete Repair Institute, which singled out the project for its Award of Excellence for 2013.

Executive Lounge & Restroom Facilities

Major renovation programs were launched in 2013 at IAH, bringing about substantial improvements to the restroom facilities in Terminal A, as well as the Executive Lounge area of Terminal D.

The restroom facilities inside Terminal A were completely remodeled, with the installation of new countertops, floors, fixtures and lighting. The amount of space designated for restroom facilities was also expanded during the construction project. A host of improvements began inside the Terminal D Executive Lounge. New carpeting and enhanced lighting features were installed to enhance the overall customer experience. Construction crews also redesigned the layout of the lounge in order to accommodate additional customer seating.

Improving the Workflow

Members of the PDC team took numerous steps in 2013 designed to improve the department's overall workflow and create a more streamlined process throughout the life of a given HAS project. This focus led to the establishment of a Project Management Office and a formalized Project Control System.

Both are designed to enhance the interconnectivity within the PDC operation by bringing together the financial, design and construction aspects of various projects. The Project Management Office is also spearheading the PDC drive to establish an overall Electronic Document Management program, which will minimize the department's reliance on paper documentation, helping both efficiency and the environment in the process.



Office of Business Opportunity

The Houston Airport System Office of Business Opportunity (OBO) is committed to supporting a vibrant and thriving business community in Houston by promoting the utilization of locally owned Small, Minority, Women and Disadvantaged Business Enterprises (SMWDBE's).

The OBO seeks to maximize the level of meaningful participation by underutilized groups in the government procurement process. As a result, small businesses operating in the Houston area enjoy greater access to business opportunities presented through government related projects. This access greatly enhances the company's overall chances for economic success.

During 2013, the Houston Airport System awarded more than \$20 million to certified SMWDBE companies. Since 2008, the airport system has recorded a 50 percent growth in the level of participation enjoyed by underutilized companies, an accomplishment due primarily to an aggressive outreach campaign.

In the spring of 2013, the Houston Airport System and OBO representatives once again hosted the "Runway to Business Opportunity Fair," which brings together more than 500 businesses, including prime contractors and small, minority and women owned firms in order to better educate them on gaining access to airport related construction projects.



Art

It was yet another busy year for the Houston Airport System's Public Art Program and its Director Pam Ingersoll. More than one hundred new works of art were added to the airport system's collection in 2013, including 2D paintings and 3D sculptures.

In celebration of these terrific new arrivals, the airport system held its first ever "Art Crawl" event. The reception and formal unveiling was held at George Bush Intercontinental Airport and brought together artists, art professionals and collectors for a close-up look at the new works of art.

In addition to the installation of these new works, organizers behind the airport's Art Program were also busy spearheading four unique traveling exhibitions:

- Making A Mark* art exhibition from the Periwinkle Foundation and Texas Children's Cancer Center
- Houston Livestock Show & Rodeo Art Display
- Air Alliance Houston's Children's Art Exhibition
- MD Anderson's Children's Art Exhibition



Shaping Our Journey

Employees with the Houston Airport System were introduced to two new divisions in 2013, both of them tasked with moving the HAS team closer to the overall goal of becoming a “High Performance Organization.”

The Corporate Strategy & Performance (CSP) division provides internal consulting expertise for all employees, as they work towards the establishment and eventual accomplishment of key business unit goals. Employees were also introduced to the Human Capital Management (HCM) division in 2013. Team members with the HCM division, which replaced the traditional Human Resources business structure, promote talent development, analyze organizational alignment and work tirelessly to establish a “culture of excellence” within the Houston Airport System’s working environment.

Corporate Strategy & Performance

Corporate Strategy and Performance supports the Houston Airport System by providing mission critical intellectual capital that enables the organization to accomplish its mission and vision. CSP team members communicate effectively across organizational lines and orchestrate process improvement, change management, effective analysis and performance measurement. Their expertise lies in their ability to translate strategy into action and they provide their colleagues with a strategy framework in which team members can collaboratively reach effective decisions and improve operational efficiency and productivity.

One of the key steps undertaken by the CSP team in 2013 was the establishment and implementation of an improved set of core values for the entire Houston Airport System organization. While not a dramatic departure from the previous list, the new core values bring a more focused set of expectations that clearly define the direction and essence of the HAS team moving forward. The four core values of the Houston Airport System are now relationships, innovation, service and excellence.



RELATIONSHIPS • INNOVATION • SERVICE • EXCELLENCE
Houston Airport System



Justina Mann, Jerry Crenshaw, Marie Anderson, Bill Van Ravenswaay, Neval Sturm

In addition to revising the HAS core values, CSP team members were also busy in 2013 introducing employees to other important improvement techniques. These included the following:

Operational Excellence Project Encourages employees to seek out ways in which operational efficiency can be improved through structured goal setting and group evaluation techniques.

Lean Six Sigma Training Numerous employees were exposed for the first time in 2013 to the managerial concepts and training steps associated with Lean Six Sigma. The popular program seeks to eliminate unnecessary tasks and improve efficiency by utilizing a color-coded belt system that rewards efficiency.

Internal Consulting Throughout 2013, a heavy emphasis was placed on maximizing the capabilities and production associated with in-house talent. Steps were first taken to identify and categorize the collective skillset associated with the 1,300 HAS employees and then subsequent plans were developed in an effort to maximize those asset to their fullest potential.

Self Empowerment Members of the Houston Airport System team seek to establish themselves as a “High Performance Organization,” cultivating and promoting a sense of “ownership” is promoted throughout the entire team.

Human Capital Management

The Human Capital Management (HCM) business unit of the Houston Airport System has a shared responsibility for the overall results of the business by balancing the interest of Human Resources and that of the business. Rather than solely concentrating on HR duties, such as benefits, payroll and employee relations, HCM provides consulting services and ensures that operational excellence in HR is delivered.

HCM focuses on the delivery of people services and processes for 1,295 team members that improve and build a high performing workforce, proactively plans for future talent needs; maximizes resources and employs the best business practices available.

Utilizing the Human Resources Business Partner (HRBP) model, HCM participates as a strategic business partner to the client clearly understanding their challenges, initiatives and business model. This offers an opportunity to successfully ensure a greater level of collaboration of the different functions with HCM, increasing the effectiveness and seamlessly synchronization of effort as we align to the business strategy and service to the business needs.

HCM works to fulfill the Houston Airports mission of connecting the people, business, cultures and economies of the world to Houston by building organizational capabilities which promote a culture of excellence, high performance and accountability aimed at realizing the full potential of our team members.

The Human Capital Management business unit, rebranded in 2013, handles a variety of tasks for the Houston Airport System including: talent acquisition and retention; client services; internal communications; learning and development; and analytics.

☞ Talent Acquisition and Retention assumes the responsibility of building a high-performing workforce by proactively collaborating with the business to plan for current and future talent needs, and obtain the right people, with the right skills, for the right jobs.

☞ Shared Services ensures an HR center of excellence that provides cost effective programs and excellent customer service which exceeds stakeholder expectations that are effective and efficient.

☞ Internal Communications connects team members by ensuring communications channels are clear, regular, open and relevant, and are aligned with the business strategy.

☞ Learning and Development build capabilities and core competencies that deliver organizational results and encourage, supports and invests in the short and long-term professional development of our team members.

☞ Analytics leverages data to provide meaningful information to make informed business decisions.



Maria Fink, Tamara Smith, Harleen Smith, Brenda Younger, Gloria Hicks

Finance

Keeping Our Airports in the Green: Fund the Future

The purpose of our Finance Team is to effectively collaborate with all of the business units to ensure the financial health of the Houston Airport System. With attention to detail, the team is responsible for management reporting, metrics reporting, rates and charges, accounts payable, accounts receivable, fixed asset/construction/grant accounting, general accounting, annual Financial Report pursuant to Governmental Accounting Standards Board (GASB) standards, investor relations, liquidity management, debt management, effective use of grants and passenger facility charges (PFCs), budgeting, financial analysis of the Capital Improvement Program, Operations and Maintenance expenses and Capital equipment outlay and audit coordination.

In support of the overall purpose of the Finance & Accounting Business Unit, the Finance Team is comprised of the following sections:

Financial Planning & Analysis:

Financial Planning and Analysis (FP&A) provides management reporting, financial planning and analysis related to the organization's annual O&M and capital equipment outlay budgets. It sets the annual airline rates and charges which generate the majority of the Houston Airport System's annual revenues. It also assists in maintaining the financial health of the Houston Airport System through collaborative efforts with all business units. The FP&A team also ensures the integrity of the financial data available for decision making.

Accounting:

This team processes and monitors the Airport System financial transactions and reports results to management, other HAS departments, the City of Houston, regulatory agencies, industry organizations, financial institutions, and all other stakeholders. The Department operates in four distinct sections: Accounts Receivable (Revenue and Ground Transportation Permitting), Accounts Payable (Disbursements), Fixed Assets/Construction/Grants, and General Ledger/Financial Reporting. The Accounting division ensures that the Houston Airport System complies with the financial regulations set by the FAA and GASB. The department interfaces with the City of Houston Controller's Office and the City's Finance Department.

Treasury & Financial Programs:

With critical oversight, this division manages airport liquidity, financial risk, investor relations, and raises funds through the issuance of bonds and commercial paper; ensures efficient use of grants and PFCs. Specific responsibilities include;

- Working with various stakeholders to lead the development and implementation of the CIP financing plan
- Raising money through the issuance of capital markets or bank transactions
- Lowering interest expense or reduce debt service through refunding transactions
- Leading the process to effectively track and maximize the use of grants and PFCs

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The information and reports provided are an excerpt of the entire Houston Airport System Comprehensive Annual Financial Report (CAFR) which can be viewed at www.fly2houston.com/about-financial-information.

Financial Highlights

The Airport System Fund's net position decreased by \$23.1 million or 1.7% during fiscal year 2013 and decreased by \$36.0 million or 2.5% during fiscal year 2012.

In fiscal year 2013, operating income increased \$27.2 million or 73.3%, due to a decrease in total operating expenses of \$11.8 million or 2.6% and an increase in operating revenue of \$15.4 million or 3.7%. In fiscal year 2012, operating income decreased \$0.2 million or 0.6%, due to an increase in operating expenses of \$7.4 million or 1.6% and an increase in operating revenue of \$7.1 million or 1.7%.

Maintenance and operating expenses increased \$8.0 million or 3.0% in fiscal year 2013 and decreased \$20.2 million or 7.1% in fiscal year 2012. Depreciation expense decreased \$19.8 million or 10.4% in fiscal year 2013 and increased \$27.6 million or 16.9% in fiscal year 2012.

Investment income decreased by \$7.6 million or 134.3% in fiscal year 2013 and decreased by \$4.1 million or 41.9% in fiscal year 2012.

The Fund had a net loss before capital contributions of \$35.8 million, compared to a net loss before capital contributions of \$51.0 million in fiscal year 2012.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Airport System 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, consisting of George Bush Intercontinental Airport (Intercontinental), William P. Hobby Airport (Hobby), and Ellington Airport, 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. Increases and decreases 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, and acquisition or retirement of capital assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Net Position

Total net position at June 30, 2013 was \$1,371.4 million, a 1.7% decrease from June 30, 2012.

Total net position at June 30, 2012 was \$1,394.5 million, a 2.5% decrease from June 30, 2011.

Approximately half of the Fund's total net position (40.4% in fiscal year 2013; 44.3% in fiscal year 2012) reflects net investment 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 or other sources procured by the airport fund, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Fund's net position (59.6% in fiscal year 2013; 55.7% in fiscal year 2012) 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 position carried in cash and cash equivalents at the end of the fiscal year be restricted for future capital improvements.

NET POSITION JUNE 30, 2013, JUNE 30, 2012, and JUNE 30, 2011 (in thousands)

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Current assets	\$ 325,230	\$ 306,886	\$ 310,875
Noncurrent assets	773,579	760,400	766,433
Capital assets	<u>2,835,158</u>	<u>2,924,624</u>	<u>3,007,398</u>
Total assets	<u>3,933,967</u>	<u>3,991,910</u>	<u>4,084,706</u>
Current liabilities	175,616	157,250	171,876
Long term liabilities	<u>2,386,918</u>	<u>2,440,150</u>	<u>2,482,340</u>
Total liabilities	<u>2,562,534</u>	<u>2,597,400</u>	<u>2,654,216</u>
Net investment in capital assets	554,262	618,155	663,917
Restricted net assets	<u>817,171</u>	<u>776,355</u>	<u>776,573</u>
Total net position	<u>\$ 1,371,433</u>	<u>\$ 1,394,510</u>	<u>\$ 1,430,490</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Changes in Net Position

From July 1, 2012 to June 30, 2013, net position of the Airport System Fund decreased by \$23.1 million or 1.7%.

From July 1, 2011 to June 30, 2012, net position of the Airport System Fund decreased by \$36.0 million or 2.5%.

Operating revenues increased by \$15.4 million or 3.7% for fiscal year 2013 and by \$7.1 million or 1.7% for fiscal year 2012 even though enplaned and deplaned passenger volume decreased in fiscal year 2013 by 0.7% and increased by 1.7% in fiscal year 2012. Operating revenue increases in fiscal year 2013 over fiscal year 2012 were a result of increases in parking fees charged and upgrades made in the concessions areas.

Total operating expenses decreased \$11.8 million or 2.6% for fiscal year 2013. Maintenance and operating expense increased by \$8.0 million or 3.0% but this increase was offset by a decrease in depreciation of \$19.8 million or 10.4%. Included in the \$8.0 million increase in maintenance and operating expense is a \$6.5 million impairment. The decrease in depreciation is a result of the one-time \$14.9 million adjustment recorded in fiscal year 2012. In fiscal year 2012, operating expenses increased \$7.4 million or 1.6%. Maintenance and operating expense decreased by \$20.2 million or 7.1% but this decrease was offset by an increase in depreciation of \$27.6 million or 16.9% which was attributable to a large amount of Work-in-Progress assets being placed into service in fiscal year 2012. Base salary in 2012 decreased \$4.3 million or 3.9% due mainly to the effect of staff reductions at the end of the prior fiscal year.

CHANGES IN NET POSITION YEARS ENDED JUNE 30, 2013, JUNE 30, 2012, and JUNE 30, 2011 (in thousands)

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Operating revenue:			
Landing area fees	\$ 91,059	\$ 86,935	\$ 90,384
Rentals, building and ground	181,701	182,320	181,182
Parking and concessions	155,361	144,219	134,985
Other	4,873	4,076	3,851
Total operating revenues	<u>432,994</u>	<u>417,550</u>	<u>410,402</u>
Nonoperating revenue:			
Investment income (loss)	(1,935)	5,634	9,700
Passenger facility charges	61,195	63,550	63,138
Other nonoperating	1,978	4,644	3,409
Total nonoperating revenues	<u>61,238</u>	<u>73,828</u>	<u>76,247</u>
Total revenues	<u>494,232</u>	<u>491,378</u>	<u>486,649</u>
Operating expenses:			
Maintenance and operating	272,091	264,060	284,307
Depreciation	170,846	190,664	163,054
Total operating expenses	<u>442,937</u>	<u>454,724</u>	<u>447,361</u>
Nonoperating expenses:			
Interest expense	87,358	87,652	91,133
(Gain) / Loss on disposal of assets	(225)	11	(1,241)
Total nonoperating expenses	<u>87,133</u>	<u>87,663</u>	<u>89,892</u>
Total expenses	<u>530,070</u>	<u>542,387</u>	<u>537,253</u>
Excess (deficit) before contributions	(35,838)	(51,009)	(50,604)
Capital contributions	<u>12,761</u>	<u>15,029</u>	<u>44,135</u>
Change in net position	(23,077)	(35,980)	(6,469)
Net position, July 1	1,394,510	1,430,490	1,436,959
Net position, June 30	<u>\$ 1,371,433</u>	<u>\$ 1,394,510</u>	<u>\$ 1,430,490</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Capital contributions in fiscal year 2013 decreased by \$2.3 million or 15.1% over fiscal year 2012. Capital contributions represent grant awards which primarily cover multi-year construction projects for which HAS ultimately receives reimbursement. The decrease in the current year is a result of a decrease in fiscal year entitlement grant reimbursements, partially offset by an increase in Homeland Security grant reimbursements. In fiscal year 2012, capital contributions decreased by \$29.1 million or 65.9% over fiscal year 2011. The decrease is attributable to timing differences in construction on entitlement grants and a decrease in discretionary grants.

Non-operating revenue decreased by \$12.6 million or 17.1% in fiscal year 2013. This included a \$7.6 million decrease in investment income, due to a decline in the investment yield and unrealized losses in the City's general investment pool. There was also a \$2.3 million decrease in passenger facility charge collections and a decrease of \$2.7 million in other revenue attributable to recognition of previously deferred Hurricane Ike damage reimbursements in fiscal year 2012. In fiscal year 2012, non-operating revenue decreased by \$2.4 million or 3.0%. The decrease was due to a decline in the investment yield from the City's general investment pool.

In fiscal year 2013, interest expense decreased by \$0.3 million or 0.3% because of the reduction in outstanding debt. In fiscal year 2012, interest expense decreased by \$3.5 million or 3.8%. This was due partly to reductions in both variable interest rates and the outstanding debt. In fiscal year 2012, the fund further decreased interest expense through the issuance of Revenue Refunding Bonds, Series 2011A, 2011B, 2012A and 2012B.

Capital Assets

The Airport System Fund's investment in capital assets amounts to \$2.8 billion at June 30, 2013, a decrease of \$89.5 million, or 3.1%, from June 30, 2012. Capital assets at June 30, 2012 were \$2.9 billion which was a decrease of \$82.8 million, or 2.7%, from June 30, 2011.

CAPITAL ASSETS JUNE 30, 2013, JUNE 30, 2012, and JUNE 30, 2011 (net of accumulated depreciation in thousands)

	June 30, 2013	June 30, 2012	June 30, 2011
Land	\$ 209,967	\$ 210,568	\$ 210,091
Rights & Intangibles - Non-Depreciable	8,070	7,670	7,016
Buildings and building improvements	1,618,416	1,668,786	1,472,872
Improvements other than buildings	840,944	895,307	950,859
Equipment	41,565	46,148	52,647
Rights & Intangibles - Amortizable	1,757	478	635
Construction work in progress	114,439	95,667	313,278
	<u>\$ 2,835,158</u>	<u>\$ 2,924,624</u>	<u>\$ 3,007,398</u>

The major on-going capital projects during fiscal year 2013 at George Bush Intercontinental Airport included the redevelopment of Terminal B South into a 30 gate, ground loaded regional jet facility and central holdroom, the planning phase of the redevelopment of Terminal D, and the continued improvement of taxiways and runways. The primary projects at William P. Hobby Airport include the design of a new parking garage, utility improvements and a new facility maintenance shop.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Debt

At the end of the current fiscal year, the Airport System Fund had total debt of \$2.3 billion, which represents outstanding senior and subordinate lien revenue bonds net of unamortized discounts, premiums and deferred amounts and an inferior lien contract, all secured solely by Airport Fund revenues. In addition, the Fund is responsible for \$2.0 million of pension obligation bonds. At the end of fiscal years 2013 and 2012, the Fund had total debt of \$2.3 billion and \$2.4 billion respectively.

Total outstanding debt decreased \$61.6 million or 2.6% during fiscal year 2013, with \$57.6 million in principal payments, and \$4.0 million in amortizations, mostly premium amortization. During fiscal year 2012, total outstanding debt decreased \$52.6 million or 2.1%. This decrease was due to \$65.2 million in principal repayments, offset by a \$12.6 million increase due to the issuance of City of Houston, Texas, Airport Subordinate Lien Revenue Refunding Bonds, Series 2011A, 2011B, 2012A, and 2012B.

OUTSTANDING DEBT JUNE 30, 2013, JUNE 30, 2012, and JUNE 30, 2011 (in thousands)

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Senior lien debt:			
Long-term revenue bonds payable	\$ 449,660	\$ 449,660	\$ 449,660
Unamortized discounts and premium	(1,011)	(1,137)	(1,255)
Total senior lien debt	<u>448,649</u>	<u>448,523</u>	<u>448,405</u>
Subordinate lien debt:			
Current maturities-revenue bonds	55,045	52,805	52,285
Long-term revenue bonds payable	1,756,110	1,811,155	1,939,075
Unamortized discounts, premium, or deferred amounts on refunding	45,427	49,544	(29,716)
Total subordinate lien debt	<u>1,856,582</u>	<u>1,913,504</u>	<u>1,961,644</u>
Inferior lien debt:			
Current maturities-contract	5,040	4,780	4,535
Long-term contract payable	23,075	28,115	32,895
Total inferior lien debt	<u>28,115</u>	<u>32,895</u>	<u>37,430</u>
Other debt:			
Pension obligation bonds	<u>2,006</u>	<u>2,006</u>	<u>2,006</u>
Total other debt	<u>2,006</u>	<u>2,006</u>	<u>2,006</u>
Total outstanding debt	<u>\$ 2,335,352</u>	<u>\$ 2,396,928</u>	<u>\$ 2,449,485</u>

The underlying ratings of the Airport System Fund's obligations for fiscal year 2013:

	<u>As of June 30, 2013</u>	
	<u>Senior</u>	<u>Subordinate</u>
Standard & Poor's	AA-	A
Moody's	Aa3	A2
Fitch's	Not Rated	A+

STATEMENT OF NET POSITION (in thousands) June 30, 2013 and 2012

Assets	2013	2012
Current assets		
Cash and cash equivalents	\$ 293,890	\$ 260,954
Accounts Receivable (net of allowance for doubtful accounts of \$4,088 in 2013 and \$3,572 in 2012)	10,963	25,667
Due from City of Houston	1,781	1,282
Inventory	1,758	2,094
Prepays	8,112	12,018
Due from other governments - grants receivable	8,614	4,713
Restricted assets - investments	<u>112</u>	<u>158</u>
Total current assets	<u>325,230</u>	<u>306,886</u>
Noncurrent assets		
Cash and cash equivalents	753,452	739,060
Restricted assets - investments	6,589	6,589
Unamortized costs	13,538	14,751
Capital Assets		
Land	209,967	210,568
Intangibles	10,562	8,522
Buildings, improvements and equipment	4,636,173	4,576,702
Construction in progress	<u>114,439</u>	<u>95,667</u>
Total capital assets	4,971,141	4,891,459
Less accumulated depreciation	<u>(2,135,983)</u>	<u>(1,966,835)</u>
Net capital assets	<u>2,835,158</u>	<u>2,924,624</u>
Total noncurrent assets	<u>3,608,737</u>	<u>3,685,024</u>
Total assets	<u>\$ 3,933,967</u>	<u>\$ 3,991,910</u>

STATEMENT OF NET POSITION (in thousands) June 30, 2013 and 2012

Liabilities	2013	2012
Current Liabilities		
Accounts payable	\$ 10,097	\$ 6,950
Accrued payroll liabilities	1,808	1,621
Due to City of Houston	372	1,852
Advances and deposits	1,584	1,589
Deferred revenue	7,546	7,072
Claims for workers' compensation	959	926
Compensated absences	5,559	5,389
Revenue bonds payable	55,045	52,805
Inferior lien contract payable	5,040	4,780
Accrued interest payable	48,362	42,783
Contracts and retainages payable	39,244	31,483
Total current liabilities	<u>175,616</u>	<u>157,250</u>
Long-term liabilities		
Revenue bonds payable, net	2,250,186	2,309,222
Inferior lien contract, net	23,075	28,115
Pension obligation bonds payable	2,006	2,006
Claims for workers compensation	1,886	1,864
Compensated absences	5,931	6,577
Net pension obligation payable	48,809	45,477
Other post employment benefits	54,194	46,889
Other long-term liabilities	831	-
Total long-term liabilities	<u>2,386,918</u>	<u>2,440,150</u>
Total liabilities	<u>2,562,534</u>	<u>2,597,400</u>
Net Position		
Net investment in capital assets	554,262	618,155
Restricted net position		
Restricted for debt service	208,100	185,167
Restricted for maintenance and operations	46,309	44,023
Restricted for renewal and replacement	10,000	10,000
Restricted for capital improvements	552,762	537,165
Total net position	<u>\$ 1,371,433</u>	<u>\$ 1,394,510</u>

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (in thousands) For Years Ending June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating Revenues		
Landing area fees	\$ 91,059	\$ 86,935
Rentals, building and ground area	181,701	182,320
Parking	77,596	72,833
Concessions	77,765	71,386
Other	<u>4,873</u>	<u>4,076</u>
Total operating revenues	<u>432,994</u>	<u>417,550</u>
Operating Expenses		
Maintenance and operating	272,091	264,060
Depreciation	<u>170,846</u>	<u>190,664</u>
Total operating expenses	<u>442,937</u>	<u>454,724</u>
Operating income (loss)	<u>(9,943)</u>	<u>(37,174)</u>
Nonoperating revenues (expenses)		
Investment income (loss)	(1,935)	5,634
Interest expense	(87,358)	(87,652)
Gain / (Loss) on disposal of assets	225	(11)
Passenger facility charges	61,195	63,550
Other revenue	<u>1,978</u>	<u>4,644</u>
Total nonoperating revenues (expenses)	<u>(25,895)</u>	<u>(13,835)</u>
Income/(loss) before capital contributions	(35,838)	(51,009)
Capital contributions	<u>12,761</u>	<u>15,029</u>
Change in net position	<u>(23,077)</u>	<u>(35,980)</u>
Total net position, July 1	<u>1,394,510</u>	<u>1,430,490</u>
Total net position, June 30	<u><u>\$ 1,371,433</u></u>	<u><u>\$ 1,394,510</u></u>

STATEMENTS OF CASH FLOWS (in thousands) FOR YEARS ENDED JUNE 30, 2013, AND 2012

	2013	2012
Cash flows from operating activities		
Receipts from customers	\$ 448,169	\$ 411,427
Payments to employees	(92,792)	(97,462)
Payments to suppliers	(93,390)	(100,295)
Payments to the City of Houston	(49,695)	(58,616)
Claims paid	(960)	(926)
Other revenues	1,978	4,644
	<hr/>	<hr/>
Net cash provided by operating activities	213,310	158,772
	<hr/>	<hr/>
Cash flows from investing activities		
Sale of investments	8,340	8,486
Purchase of investments	(8,294)	(8,555)
Interest income on investments	(1,935)	5,634
	<hr/>	<hr/>
Net cash (used for) provided by investing activities	(1,889)	5,565
	<hr/>	<hr/>
Cash flows from noncapital financing activities		
Interest expense pension obligation bonds	(107)	(107)
Deferred charges on future debt issuance	-	386
	<hr/>	<hr/>
Net cash (used for) provided by noncapital financing activities	(107)	279
	<hr/>	<hr/>
Cash flows from capital and related financing activities		
Retirement of revenue bonds	(52,805)	(60,995)
Proceeds (use of cash) from issuance of debt	(651)	1,124,584
Refunding of revenue bonds	-	(1,119,089)
Interest expense on debt	(93,629)	(115,098)
Retirement of inferior lien contract	(4,780)	(4,535)
Passenger facility charges	61,195	63,550
Contributed capital	8,860	16,283
Acquisition of capital assets	(82,176)	(97,580)
	<hr/>	<hr/>
Net cash (used for) capital and related financing activities	(163,986)	(192,880)
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	47,328	(28,264)
Cash and cash equivalents, beginning of year	1,000,014	1,028,278
	<hr/>	<hr/>
Cash and cash equivalents, end of the year	<u>\$ 1,047,342</u>	<u>\$ 1,000,014</u>

STATEMENTS OF CASH FLOWS (in thousands) FOR YEARS ENDED JUNE 30, 2013, AND 2012

	<u>2013</u>	<u>2012</u>
Noncash transactions		
Capitalized interest expense	\$ 9,189	\$ 17,933
Capital additions included in liabilities	8,412	1,379
Loss (gain) on disposal of assets	<u>225</u>	<u>(11)</u>
Noncash transactions	<u>\$ 17,826</u>	<u>\$ 19,301</u>
 Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	\$ (9,943)	\$ (37,174)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	170,846	190,664
Impairment of capital asset	6,513	-
Capital improvement plan expense	12,939	8,660
Other revenues	1,978	4,644
Changes in assets and liabilities		
Accounts receivable	14,705	(3,493)
Due from the City of Houston	(499)	(329)
Inventory and prepaids	4,242	(9,356)
Accounts payable	3,137	(2,003)
Accrued payroll liabilities	187	(2,970)
Due to the City of Houston	(1,480)	644
Advances and deposits	469	(2,631)
Other post-employment benefits	3,332	3,394
Net pension obligation payable	7,305	8,614
Claims for workers' compensation	55	163
Compensated absences	<u>(476)</u>	<u>(55)</u>
 Net cash provided by operating activities	 <u>\$ 213,310</u>	 <u>\$ 158,772</u>

Houston Airport System Leadership

HOUSTON AIRPORT SYSTEM AS OF DECEMBER 31, 2013:

Aviation Director, Executive Officer
Deputy Director, Chief Operating Officer
Deputy Director, Chief Commercial Officer
Acting Chief Financial Officer
Deputy Director, Chief Development Officer
Deputy Director, Chief External Affairs Officer
Deputy Director, Chief Technology Officer
Deputy Director, Chief Strategy & Performance Officer
Deputy Director, Chief Human Resources Officer
General Manager, Intercontinental Airport
General Manager, Hobby Airport
Acting General Manager, Ellington Airport

Mario C. Diaz
Lance Lyttle
Ian Wadsworth
Michael Lee
Samar Mukhopadhyay
Saba Abashawl
Lisa Kent
Marie Anderson
Harleen Smith
Carl Newman
Perry Miller
Chuck Farina

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David Hebert
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City of Houston Elected Officials

Mayor Annise D. Parker

Controller Ronald C. Green

Council Member, At-Large Position 1 Stephen C. Costello

Council Member, At-Large Position 2 Andrew C. Burks, Jr.

Council Member, At-Large Position 3 Melissa Noriega

Council Member, At-Large Position 4 C.O. “Brad” Bradford

Council Member, At-Large Position 5 Jack Christie

Council Member, District A Helena Brown

Council Member, District B Jerry Davis

Council Member, District C Ellen Cohen

Council Member, District D Wanda Adams

Council Member, District E Dave Martin

Council Member, District F Al Hoang

Council Member, District G Oliver Pennington

Council Member, District H Ed Gonzalez

Council Member, District I James G. Rodriguez

Council Member, District J Mike Laster

Council Member, District K Larry Green

