



SERVICE

IS OUR HALLMARK

2018
ANNUAL REPORT





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PRESIDENT
GEORGE H. W. BUSH

A CALL TO SERVICE

In 2009, the Houston Airport System was fortunate to have former President George H.W. Bush as the featured speaker for the annual State of The Airports meeting before Houston business leaders. It was the 40th anniversary year for George Bush Intercontinental Airport. In the straightforward, self-effacing fashion for which Mr. Bush was known, he was candid about his thoughts upon learning that the airport would be named in his honor.

“When I was first informed that the Houston Intercontinental Airport would be renamed George Bush Intercontinental Airport, I was a bit concerned. I was worried that I would start getting a lot of calls from people with suggestions on making it better.”

Those words indicated he felt the burden of ensuring the best for passengers. They were both a challenge and an affirmation — if you are going to have an airport with the George Bush name on it, then you’d better be committed to service.

We were committed then and we remain committed today.

The airport that now bears his name has been recognized by the aviation industry for its high level of service. But we also know that no individual honor is a substitute for what our team does every day to support the needs of Houston travelers.

Our theme for the 2018 Annual Report echoes Mr. Bush’s legacy and his challenge: *Service is our Hallmark.*

It is our goal throughout these pages to show why this is so.



AVIATOR, DIPLOMAT, PRESIDENT, FAMILY MAN, HOUSTONIAN, GEORGE H.W. BUSH

President George H.W. Bush personified the City of Houston. Like his adopted hometown, President Bush was intelligent, tough and a key player on the global stage. After serving courageously in World War II and attending Yale University, he could have chosen any number of varied careers, each of them almost assuredly leading to a luxury-filled life and dramatic economic success. But instead, the President picked a more difficult and winding path, traveling past the oil fields of West Texas, through the halls of CIA headquarters in Virginia, over the Great Wall of China and, eventually, ending at 1600 Pennsylvania Avenue in Washington, D.C., with the world's most coveted "temp job."

I personally believe that this adventurous streak of his stemmed from an aviator's spirit. After all, he was already a Naval aviator three days prior to his 19th birthday, the youngest to accomplish the feat up to that time. Seventy-two years later, George Herbert Walker Bush still celebrated his love for all things skyward, marking his 90th birthday with one final skydive.

George Bush Intercontinental Airport was named for the 41st President of the United States for this very reason. He had a full appreciation for the various ways in which the field of aviation could enrich the lives of individuals and maximize the economic potential of entire nations.

During his inaugural address in 1989, President Bush said, "We meet on democracy's front porch, a good place to talk as neighbors and as friends." Mr. President, your neighbors and friends would like to take a moment to thank you for an amazing conversation.

Director of Aviation Mario Diaz



Ensuring Safety & Security

Building Capacity

Developing Efficiencies

Providing Service

Memorable Experience



BEST PRACTICES



In his work at airports around the world, Houston Aviation Director Mario Diaz has learned that strategic success in creating and maintaining a viable and competitive airport system starts with understanding the needs of the end user. So we have adopted “best practices” from airport operators that we have adapted as a framework to determine how to meet the needs of travelers.

Best practices include ensuring safety and security for passengers; building capacity to serve growing needs; developing efficiencies to continually make travel through the airport as seamless as possible; providing service that reflects well on the communities we support; and striving to deliver an experience that makes a lasting impression on everyone.

Every day, the Houston Airport System team goes to work to complete tasks designed to meet these needs for our passengers. Our model for service has helped us to attain numerous accolades that recognize Houston Airports as one of the best airport systems in the world for passenger service.

Our theme for this Houston Airport System 2018 Annual Report is

SERVICE IS OUR HALLMARK

Throughout these pages, we will share with you how we aim to serve our passengers, partners and community.





WELCOME FROM MAYOR SYLVESTER TURNER

Dear Citizens of Houston,

More than 58 million passengers made their way through George Bush Intercontinental and William P. Hobby Airports in 2018. That's the most ever served by the Houston Airport System. It's a tribute to our vibrant city and a testament to the work being done to build capacity at our airports and support our city as it grows.

Once again, I have the pleasure to invite you to review the dynamic progress that took place in 2018 at the Houston Airport System's Bush, Hobby and Ellington airports.

In the last several years, we have overseen a major evolution in the look and feel of Houston's two commercial airports and have continued to add new routes to interesting places, such as Sydney, Australia, our longest route yet! Houstonians and passengers from all over the world have taken notice. Our George Bush Intercontinental and William P. Hobby airports rank among the best in the U.S. and the world for service.

And not to be outdone, Ellington, with the approval of City Council, is primed to be yet another center of innovation for our fair city as the home of the Houston Spaceport. Our airports are an important facilitator for growth, connecting the people of the world to our great city.

Thank you for taking a few moments to read about the untiring efforts of our airport employees and our many airport business partners working to support a better Houston.

A handwritten signature in black ink that reads "Sylvester Turner".



A MESSAGE FROM HOUSTON AIRPORTS DIRECTOR MARIO DIAZ

Dear Houston Airports Partners,

The aviation world is taking note of the great things happening at Houston airports, as a record number of passengers makes their way through Bush Intercontinental and Hobby Airports. We are very much part of a dynamic time for Houston.

When global industry analyst Skytrax awarded both Bush Intercontinental and Hobby 4-star awards for service in 2018, Houston became the only city in the Western Hemisphere with two airports that achieved recognition for that level of service. Accolades did not stop there! J.D. Power & Associates ranked both Bush and Hobby among the top airports in their respective categories for service to passengers.

Ellington Airport has received City Council funding approval and is preparing to install infrastructure to facilitate collaboration with Houston's education, business and aerospace communities, supporting our city's future progress with the Houston Spaceport.

These are just a few of the achievements attained by your Houston Airports in 2018. All are an affirmation that the flying public is experiencing a positive difference as we focus on service.

That is why we have chosen the theme, "Service is our Hallmark," for the 2018 Annual Report. Service will continue to be the foundation that supports the realization of our vision "to establish Houston as a Five-Star Global Air Service Gateway where the magic of flight is celebrated."

I hope you enjoy this review of the tremendous achievements and developments our airports experienced in 2018. It is my privilege to lead this organization. The entire Houston Airport System team is working every day to connect the world to Houston.

A handwritten signature in black ink that reads "Mario Diaz". The signature is written in a cursive, flowing style.



LEADERSHIP TEAM DRIVES AIRPORT ACHIEVEMENTS

From left to right:

Tanya Acevedo, Chief Technology Officer / Steven Andersen, Executive Program Manager, International Terminal Redevelopment Program
Jesus H. Saenz Jr., Chief Operating Officer / Kelly Woodward, Interim General Manager – Bush Intercontinental Airport / Arturo Machuca, General Manager – Ellington Airport / J'Maine Chubb, Houston Airports Chief Financial Officer / Mario Diaz, Director of Aviation / Liliana Rambo, General Manager – William P. Hobby Airport / Saba Abashawl, Chief External Affairs Officer / Harleen Hines Smith, Chief Human Resources Officer
Ian Wadsworth, Chief Commercial Officer / Bob Barker, Chief Development Officer – Infrastructure (*not pictured*)

NEW SENIOR TEAM MEMBERS



Kelly Woodward
Interim General Manager
Bush Intercontinental Airport

Kelly Woodward stepped up from her role as Division Manager, Custodial Services, to act as Interim General Manager for Bush Intercontinental Airport. Kelly is responsible for the daily operations of Houston's largest airport, as well as the development and implementation of its policies and procedures.

For 16 years, Kelly has served in multiple leadership roles at IAH. As DM, she managed the daily operations of IAH's custodial services division, which has an \$11 million operating budget. Kelly and her team were instrumental in leading IAH to a Skytrax 4-star service rating by improving overall cleanliness standards.

Previously, Kelly worked as a flight instructor for Embry-Riddle University. She holds a master's and a bachelor's degree in aeronautical science, specializing in safety systems, aviation and aerospace operations, with a minor in aviation weather.



J'Maine Chubb
Chief Financial Officer
Houston Airport System

J'Maine Chubb took the helm as Chief Financial Officer for the Houston Airport System in July 2018. He brings over 20 years of finance and accounting experience in the private and not-for-profit sectors.

Responsible for the overall financial health of Houston Airports, J'Maine is part of the executive team working to establish long-range goals, strategies and plans while also ensuring that short-term funding needs are met.

Prior to joining Houston Airports, he held senior accounting positions at CITGO Petroleum Corporation, Halliburton and Schlumberger.



George Bush Intercontinental Airport



William P. Hobby Airport



**4-STAR
SERVICE SHINES**
*FOR HOUSTON
AIRPORTS*

HOUSTON HAS ONLY U.S. AIRPORT SYSTEM WITH TWO 4-STAR SERVICE-RATED AIRPORTS

The stars in Houston are twice as bright now that both George Bush Intercontinental Airport and William P. Hobby Airport have been awarded 4-star service ratings by Skytrax, a global air transport rating organization.

The 2018 results, announced in Stockholm, Sweden, made Houston only the third city in the world and the first in the U.S. with two airports earning four stars for service. This is the third straight year for Hobby and the first for Bush Airport to ascend to 4-star status.

The airports gained high marks for facility services, internet and free Wi-Fi, ease of parking, timely customs and immigration operations, website access, check-in facilities, roadway signage and walkability.

The 2018 audit reported that Bush Airport “provides customers with a good standard of product and service quality, a WOW factor for the airport, not only through the selection of cuisine but also the quality of presentation and finishing of many of the new outlets.”



“Excellence is not something that happens in a moment, but in the many moments spent going above and beyond what is expected.”

– Mario Diaz



Human Trafficking Recognize It! Report It!

- Report anonymous tips
(You hope you are wrong – but your action may save a life)
- **866.347.2423** DHS “Tip”line
(Blue Lightningning protocol - Law enforcement)
- Nat’l Human Trafficking Resource Center
(for victim’s services) **888.3737.888**
- As a backup contact **911** or Air
AI Tip Line contact



TSA AGENT SPOTS HUMAN TRAFFICKING

Trafficking of women and children is the world’s fastest-growing crime. There are an estimated 24.9 million people trapped in forced labor via human trafficking worldwide.

It is important for airport workers to notice signs of people who may be in danger or distress. That is exactly what Transportation Security Officer Fernanda Reyna did. An elderly and visibly battered passenger came through the security checkpoint. TSO Reyna noticed the passenger had a black eye, bruises, dirty clothes and was not able to stand.

Reyna inquired further. The passenger said her male travel companion had beaten her and caused the bruises. The male companion stated the elderly woman had dementia. Reyna continued to engage the passenger and alerted HPD. The woman was treated at a nearby hospital and the male passenger was detained. HPD commended Reyna for her professionalism and for truly answering the call to service.



STARGAZING

Providing great service is an intentional act. Being recognized as a service leader requires many people in the organization to be dedicated to getting the little things right day in and day out. Everyone at the Houston Airport System — from our custodial staff to our maintenance teams, from landside and airside operations to business partners and contractors — has one goal in mind. That goal is to provide the best service possible to the tens of millions of travelers who have chosen to pass through our airports.

HERE ARE JUST A FEW OF THE PEOPLE WHO HELP MAKE OUR AIRPORTS AMONG THE BEST IN THE NATION AND THE WORLD, SERVING OVER 58 MILLION PASSENGERS IN 2018.





INTERNATIONAL WORKER REUNITED WITH LOST WALLET

When airport service personnel located a lost wallet, they took it to Bush Intercontinental Customer Service Manager Ella Chica. Identification was in the wallet; but the traveler was from Singapore and no contact information was found.

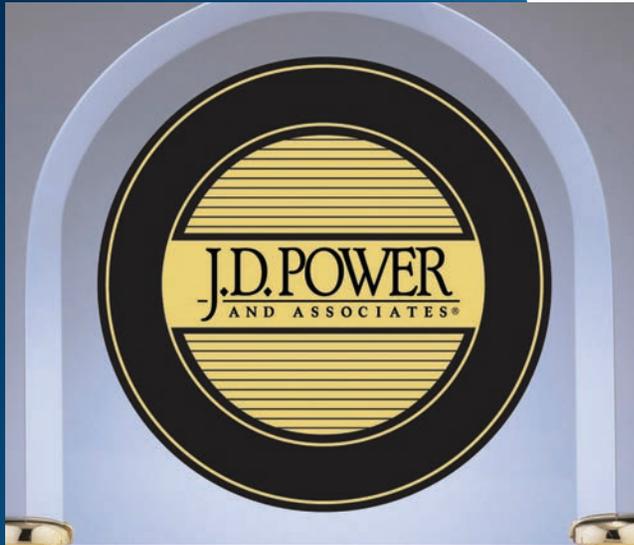
Chica thought about it for a moment and got the idea to try locating the owner via Facebook. After a quick check and legwork in coordination with the Public Relations and Communications department, she was able to locate the owner via Facebook Messenger. The grateful owner was reunited with two weeks' wages he thought were lost forever.





The image features a blue background with large, overlapping orange geometric shapes on the left side. A photograph of a man in a suit standing in a doorway is partially visible on the far left. The main text is centered on the right side of the image.

HOUSTON AIRPORTS
RECOGNIZED FOR
QUALITY OF SERVICE



*BUSH AND
HOBBY SCORE
TOP 10
RATINGS
FROM J.D.
POWER*

Houston has bragging rights when it comes to having not only one, but two airports in the Top 10 of their size classifications in the J.D. Power 2018 North America Airport Satisfaction Study.

George Bush Intercontinental Airport saw its score improve to 769 (on a scale of 1,000) tied with Atlanta’s Hartsfield-Jackson International Airport for sixth on the list of “mega” airports, well above the median score of 758 for the largest airports in North America. That result raised Bush Airport five spots from its ranking in 2017.

William P. Hobby improved its score slightly to 768, putting it in a tie with Salt Lake City for the #10 spot on the large airport list, higher than the 760 median score for airports in that group. This is the second straight year that Hobby Airport has been in the Top 10.

**J.D. POWER
2018 NORTH AMERICA AIRPORT SATISFACTION STUDYSM**

	Mega Airport Ranking (Based on a 1,000-point scale)	JDPower.com Power Circle Ratings SM for consumers:
Las Vegas McCarran International Airport	781	●●●●●
Orlando International Airport	781	●●●●●
Detroit Metropolitan Wayne County Airport	775	●●●●●
Denver International Airport	771	●●●●●
Dallas/Fort Worth International Airport	770	●●●●●
Hartsfield-Jackson Atlanta International Airport	769	●●●●●
Houston George Bush Intercontinental Airport	769	●●●●●
Minneapolis-Saint Paul International Airport	767	●●●●●
Phoenix Sky Harbor International Airport	765	●●●●
San Francisco International Airport	763	●●●●
Charlotte Douglas International Airport	761	●●●●
Toronto Pearson International Airport	761	●●●●
Mega Airport Segment Average	758	●●●●



SAFETY IS THE FIRST ORDER OF SERVICE

As an airport system that prides itself on service, we understand that safety and security are where service begins. In February, the Federal Aviation Administration (FAA) honored Bush Intercontinental Airport after it received a perfect score in the annual FAA Part 139 inspection for both 2016 and 2017.

It takes a total team effort to safely move more than 40 million people through the airport each year.

“Ensuring the safety of everyone who travels through or works at Houston Airports is our most essential responsibility, the core of customer service. It’s a duty the Houston Airport System takes seriously, and the FAA scores show that.”

– HAS Chief Operating Officer Jesus Saenz

100%

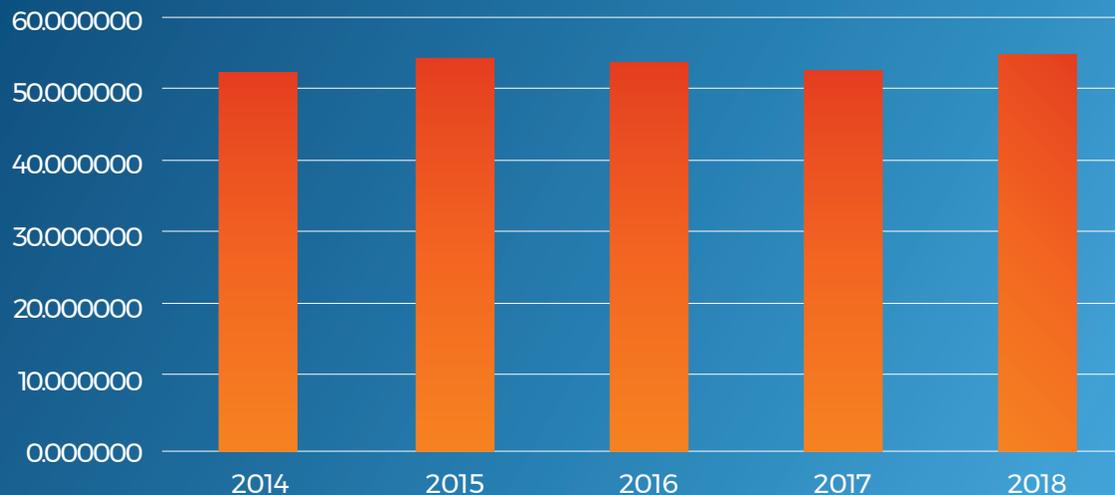
PERFECT SCORE
TWO YEARS IN A ROW

BUSH INTERCONTINENTAL **AMONG THE BEST** *FOR ON-TIME PERFORMANCE*



OAG, a leading digital flight information provider, ranked Bush Intercontinental Airport the sixth best among all major airports in the world (those serving between 30 million and 50 million passengers annually) for on-time arrivals and departures. IAH's on-time performance rate for 2017 was 82.43 percent, which tops all Texas airports.

On-time flight performance is a key part of customer service excellence. Achieving a leading ranking takes real commitment, a concerted effort, and close partnerships between the Houston Airport System team and our air carrier partners.



*TOTAL
PASSENGERS
(IN MILLIONS)*



BUSH RATES #1 FOR LOCAL & REGIONAL CUISINE

It's not just the airline industry recognizing Houston Airports for dining. In a recent *USA Today* poll, travelers gave Bush Intercontinental Airport the #1 ranking for Local/Regional dining, voting the Hubcap Grill and Beer Yard home of Houston's Best Burger. *Texas Monthly* magazine voted Hubcap's Philly-Cheesesteak Burger as a Texas top-five burger.

Bush also garnered top-ten ratings for the Best Airport Bar/Restaurant for the overall environment in Terminal C and the Best Airport Sit-down Dining, spotlighting Hugo's Cocina in Terminal D, which serves made-from-scratch fresh and flavorful dishes from several regions of Mexico.

BUSH AIRPORT RATES HIGH WITH MILLENNIAL TRAVELERS

For the second time in three years, George Bush Intercontinental Airport ranked among the Top 5 for U.S. Airport Experience as rated by *Traze Travel*, an online publication targeting the under-35 "millennial" market. Bush was also a Top 5 choice in 2016.

Free Wi-fi, interactive maps, TSA and immigration processing time-tracking, and plentiful power outlets are among the reasons Bush rated so highly with millennials.





← Gates D1 - D12 →

A B C D
P E F G

← Gates D1 - D12 ↑ TICKETING/CHECK-IN

Aeroflot	All Other Airways	Etihad	Wizzair
Air China	Azores	Emirates Air	Wizzair
Air France	British Airways	Lufthansa	Wizzair
All World Airlines	IndiGo	Turkish Airlines	Wizzair

QATAR
Check-in
Economy

Emirates
First Class
Platinum

GATE D12
GATE D12

TOILETS & LOBBY

The image shows a multi-story building interior with large windows. The right side of the image is dominated by a blue geometric overlay with a green diagonal line. The text is centered on this blue area. The background shows a bright, modern interior with people sitting on a bench and a green vehicle visible through the windows.

*CUSTOMER
SERVICE*
**SUPPORTS
RECORD
GROWTH**

PASSENGER TRAFFIC SETS RECORD



In 2018, a record of more than 58 million passengers traveled through the Houston Airport System. This record reflects Houston's continued economic dynamism. It also exemplifies the vision and forethought of local leadership and airport developers who have continued to attract new air carriers to the Houston market.

With tremendous growth forecast for Houston over the next 10 years, our vision for development will require new infrastructure to support Houston's growing aviation industry. Many airlines that serve Houston view us as a great travel destination and a wonderful value-added waypoint to help travelers from across the U.S. and around the world connect to their ultimate destinations.

2018 PASSENGER NUMBERS

AIRPORT	PASSENGERS
HOU	14,476,469
Domestic	13,446,771
International	1,029,698
IAH	43,807,539
Domestic	33,073,939
International	10,733,600
Total	58,284,008





4

As in 4 stars. 2018 was the year that both George Bush Intercontinental Airport and William P. Hobby Airport obtained a 4-star Service Award rating from aviation industry expert Skytrax. The prestigious award represents the efforts of employees and business partners to enhance the travel experience for the flying public. The work never stops in striving to deliver a quality experience.

A record of more than 58 million passengers made their way through Houston's two commercial airports in 2018. A total of 43,807,539 traveled through Bush and 14,476,469 through Hobby. A strong overall economy, combined with years of increasing airline capacity and route expansion, account for the year's rise in traffic.

58M+

500K

Houston Airport System Cargo operations handled more than 500,000 metric tons of cargo in 2018, another record year operationally for Houston Airports. The burgeoning energy market spurred movements of heavy machinery, the growth of e-commerce, and the opening of international traffic to the Americas via Hobby, which accounted for much of the significant gains in cargo traffic for the year.



HAS BY THE NUMBERS



UNITED AIRLINES “REBANKING” BOOSTS OPERATIONS AND REVENUE AT BUSH

Creating convenience for passengers resulted in new revenue opportunities in 2018 for the largest air carrier at Houston’s Bush Intercontinental Airport when United Airlines reorganized its IAH flight schedule to provide more convenience for passengers in a process called “rebanking.”

A flight bank is the number of arrivals and departures for an airline within a specific span of time. United operated about 10 daily flight banks at IAH prior to the rebanking. By reducing the total number of banks to eight, the airline could provide additional routes within a shorter, more convenient time frame. The result is after more passengers opted to fly United Airlines through IAH. The additional passengers opting to fly through IAH enjoy one of the best “on-time” airports in the country and some of the best shopping and dining found at any airport in the U.S.

For United, the result has been about a seven-percent increase in flight revenue from IAH operations in 2018. The effort requires coordination with the Houston Airport System to provide landside and airside operations support for the larger cluster of flights, as well as with the Federal Aviation Administration and Air Traffic Control to accommodate the condensed arrival and departure schedule.



NEW ROUTES
EXPAND
INTERNATIONAL
CHOICES

Sydney, Australia
United Airlines

Guatemala City, Guatemala
Spirit Airlines

San Salvador, El Salvador
Spirit Airlines

Havana, Cuba

United Airlines

Grand Cayman, Cayman Islands

Southwest Airlines

Panama City, Panama

Air China Airlines

2018 EXPANDED DESTINATIONS



HOUSTON TRAVELERS CELEBRATE UNITED'S INAUGURAL FLIGHT TO SYDNEY

It was a good day – or “g’day” as the Aussies say – January 18, 2018, when United Airlines’ inaugural flight from Houston to Sydney, Australia, took off from George Bush Intercontinental Airport. Dignitaries from United Airlines, the Australian government, the City of Houston and the Houston Airport System were on hand to celebrate the longest nonstop flight in Bush Airport history.

The daily flight covers nearly 8,600 miles and takes 17½ hours, departing Bush Airport at 10:40 p.m. and arriving in Sydney at 7:00 a.m. (local time). Houston and Sydney already enjoy a strong business and tourism connection – with nearly 591 tons of export cargo passing through Bush Airport and a tourism-driven economic impact of \$38.1 million from 31,000 Australian visitors to Houston in 2016. Making the long-haul as comfortable as possible, United operates a Boeing 787-9 Dreamliner on the route, an aircraft with 252 seats that features 48 flatbed seats in its Polaris business class section. In addition to a coveted destination, the new flights offer faster and more convenient travel between the U.S. and Australia, connecting more than 70 cities from across North America with one-stop service through Houston.

With United’s new schedule through Bush Airport, passengers now have just one stop at Houston to get to Sydney, saving hours of travel time by reducing the number of connections.



UNITED CLEARED TO FLY DAILY TO CUBA

In April, the U.S. Department of Transportation (DOT) approved United Airlines’ application to provide daily service from George Bush Intercontinental Airport to Havana’s Jose’ Martí International Airport. United expanded to the daily service from once-weekly service that began in 2017.

U.S. citizens may travel to Havana for family visits, government business, journalistic activity, professional research, or educational and humanitarian activities.

AIR CHINA EXPANDS CONNECTIONS TO THE AMERICAS

In April, Air China launched air service from Beijing to Houston to Panama City, Panama. Air China is working to develop Beijing as a major world airport hub. This route is important to expanding the airline's reach to the Americas. The new service is expected to greatly facilitate exchanges between the countries as Panama City grows in prominence as a trade center.



SPIRIT AIRLINES STRENGTHENS ITS COMMITMENT TO HOUSTON

Spirit Airlines expanded its international offerings from Bush Airport in 2018, returning to San Salvador three days per week and adding four weekly flights to Guatemala City. The new routes complement Spirit's existing flights to Cancun and San Jose del Cabo in Mexico and San Pedro Sula, Honduras.

SOUTHWEST AIRLINES EXPANDS INTERNATIONAL SERVICE

Southwest added to its growing list of international destinations in June with service from William P. Hobby Airport to Grand Cayman, Cayman Islands. These seasonal flights join Southwest's international service roster to destinations in Mexico, Latin America and the Caribbean.



“HOLA HOUSTON!” CAMPAIGN ATTRACTS INTEREST OF MEXICAN TRAVELERS

Visit Houston, the city's tourism arm, Marriott International and the Houston Airport System launched a campaign called “Hola Houston!” in 2018 to tap more deeply into the Mexican travel market. The campaign touts expanded travel options through Houston Airports as a gateway to the Americas, as well as the new amenities at the airports that add to the joy of travel, including new concessions, automated screening lanes and smart restrooms.

Mexico is already Houston's number-one international market, with total trade between the two valued at \$17.7 billion. Weekly nonstops from Houston total 415 to nearly 30 destinations in Mexico. Yet, the potential for growth is still vast.



NEW ROUTES TO THE HEARTLAND

Both United Airlines and Southwest Airlines added routes to America’s Heartland in 2018. United’s new flights from George Bush Intercontinental Airport allow Dayton and Akron/Canton-area travelers to book nonstops to and from Houston, facilitating travel to the central and western United States, as well as to Latin American cities such as Cancun, Los Cabos, Puerto Vallarta and Mexico City.

Southwest Airlines added flights from Hobby to Columbus, Ohio; Louisville, Kentucky; and Milwaukee.

NEW FLIGHTS TO THE COAST

2018 brought Houstonians more options for travel to the sun and surf of America’s coasts from Hobby Airport. In March, Southwest added service to San Jose, with Burbank and Sacramento, California, following in November.

In December, American Airlines increased options with daily flights to Miami.



AIRLINES ADD
DOMESTIC ROUTES

GLOBAL  ENTRY
TRUSTED TRAVELLER NETWORK

GLOBAL  ENTRY
TRUSTED TRAVELLER NETWORK

GLOBAL  ENTRY
TRUSTED TRAVELLER NETWORK

U.S. Customs and Border Protection
Welcome to the United States

Please ready your passport.
U.S. Customs and Border Protection

U.S. Customs and Border Protection
Welcome to the United States

Please ready your passport.
U.S. Customs and Border Protection

U.S. Customs and Border Protection
Welcome to the United States

Please ready your passport.
U.S. Customs and Border Protection



U.S. Customs and Border Protection



U.S. Customs and Border Protection



U.S. Customs and Border Protection

ENTRY
NETWORK



DEPARTMENT OF
SECURITY
Operations and
Protection

TECHNOLOGY **ENHANCES THE PASSENGER EXPERIENCE**



AUTOMATED SCREENING LANES CREATE A MORE SEAMLESS EXPERIENCE

In the effort to make travel through Houston Airports more secure and seamless, we introduced automated screening lanes (ASLs) in Terminals D and E at Bush Intercontinental. The result was about a 30% decrease in wait times for passengers and a much more pleasant experience getting through the security screening point.

The new lanes feature separate divesting areas, allowing passengers to remove items for inspection at their own pace. Automated bin retrieval means TSA agents no longer must tote bins back to the front of the line, enabling agents to focus on the screening process. X-ray technicians are positioned in a sequestered area, allowing them to concentrate on checking baggage without distractions for a faster, more efficient process.

SECURITY SCREENING AT HOBBY AIRPORT JUST GOT QUICKER



Technology that has been so instrumental in saving lives in the hospital setting is now protecting lives at William P. Hobby Airport.

The Transportation Security Administration recently unveiled an advanced technology computed tomography (CT) checkpoint scanner for screening passengers and their belongings at Hobby's security checkpoint. This state-of-the-art unit provides 3D imaging that improves explosives detection capabilities.

CT is the latest checkpoint X-ray scanning equipment that enhances threat detection capabilities for carry-on baggage as TSA continues to raise the baseline for aviation security.



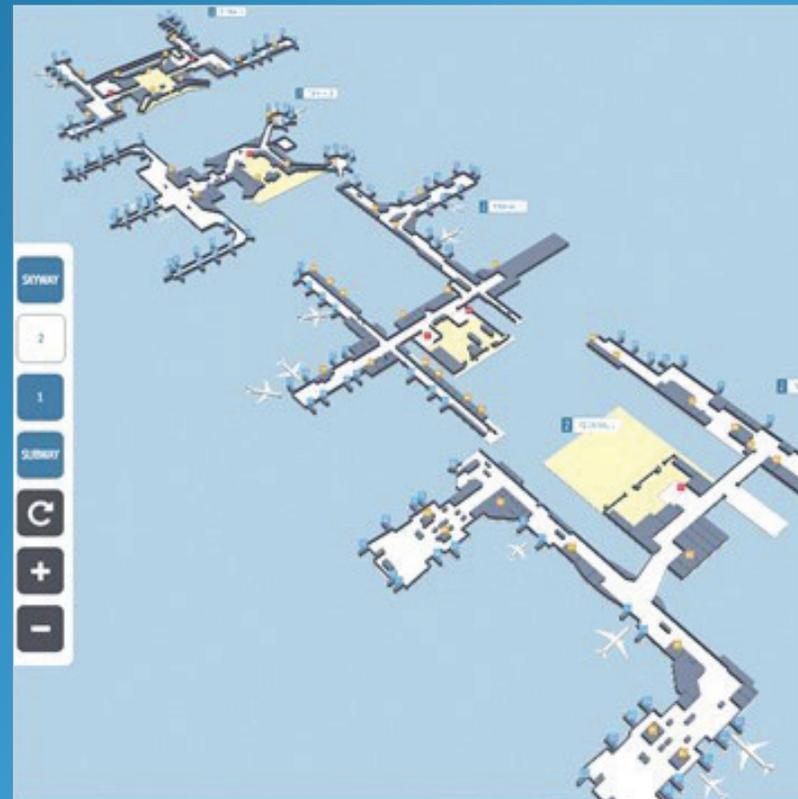
3D MAPPING

MAKES NAVIGATING HOUSTON AIRPORTS MUCH EASIER

The technology that helps you get around Houston Airports keeps getting better. In 2018, Hobby and Bush became the first airports in the Americas with new ViaDirect 3D mapping. Thanks to the new map software, passengers can find directions to their boarding gates and view three-dimensional maps to get anywhere they want to go within the airport, including restaurants and shops.

The new, more accessible kiosks — installed by JCDecaux at both airports — feature oversized touchscreens that are more responsive to the touch, making them easy to use and read. The screen display can be lowered to ensure it is ADA-compliant.

With ViaDirect 3D mapping, now passengers can find directions to their boarding gates by entering their flight information or scanning their boarding pass in the updated search function.





HOUSTON AIRPORTS LAUNCHES DEDICATED SPANISH LANGUAGE WEBSITE

In March, Houston Airports introduced a version of its award-winning fly2houston.com website in Spanish. Visitors to the website can choose to either go directly to the new dedicated website address – es.fly2houston.com – or click the “Español” toggle at the top of the fly2houston.com website.

With two airports offering international service and serving as a primary gateway to Latin America, providing a quality Spanish-language version of our website is an essential component of the customer service excellence that earned both Bush and Hobby airports a 4-star Skytrax rating in 2018.



NEW SITE EXPANDS LANGUAGE OPTIONS FOR AIRPORT INFORMATION

A microsite in Simplified Mandarin has been established to support the growing number of Chinese-speaking travelers passing through Bush and Hobby. It’s the third most common language spoken at our airports.

Travelers using the fly2houston.com site can choose the Chinese language option on the home page, or if their smart device has Chinese as a preferred language, a box promoting the Chinese microsite will pop up automatically.



Coca-Cola
CLASSIC

Papa John's

SHRIMP & CHICKEN
COCKTAIL

PAPA JOHN'S
CANTINA



HOUSTON AIRPORTS'
ACCOMMODATIONS
*CREATE **FIRST-CLASS***
IMPRESSION

AVIATION RECOGNIZES HOUSTON AIRPORTS FOR CONCESSIONS

George Bush Intercontinental Airport received more industry honors this year for its approach to providing passenger accommodations, recognized in multiple categories as the “Best” in U.S. airports.

The Airports Council International of North America recognized Bush for having the Best Food & Beverage Program in the Large Airport division and sharing the “Best New National Brand Concept” honor for the Hard Rock Café operated by SSP in Terminal B.

Bush Airport also was honored for an approach that presented local brands like The Breakfast Klub and Cadillac Bar, which serve Texas-style cuisine, along with regional and national brands Starbucks, Wendy’s and the ever-popular Chick-fil-A. The mixture of concepts at Terminal A represents the diverse and welcoming Houston culture.





HOUSTON AIRPORTS WELCOMES THE ALPHA KAPPA ALPHA SORORITY

It was a summer of pink and green as the Houston Airport System joined the City of Houston in welcoming Alpha Kappa Alpha Sorority Inc. to Houston for its 68th Boule. Over 20,000 members of the organization visited Houston during the weeklong event.

Local members of the sorority joined with Houston Airports Ambassadors and staff to personally greet members as they made their way through Bush Intercontinental Airport and Hobby Airport. Airport concessionaires joined in the welcome, providing products in bright pink and green to celebrate.

The estimated local economic impact of the Houston conference was more than \$30M.

AKA

OVER 20,000
MEMBERS



NURSING MOTHERS HAVE THEIR OWN PLACE *AT HOUSTON AIRPORTS*



Whether for business or for pleasure, air travel is an integral part of 21st-century life. For a nursing mother, the “normal” stresses of air travel can be exacerbated if there is no place to properly care for infant children.

Houston Airports has joined a growing list of airports with special spaces designed and set aside for breastfeeding moms.

IAH offers four private nursing rooms for traveling mothers:

- Terminal A, between gate A2 and The Breakfast Klub
- Terminal A, near gate A17
- Terminal C, across from gate C4
- Terminal C, inside the women’s restroom, across from gate C4

NEW HOBBY STOREFRONT MAKES *LOST ITEMS EASIER TO FIND*

Travel can be stressful even without misplacing personal items. Leaving a phone in your seat at the gate or forgetting keys at the security checkpoint are common occurrences. Recognizing that effective Lost and Found services can make a very favorable impression on passengers who need the assistance, the team at William P. Hobby Airport set up a Lost and Found storefront.

Cell phones, identification cards, keys, iPads, medicine, jewelry, wallets, purses, clothing, and much more find their way to the Lost and Found office. The storefront is a stress reliever. It provides a single, visible place to both drop off and recover lost items. It's one more reason why Hobby Airport is a 4-star service provider.



HOBBY INTRODUCES COMFORT SEATING ON CONCOURSE

Sometimes getting comfortable requires a little more space than the average airport gate seat can provide. For that reason, William P. Hobby Airport introduced new comfort seating options interspersed throughout the gate concourse in 2018.

While we maintain enough seating to accommodate all who travel, you can find seating arrangements that provide a little more lounging space while also providing those much-needed power outlets so critical for travelers to keep their mobile devices charged while on the go.

It's one more way Houston Airports is working to provide first-class service and create an inviting experience for travelers.





CARGO
SERVICES
EXPAND

VOLGA-DNEPR OPERATIONS BASE



VOLGA-DNEPR OPENS OPERATIONS BASE AT BUSH INTERCONTINENTAL

In December, Russian cargo company Volga-Dnepr in collaboration with the Houston Airport System announced the opening of an operations base at Bush Intercontinental Airport. Known as one of the world's largest cargo airline operators, the group has had a longstanding relationship with Houston as it regularly flies the Antonov 124-100 freighter out of Bush. The plane is capable of lifting oversized and super-heavy cargoes. It also supports humanitarian missions around the world. The new facility will bring 30 to 40 local jobs to Bush.

The Volga-Dnepr operation adds to the intermodal capabilities Houston Airports offers to support many companies in the Houston region. Demand for these air cargo operations will come mainly from the oil and gas, construction and aerospace sectors.

*One of the largest cargo
airline operators brings*

30+ JOBS



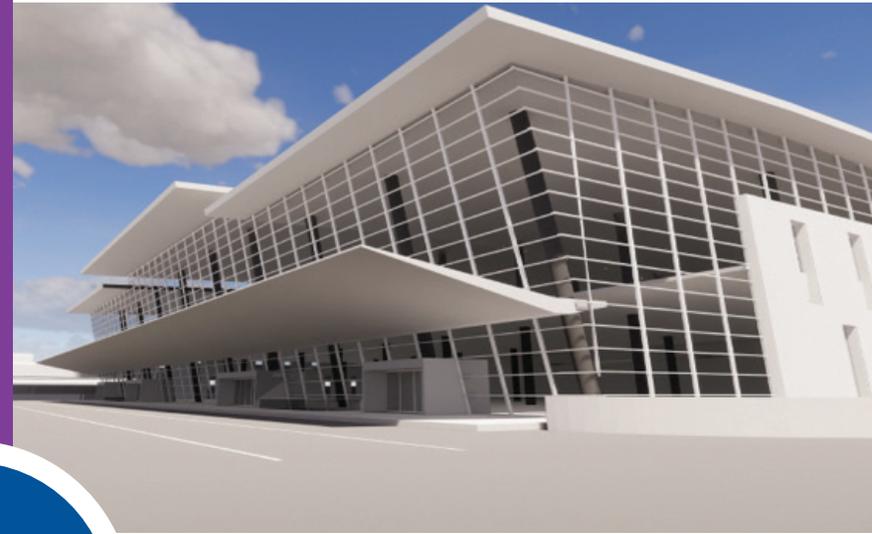


An aerial photograph of a construction site, likely an airport terminal, showing a large concrete structure under construction. The site is surrounded by a dirt road and some vegetation. A large purple geometric shape, consisting of several overlapping triangles, is overlaid on the right side of the image, partially covering the construction site and extending towards the top right corner. The background is a solid blue color.

HOUSTON AIRPORTS
**PLANS FOR THE
CITY'S FUTURE**

PASSENGER OUTLOOK

DRIVES EXPANSION PLAN



**HOUSTON
PREDICTED:
3RD LARGEST
CITY IN 2030**

ECONOMISTS FORECAST HOUSTON EXPANSION

Houston economists are bullish on the city's future as forecasts continue to indicate that Houston will become the third largest city in the U.S. by 2030.

Our domestic and international air carrier partners tell us they'll need more space to meet the projected passenger demand that comes with growth. Accordingly, the Houston Airport System is currently redeveloping and redesigning the International Terminal. Expansion of Terminal A also is under consideration.

PLANS MOVE FORWARD FOR A NEW INTERNATIONAL TRAVEL EXPERIENCE

Houston Airports realized a record year for air travel and earned recognition from the aviation industry for outstanding service and accommodations in 2018. Our air carrier partners from around the world aim to leverage what we've done, requesting more accommodations to meet the growing demand in travel to and through Houston.

To accommodate growth, the Houston Airport System has embarked on a transformative project, redesigning the original IAH Terminal Redevelopment Program (ITRP) to provide an even better travel experience.

When completed, the IAH International terminal will be able to handle Houston operations for more than a dozen foreign flag carriers and United Airlines' international service. All gates will accommodate upgraded airplanes such as the new A380. Bush Airport currently is the nation's eighth-busiest international gateway. The ITRP will allow IAH to remain competitive with similarly-sized airports and respond to the expected growth in international traffic.

Developed on the existing footprint of the north pier, the ITRP plan includes refurbishing the existing Terminal D facility and demolishing the Terminal D/E parking garage to allow for an International Terminal Processor, which will be similar to the layouts of Terminals A, B, and C. Ticket counters, security lanes and baggage claim areas will be consolidated and moved into the central processor situated between Terminals D and E. When completed, there will be two concourses — one in the current Terminal D and the other in the current Terminal E — where passengers will board their planes, dine, or relax in an airport lounge.

Completion for most of the ITRP program is slated for 2024.

ITRP Benefits

- One international terminal will eliminate the confusion of having to decide between two terminals.
- Roadway, drop-off and pick-up locations leading into the international terminal will be increased by 30%.
- Gates capable of handling new larger aircraft will go from 7 to 13, meeting foreign flag air carrier needs.
- The new Federal Inspection Service location, which has been praised for reduced international traveler wait times, will have increased capacity with biometric screening capabilities to further speed the process.
- A streamlined screening process will improve efficiency for screening agents and provide a more seamless experience for passengers.

HAS PROJECT MANAGEMENT OFFICE BUILDING TO HOUSE ITRP STAFF

The new Houston Airports Administrative Office Building, scheduled for completion in the first quarter of 2019, also will support the IAH Terminal Redevelopment Program (ITRP) staff.

The single-story building includes 15,500 square feet of floor space with a combination of walled offices and open work-station areas, upgraded technology infrastructure and large multipurpose conference rooms. Set on a 4.25-acre site, the new structure has space to support Houston Airport System Infrastructure and ITRP staff, designated stakeholders and contractors.



ELLINGTON AIRPORT

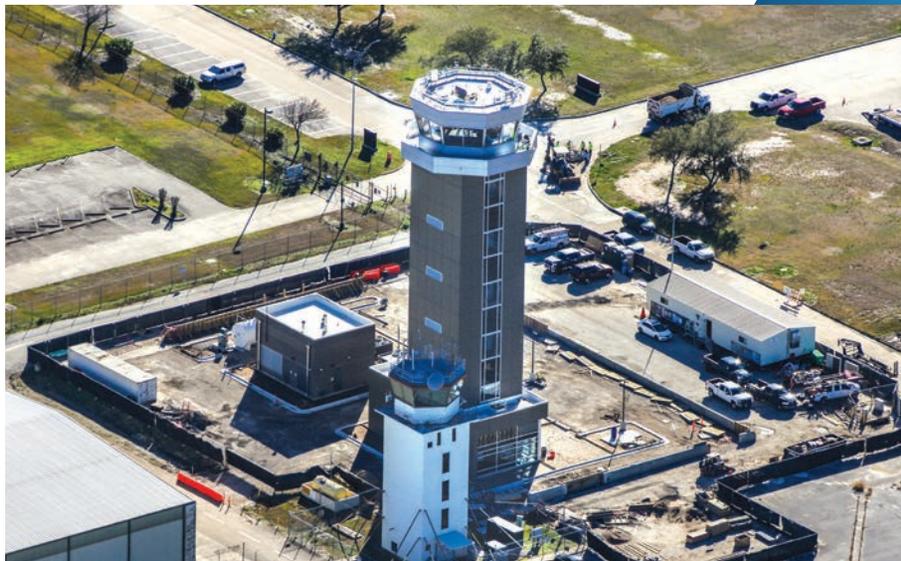
FLIES TOWARD FUTURE OF INNOVATION

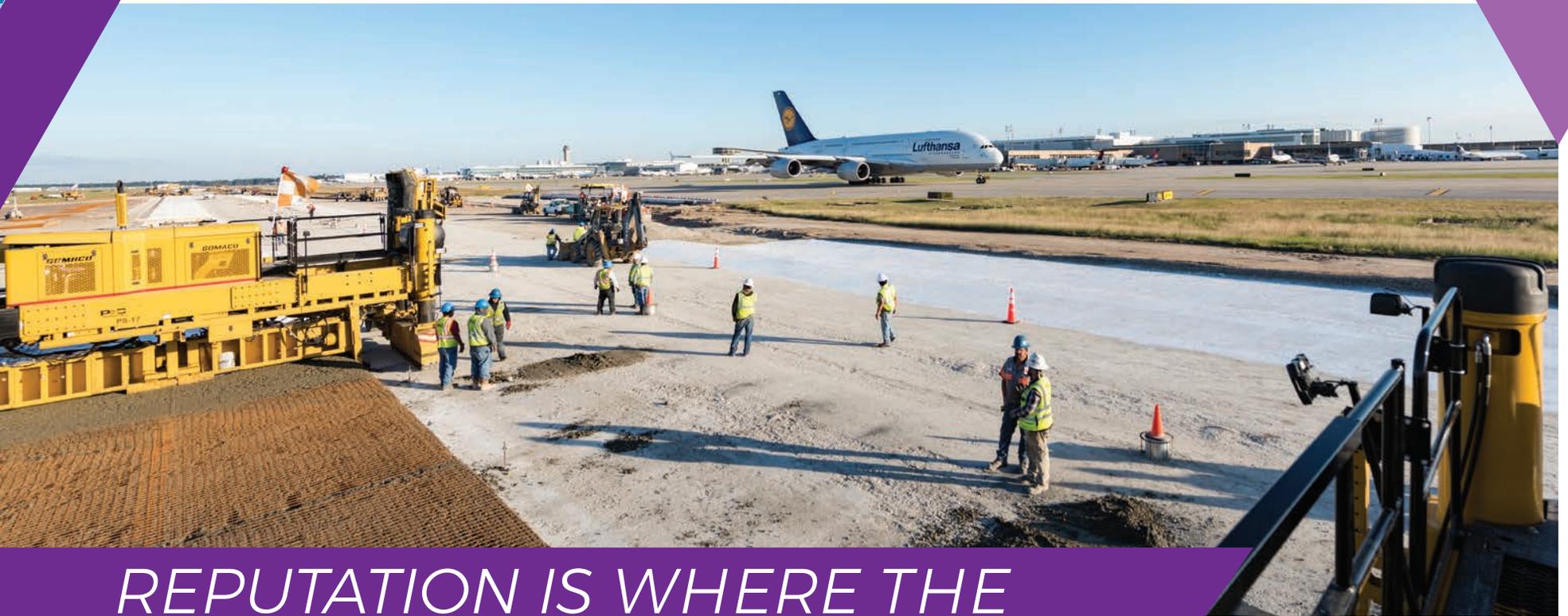
Houston City Council approved more than \$18.8 million in funding for Phase 1 infrastructure development of the Houston Spaceport. The project provides roads, utilities, and communications technology ports across a portion of the 600-acre development site.

Phase 1 will offer tenants and partners a unique environment, fostering and accelerating key aerospace engineering activities, including:

- Component and composite development and fabrication
- Space vehicle assembly
- Zero-gravity scientific and medical experiments
- Microsatellite deployment
- Astronaut training and development
- Space tourism

PHASE 1 SPACEPORT





REPUTATION IS WHERE THE **RUBBER MEETS THE ROAD**



The assets that make our industry run smoothly are of the highest technology and craftsmanship on the planet. They must be. They not only take people where they want to go anywhere in the world, but they also protect lives every step of the way.

That's why much of the Houston Airport System's reputation rests on where the rubber meets the road. Runway and taxiway construction is a big part of an airport's infrastructure, helping to keep these airborne assets in top-performing condition.

For Bush Intercontinental Airport, one such project underway is the renovation of taxiways, including full-depth reconstruction and widening in certain sections to accommodate modern large aircraft, such as the Airbus 380.



Partnerships Drive Houston's Future

In October, HAS hosted the North Houston Association Subcommittee on Transportation. The role of the association is to advance the business environment and improve quality of life in North Houston, Harris County and surrounding area. The group toured runway construction sites, aircraft rescue stations and the international cargo area to better understand how business at the airport supports the local economy.



PARTNERSHIPS
CONNECT WITH
COMMUNITY



BUSINESS PARTNERS WEBSITE REDESIGNED

In 2018, Houston Airports completed a redesign of the portion of Fly2Houston.com that is dedicated to its business partners. This section of the website is available at fly2houston.com/biz. Jobseekers and businesses owners will find information on how to take advantage of opportunities to conduct business with the Houston Airport System. The newly designed site earned the American Marketing Association Houston “Crystal” Award for First Place in Business & Partnerships website design and implementation.



HOUSTON AIRPORTS & PARTNERS PROVIDE JOB OPPORTUNITIES TO VETERANS

The Houston Airport System, in conjunction with its business partners and Boston-based Edge4Vets, provided training and job opportunities for some of the nation’s military service personnel who are returning to the civilian workforce in 2018. Part of the effort to identify talented personnel for local aviation jobs, the Edge4Vets program ensures that proper consideration is given to those who have fought and served.

The program consists of two components: The “Prep” phase where vets learn to communicate the value of their military skills in terms recruiters understand and the “Connect” phase with potential employers. Over 60 veterans participated in sessions held in the spring and fall of the year.



AVIATION CLUB INTRODUCES AVIATION CAREERS TO HIGH SCHOOL STUDENTS

For the sixth year, the Houston Airport System partnered with Houston’s Ross Shaw Sterling High School, an aviation magnet school located just off the flight path for Hobby Airport, to help students explore all aspects of aviation. They observed the Thunderbirds at the annual Wings Over Houston practice, learned about opportunities to earn a degree in aviation during a tour of Texas Southern University, and engaged in an airport marketing competition. Several students combined their Aviation Club experience with the Hire Houston Youth program for an opportunity to work at the airport during the summer. Other partners in the effort included NASA and the Lone Star Flight Museum.



WINGS FOR ALL MAKES TRAVEL WELCOMING FOR PEOPLE WITH AUTISM

Houston Airports, the Transportation Security Administration, United Airlines and The Arc of Texas teamed up to help make air travel a little less stressful for families who have children with autism or other intellectual disabilities. The Wings for All program stages events twice annually at Bush Intercontinental Airport that provide families with a real-life simulation of the air travel experience.



HOUSTON AIRPORTS AND BUSINESS PARTNERS HELP WITH SCHOOL PREP

In the summer, Houston Airports staff and partner concessionaires teamed up to make a difference where it counts by equipping local school students with back-to-school supplies.

Everything from backpacks to paper and pencils were collected and shared with students in the Houston, Aldine and Spring school districts. The World Duty Free Group – Hudson, Paradies Lagardere, Latrelle's, JDDA, HMS Host, SSP America and Four Families – all supported the effort.





HOUSTON AIRPORTS HIGHLIGHTS TRADITIONS

We enjoy living in Houston and love being part of the city's rich culture!

For us, being part of Houston means participating in some of its most cherished traditions. In February, the Houston Airport Rangers presented their colors at the Houston Livestock Show and Rodeo Parade as members of the Houston Airports senior staff rode along engaging the crowd and sharing information about our airports.

Equestrians play an important role in the Houston Airport System. The Houston Airport Rangers, a group of volunteers who ride trails along the perimeter of IAH, provide extra eyes to observe and secure the area where we operate. To date, more than 200 Rangers have contributed thousands of patrol hours to increase the safety and security of the airport and its staff and passengers.



COMMUNITY RELATIONS OFFICE STRENGTHENS BUSINESS TIES

Our Community Relations Office plays a critical role in increasing awareness of airport operations in the Houston community. Through this office, we continue to develop relationships with area business organizations and business owners; educate citizens on the economic opportunity the Houston Airport System presents; and support Houston business people who contribute to the economy of our great city.

The organization with which we work closely include:

Local:

- Houston First Corporation
- Greater Greenspoint Area Chamber of Commerce
- Lake Houston Area Chamber of Commerce
- The Greater Houston Women's Chamber of Commerce
- Greater Houston Black Chamber

National:

- Airport Minority Advisory Council
- Airports Council International
- Bilateral African Chamber of Commerce



*Educating the
community about HAS*

SUPPORTING WOMEN IN BUSINESS

Houston Airports was represented among businesses celebrating the achievements of women-owned business at the Greater Houston Black Chamber Annual Women in Business Conference. Our Chief Community Relations Officer and GHBC Advisory Board Member Rhonda Arnold served as a panelist highlighting the significant role small businesses play in the world of aviation.





HOUSTON AIRPORTS RECOGNIZES **“DAY OF THE CONSTRUCTION WORKER”**

Houston Airports partnered with the National Association of Minority Contractors (NAMC) on its inaugural “Day of the Construction Worker” held at the Houston Dynamo’s BBVA Compass Stadium in September.

The community event, led by Houston Airport System Aviation Director Mario Diaz and NAMC Houston Chapter President Ruben Mercado, honored and recognized the hard work and enormous contributions of the men and women that build the world around us.

The day of celebration included safety, health and education exhibits, activities, food and entertainment for construction workers and their families, ending with an outstanding soccer match between the Houston Dynamo and San Jose Earthquakes, won 3-2 by the Dynamo.



AIRPORTS
**CELEBRATE
WITH THANKS**

BUSH INTERCONTINENTAL HONORS AIRPORT RANGERS AT SPRING FESTIVAL

The Houston Airport System held a free family-friendly spring festival and barbecue cook-off in May at the North Trail Head to say thank you to our airport area neighbors. We also honored the 15th anniversary of the Airport Rangers Program.

Free food, live entertainment, trail rides and kid-friendly activities marked the day. Mayor Sylvester Turner even mounted up to share in the celebration. Barbecue teams from the Transportation Security Administration, U.S. Customs and Border Protection, Houston Police Department, Houston Fire Department, SSP America, Crane Worldwide Logistics and HMS Host accepted the challenge to see who could smoke the best brisket and ribs. Airport concessionaires HMS Host took the first-place prize!



“HOBBY FEST” IS A WAY TO SAY THANK YOU

The sound of an aircraft landing can be one of joy, anticipation and opportunity. For William P. Hobby Airport, which operates so close to the center of Houston’s activity, we cannot function successfully without the license to operate afforded to us by the people who live in proximity to the airport. In their honor and as a way of saying thank you, the Hobby Management District holds Hobby Fest, an annual fun day event that educates the community about Hobby Airport. Proceeds from the event go to scholarships and transportation-related charities.

IAH NEARS 50!



In 2019, George Bush Intercontinental Airport will celebrate 50 years of operation. Houston's largest airport opened in June 1969 to fanfare and exhibitions, including the Goodyear blimp and the U.S. Navy Blue Angels. Event planning will culminate with a golden anniversary festival in the spring of 2019.



ELLINGTON HOSTS BLUE ANGELS AND CAF WINGS OVER HOUSTON AIRSHOW

Ellington Airport was the host site for the U.S. Navy Blue Angels and the 34th Annual Commemorative Air Force (CAF) Wings Over Houston Airshow in October.

The Blue Angels have thrilled audiences for many years with their precision combat flying, and it was a special two days. The non-profit airshow featured modern military aircraft in the air and plenty on the ground for fans to see up close and meet with their pilots and crews. It also showcased one of the largest assemblies of both flying and static vintage aircraft in the world. The airshow was packed with great attractions, including standout performances from the U.S. Air Force and U.S. Coast Guard, a skydiving team, and others.



*ART ATTRACTS
ATTENTION*
AT OUR AIRPORTS



IAH TEAMS WITH ARTIST TO ATTRACT ATTENTION TO HUMAN TRAFFICKING

Human trafficking is a real threat across the globe. The eyes and ears of the traveling public can be an important tool in combating this crime. In October, George Bush Intercontinental Airport collaborated with New York City-based experimental artist Molly Gochman to bring the Red Sand Project to Houston.

Gochman's 650-foot-long temporary earthwork in the shape of the U.S. Mexico border and filled with red sand draws attention to the fact that traffickers often operate in regions near the U.S. southern border.

The Red Sand Project started in New York City to highlight how observing even small changes in everyday occurrences might provide clues indicating there is a trafficking problem. The Houston Airport System works closely with the Department of Homeland Security to actively combat human trafficking.

HOUSTON AIRPORT SYSTEM SUPPORTS HOUSTON SCULPTURE WEEK

The Houston Airport System is home to a significant art collection and is actively engaged with our city's visual and performing arts community. Through this engagement, we serve an important role in presenting a perspective of the city we serve and a sense of place that is important to passengers.

George Bush Intercontinental Airport's decommissioned air traffic control tower provided the canvas for artist Jo Ann Fleischhauer's work entitled "Trapping Time" in 2018. Five panels displayed in the window of the tower represent the celestial view of stars present in the Houston sky on the day Bush Airport opened in June 1969. The project was made possible through the philanthropic efforts of Sculpture Month Houston Co-Director Volker Eisele, PGW solutions, HouTex Electric and Champion Rentals who donated their expertise, time and materials for the project.



NEW ARTWORK

ADDS AMBIANCE TO HOBBY AIRPORT

With wide eyes and open ears, staff and management are building a better airport experience at Hobby Airport.

The team's suggestions to improve a nondescript stairwell area adjacent to the parking garage at Hobby led to an artwork installation that has brought the area to life.

Texas Artist Jennifer Chenoweth delivered the piece that provides a respite for travelers immersed in seat numbers, flight schedules and next stops.



“HARMONY IN THE AIR” PROGRAM RETURNS TO DELIGHT PASSENGERS

In the world of air travel, creating an unforgettable experience is one of the ways we compete for the hearts and minds of passengers in the hopes of raising the stature of Houston as a travel destination. The Houston Airport System expresses its gratitude to travelers through our vibrant music culture. The Harmony in the Air program showcases some of Houston's best musical talents in 14 different genres that perform as ambassadors to our city. With the support of the Houston City Council, this program has been extended for another five years.





The image features a blue background with a large, stylized purple arrow pointing upwards and to the right. The arrow is composed of several overlapping geometric shapes. On the left side, there is a photograph of a modern building with large glass windows and a reflective floor. The text "FINANCIAL HIGHLIGHTS" is centered on the blue background in white, with "FINANCIAL" in a serif font and "HIGHLIGHTS" in a bold sans-serif font.

FINANCIAL
HIGHLIGHTS

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 <https://www.fly2houston.com/biz/about/investor-relations/>

FINANCIAL HIGHLIGHTS

The Fund's net position increased by \$31.7 million or 2.2% during fiscal year 2018 and increased \$128.1 million or 9.5% during fiscal year 2017.

In fiscal year 2018, operating income decreased \$55.7 million or 100.5%. In fiscal year 2017, operating income increased \$61.3 million or 1,035.5%. These variances are primarily due to the fiscal year 2017 reduction in pension expense arising from pension reform efforts of the City of Houston (City) not being replicated in fiscal year 2018.

Maintenance and operating expenses increased \$80.6 million or 31.7% in fiscal year 2018 and decreased \$61.0 million or 19.3% in fiscal year 2017. Depreciation expense decreased \$8.2 million or 4.4% in fiscal year 2018 and increased \$4.8 million or 2.7% in fiscal year 2017.

Investment income increased by \$5.2 million or 152.5% in fiscal year 2018 and decreased by \$9.9 million or 74.3% in fiscal year 2017.

In fiscal year 2018, the Fund implemented GASB No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". The cumulative effect of the implementation added a deficit of \$21.3 million to the unrestricted net position as of July 1, 2017. Beginning in fiscal year 2018, the Airport System will set its rates and charges to amortize the deficit in the unrestricted net position over thirty years.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

NET POSITION

Total net position at June 30, 2018 was \$1,505.5 million, a 2.2% increase from June 30, 2017.

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

More than a third of the Fund's total net position (35.3% in fiscal year 2018; 36.8% in fiscal year 2017) reflects net investment in capital assets (e.g., land, buildings, runways, equipment and infrastructure), less any related outstanding debt used to acquire those assets. The Fund uses these capital assets to operate the airports; consequently, these assets are not available for future spending. Although the Fund's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from airport revenue or other sources procured by the Fund, since the capital assets themselves cannot be used to liquidate these liabilities.

The other portions of the Fund's net position represent resources that are restricted and the unrestricted deficit. The restricted resources (74.2% in fiscal year 2018; 71.8% in fiscal year 2017) are subjected to external restrictions on how they may be used. Most of these restrictions are due to covenants made to the holders of the Fund's revenue bonds within ordinances passed by City Council. These covenants further require that any positive unrestricted net position carried in cash and cash equivalents at the end of the fiscal year be restricted for future capital improvements. The unrestricted (deficit) net position was \$(143.3 million) as of June 30, 2018 and was \$(126.9 million) as of June 30, 2017.

NET POSITION JUNE 30, 2018, JUNE 30, 2017, and JUNE 30, 2016 (in thousands)

	June 30 2018	June 30 2017	June 30 2016
ASSETS			
Current assets	\$ 480,903	\$ 452,246	\$ 445,841
Noncurrent assets	963,092	892,490	854,870
Net capital assets	<u>2,816,044</u>	<u>2,883,432</u>	<u>2,958,464</u>
Total assets	<u>4,260,039</u>	<u>4,228,168</u>	<u>4,259,175</u>
Deferred outflows of resources	<u>51,334</u>	<u>81,177</u>	<u>59,367</u>
LIABILITIES			
Current liabilities	243,095	218,419	318,700
Long term liabilities	<u>2,551,512</u>	<u>2,612,622</u>	<u>2,651,555</u>
Total liabilities	<u>2,794,607</u>	<u>2,831,041</u>	<u>2,970,255</u>
Deferred inflows of resources	<u>11,253</u>	<u>4,487</u>	<u>2,526</u>
NET POSITION			
Net investment in capital assets	531,232	542,363	537,172
Restricted net position	1,117,578	1,058,392	986,592
Unrestricted (deficit)	<u>(143,297)</u>	<u>(126,938)</u>	<u>(178,003)</u>
Total net position	<u>\$ 1,505,513</u>	<u>\$ 1,473,817</u>	<u>\$ 1,345,761</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

CHANGES IN NET POSITION

From July 1, 2017 to June 30, 2018, net position of the Airport System Fund increased by \$31.7 million or 2.2%.

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

Operating revenues increased by \$16.8 million or 3.4% for fiscal year 2018 and increased by \$5.1 million or 1.1% for fiscal year 2017. In fiscal year 2018, total (enplaned and deplaned) system (IAH and HOU) passenger volume increased by 1.0%. Also, there was a 4.0% rate increase in landing fees from \$2.642 to \$2.757 per 1,000 pounds. In addition, parking rates increased 10.0% from \$20 to \$22. In fiscal year 2017 total (enplaned and deplaned) system (IAH and HOU) passenger volume decreased 1.6%. The effect of this decrease was offset by increases in rentals (2.4%) and concessions (4.1%).

Capital contributions are grant awards that are primarily related to reimbursements for expenses from construction projects. Amounts received from Federal Aviation Administration (FAA) discretionary, FAA entitlement and Transportation Security Administration (TSA) grants fluctuate year-to-year because of timing differences between the date of the award and the date of construction completion. In fiscal year 2018, capital contributions decreased \$21.7 million or 61.2% and in fiscal year 2017, capital contributions increased \$13.0 million or 57.5%.

In fiscal year 2018, nonoperating revenues increased by \$8.8 million or 7.1% due to a \$5.2 million increase in investment income, a \$7.5 million increase in Passenger Facility Charge (PFC) revenue and \$3.2 million increase in Customer Facility Charge (CFC) revenues, partially offset by an unfavorable \$5.0 million prior years' cumulative rates and charges adjustment. For fiscal year 2017, nonoperating revenues decreased by \$9.3 million or 6.9% due to a \$9.9 million decrease in investment income, a \$4.9 million or 4.1% decrease in combined PFC and CFC collections associated with a decline in passenger traffic, a \$7.1 million refund to the airlines on prior year landing fees and terminal leasing charges, and recordation of a prior year unearned grant award of \$3.1 million.

CHANGES IN NET POSITION YEARS ENDED JUNE 30, 2018, JUNE 30, 2017, and JUNE 30, 2016 (in thousands)

	June 30 2018	June 30 2017	June 30 2016
Operating revenues	\$ 510,864	\$ 494,041	\$ 488,897
Operating expenses	511,157	438,662	494,817
Operating income (loss)	(293)	55,379	(5,920)
Nonoperating revenues	133,566	124,738	134,031
Nonoperating expenses	94,061	87,574	86,259
Nonoperating income (loss)	39,505	37,164	47,772
Revenues over expenses	39,212	92,543	41,852
Capital contributions	13,784	35,513	22,542
Change in net position	52,996	128,056	64,394
Beginning net position as previously reported	1,473,817	1,345,761	1,281,367
Cumulative effect of implementation of new accounting principle	(21,300)	-	-
Total net position, July 1	1,452,517	1,345,761	1,281,367
Total net position, June 30	\$ 1,505,513	\$ 1,473,817	\$ 1,345,761

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

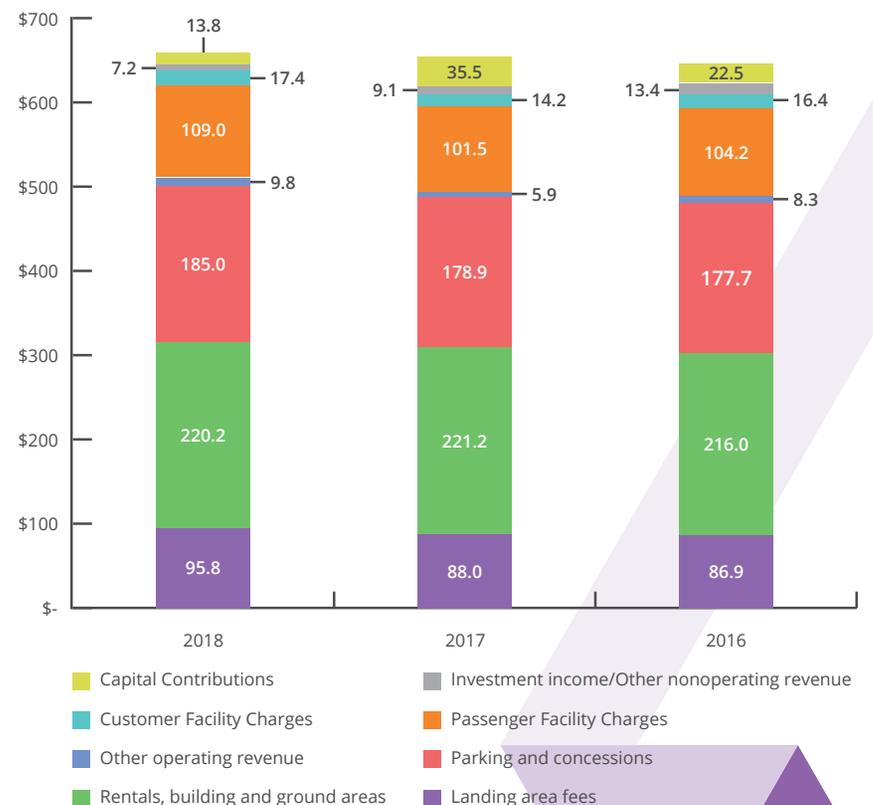
CHANGES IN NET POSITION

Investment income increased by \$5.2 million or 152.5% in fiscal year 2018 due mostly to higher yields in the City's General Taxable Investment Pool, which resulted in an increase in the average monthly income apportionment rate to the Fund. In fiscal year 2017, investment income decreased \$9.9 million or 74.3%, due to a \$12.6 million decrease in net unrealized fair value adjustments, partly offset by an increase in realized investment income of \$2.8 million related to a 26% increase in apportioned income from the City's General Taxable Pool.

TOTAL REVENUES AND CAPITAL CONTRIBUTION
YEARS ENDED JUNE 30, 2018, JUNE 30, 2017, and JUNE 30, 2016
(in thousands)

	June 30 2018	June 30 2017	June 30 2016
OPERATING REVENUE			
Landing area fees	\$ 95,779	\$ 88,046	\$ 86,870
Rentals, building and ground areas	220,214	221,181	216,018
Parking and concessions	185,035	178,888	177,685
Other operating revenue	9,836	5,926	8,324
NONOPERATING REVENUE			
Passenger facility charges	109,021	101,539	104,230
Customer facility charges	17,374	14,200	16,417
Investment income (loss)	8,591	3,403	13,260
Other nonoperating revenue	(1,420)	5,596	124
Total revenues	644,430	618,779	622,928
CAPITAL CONTRIBUTIONS			
	13,784	35,513	22,542
Total revenues and capital contribution	\$ 658,214	\$ 654,292	\$ 645,470

TOTAL REVENUES AND CAPITAL CONTRIBUTION
(in millions)



MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

CHANGES IN NET POSITION

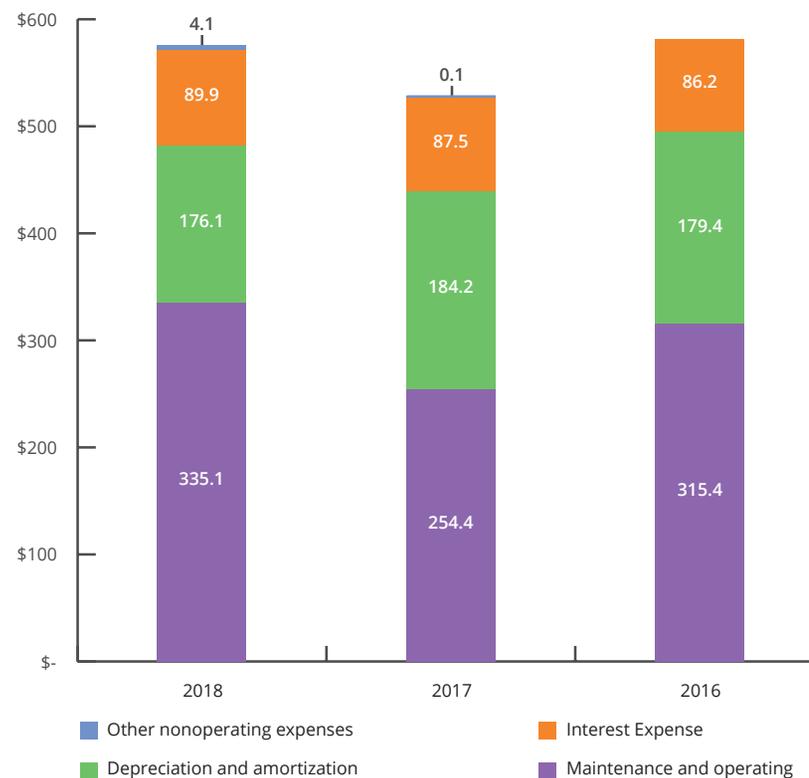
In fiscal year 2018, total operating expenses increased \$72.5 million or 16.5%; maintenance and operating expenses increased by \$80.6 million or 31.7% and depreciation expense decreased \$8.2 million or 4.4%. In fiscal year 2017, total operating expenses decreased \$56.2 million or 11.3%; maintenance and operating expenses decreased \$61.0 million or 19.3% and depreciation increased \$4.8 million or 2.7%. The fluctuations in maintenance and operating expenses, a 31.7% increase in fiscal year 2018 over fiscal year 2017, and 19.3% decrease in fiscal year 2017 over fiscal year 2016, are mainly a result of the pension reform efforts of the City of Houston which were recognized in 2017, lowering expenses in that year.

In fiscal year 2018, interest expense increased \$2.5 million or 2.8%. Interest expense increased \$1.3 million or 1.5% in fiscal year 2017.

TOTAL EXPENSES YEARS ENDED JUNE 30, 2018, JUNE 30, 2017, and JUNE 30, 2016 (in thousands)

	June 30 2018	June 30 2017	June 30 2016
OPERATING EXPENSES			
Maintenance and operating	\$ 335,104	\$ 254,459	\$ 315,419
Depreciation and amortization	176,053	184,203	179,398
INTEREST EXPENSE			
Other nonoperating Expenses	4,117	92	47
Total expenses	\$ 605,218	\$ 526,236	\$ 581,076

TOTAL EXPENSES (in millions)



MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

CAPITAL ASSETS

The Airport System Fund's investment in capital assets (net of accumulated depreciation and amortization) amounts to \$2.82 billion at June 30, 2018, a decrease of \$67.4 million or 2.3%, from June 30, 2017. Capital assets at June 30, 2017 were \$2.88 billion, a decrease of \$75.0 million or 2.5%, from June 30, 2016.

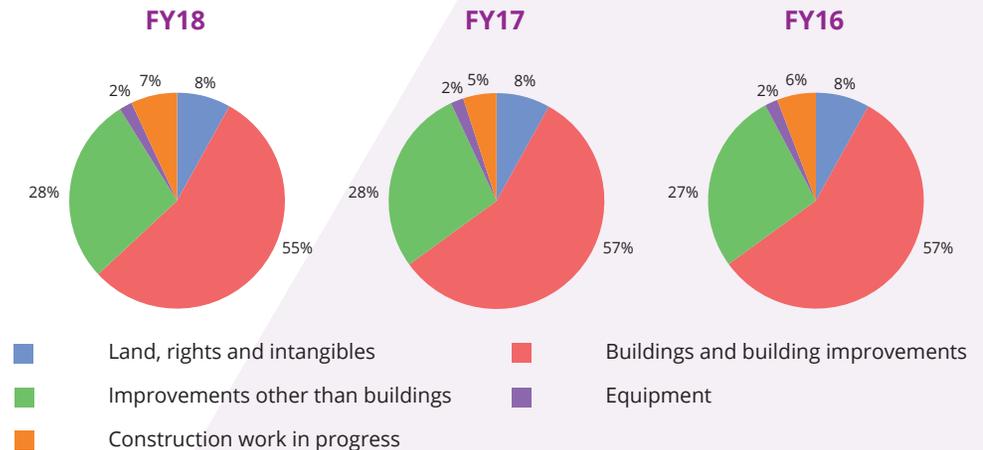
At IAH, HAS is proceeding with the planning and procurement of design and construction support for the IAH Terminal Redevelopment Program (ITRP) that includes the newly constructed 11-gate concourse just west of the existing Terminal C North (becoming the "New Terminal C North") and reconstructing and integrating the existing Terminal C North and Terminal D into a new single common-use international facility (the Mickey Leland International Terminal (MLIT)) and a new centralized ticketing hall. The expansion of the terminal facilities will also necessitate an enlargement of certain components of the existing Federal Inspection Services (FIS) facility as well as related improvements to aircraft parking aprons and roadways. The terminal and ticketing hall will be used by United Airlines and all foreign-flag airlines serving IAH and share the existing FIS Facility. The City awarded contracts for executive program manager and program management support services in fiscal year 2015 and architectural/engineering and construction management contracts for MLIT in fiscal year 2017. In fiscal year 2018 the City began the selection process for architectural/engineering and construction management firms for the FIS facility.

At HOU, capital improvements are planned for the airfield as required by the FAA, as well as normal pavement management and customer service enhancements for the HOU Central Concourse. Additionally, certain drainage and roadway improvement projects are scheduled to take place in fiscal year 2019.

At EFD, a new air traffic control tower is nearing completion and procurement is underway for a design/build contract for Spaceport infrastructure to provide roadways and utilities for future tenants.

CAPITAL ASSETS JUNE 30, 2018, JUNE 30, 2017, and JUNE 30, 2016 (Net of Depreciation and Amortization) (in thousands)

	June 30 2018	June 30 2017	June 30 2016
Land	\$ 216,107	\$ 216,079	\$ 222,886
Rights and intangibles	13,607	11,528	12,373
Buildings and building improvements	1,560,127	1,642,234	1,673,156
Improvements other than buildings	789,944	817,193	812,542
Equipment	53,415	61,165	62,565
Construction work in progress	\$ 182,844	\$ 135,233	\$ 174,942
	<u>2,816,044</u>	<u>2,883,432</u>	<u>2,958,464</u>



MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

DEBT

At the end of the 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 and premiums, senior lien commercial paper, and an inferior lien contract, all secured solely by Airport System Fund revenues. The Fund is also responsible for paying the debt service costs on \$28.6 million of taxable general obligation pension bonds. The Airport System Fund has elected to report \$86.1 million of special facility revenue bonds (consolidated rental car facility), payable solely from customer facility charges. There is no pledge for these bonds against any revenue of the Fund or the City.

Total outstanding debt decreased \$37.1 million or 1.6% during fiscal year 2018. \$478.6 million in debt was added for the issuance of Airport System Subordinate Lien Revenue and Refunding Bonds, Series 2018A and Series 2018B, while \$465.5 million in bonds, commercial paper, and a note to Southwest Airlines were refunded or paid off from the proceeds. \$18.0 million in new commercial paper was issued, and \$27.6 million in new taxable pension obligation bonds, Series 2017, was assigned to the airport system for payment. \$89.6 million in principal was paid from existing debt, and \$6.2 million in net premiums were amortized. At the end of fiscal years 2017 and 2016, the Fund had total debt of \$2.4 billion and \$2.5 billion, respectively. Total outstanding debt decreased \$97.4 million or 3.9% during fiscal year 2017, due to retirement of existing debt.

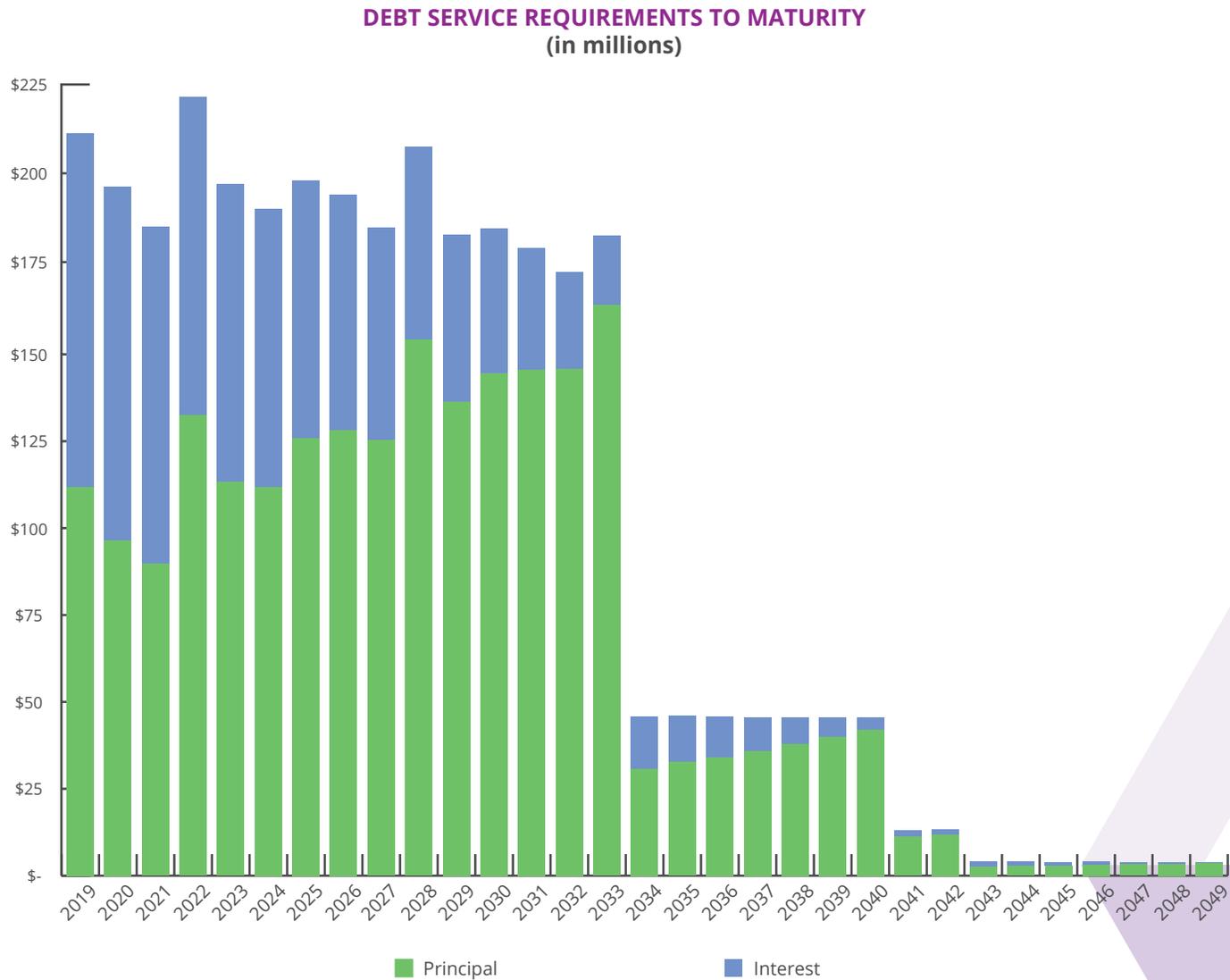
OUTSTANDING DEBT JUNE 30, 2018, JUNE 30, 2017, and JUNE 30, 2016 (in thousands)

	June 30 2018	June 30 2017	June 30 2016
SENIOR LIEN DEBT			
Current maturities-revenue bonds	\$ 10,735	\$ 10,225	\$ 9,740
Long-term revenue bonds payable	409,685	420,420	430,645
Unamortized discounts and premium	(359)	(476)	(603)
Commercial paper	21,473	87,000	87,000
Total senior lien debt	<u>441,534</u>	<u>517,169</u>	<u>526,782</u>
SUBORDINATE LIEN DEBT			
Current maturities-revenue bonds	67,785	67,630	64,925
Long-term revenue bonds payable	1,598,790	1,512,135	1,579,765
Unamortized discounts and premium	110,299	59,061	65,705
Total subordinate lien debt	<u>1,776,874</u>	<u>1,638,826</u>	<u>1,710,395</u>
INFERIOR LIEN DEBT			
Current maturities-contract	-	6,240	5,915
Long-term contract payable	-	-	6,240
Total inferior lien debt	<u>-</u>	<u>6,240</u>	<u>12,155</u>
OTHER DEBT			
Current maturities-note payable	-	5,018	5,018
Long-term note payable	-	110,403	115,421
Pension obligation bonds			
Current maturities	27,610	-	-
Long-term payable	2,006	2,006	2,006
Special facility revenue bonds -			
Consolidated rental car facility:			
Current maturities	5,715	5,490	5,305
Long-term payable	80,385	86,100	91,590
Total other debt	<u>115,716</u>	<u>209,017</u>	<u>219,340</u>
Total outstanding debt	<u>\$ 2,334,124</u>	<u>\$ 2,371,252</u>	<u>\$ 2,468,672</u>
DEFERRED OUTFLOWS OF RESOURCES			
Unamortized costs of refunding debt	<u>\$ (20,499)</u>	<u>\$ (27,329)</u>	<u>\$ (30,154)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

DEBT

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



MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

DEBT

The underlying ratings of the Airport System Fund's obligations for fiscal year 2018:

	Senior Lien	Subordinate Lien	Consolidated Rental Car SFRB
FITCH'S BOND RATING	Not Rated	A	A-
MOODY'S BOND RATING	Aa3	A1	A3
STANDARD & POOR'S BOND RATING	AA-	A+	A-



ANNUAL REPORT 2018

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