

Building the Future

Houston Airport System • Annual Report 2014



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 53 million passengers in 2014, including more than 9.8 million international travelers.

Mission:

To connect the people, businesses, cultures and 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	4
Message from Mario Diaz	5
Leadership Team	6
George Bush Intercontinental Airport	8
William P. Hobby Airport	24
Ellington Airport	34
Making Connections	40
Wi-Fi & Beyond	46
Parking	48
Awards & Headlines	50
Technology	52
Infrastructure	53
Concessions	54
Art	55
Human Capital Management	56
Corporate Strategy & Performance	57
Office of Business Opportunity	57
Municipal Affairs	57
Finance	58

Dear Citizens of Houston,

The Houston Airport System (HAS) continues to stand as one of the city's most striking examples of what's possible when a dynamic economy is brought together with a culturally diverse population. Standing as a national leader in both job creation and population growth, the City of Houston relies on its three airport facilities to establish and maintain personal and business connections on a global scale. These connections not only ensure that the nation's fourth-largest city remains competitive in the new global economy, but they also enhance the quality of life enjoyed by millions of its residents, many of whom enjoy family ties with loved ones living around the world.

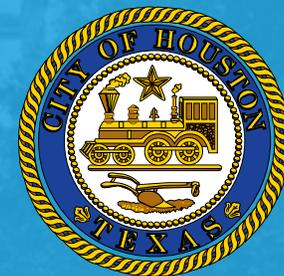
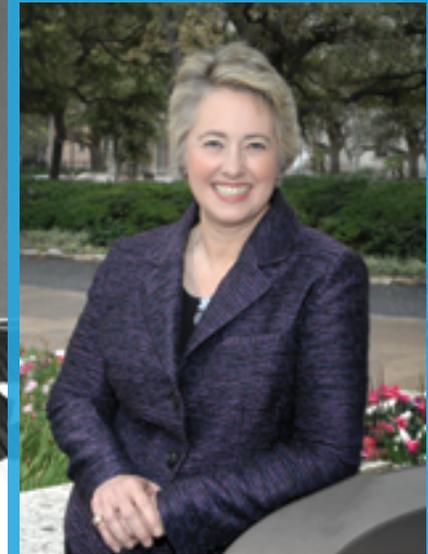
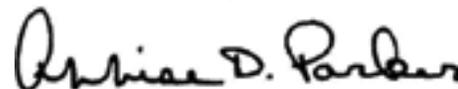
HAS is comprised of George Bush Intercontinental Airport (IAH), William P. Hobby Airport (HOU) and Ellington Airport (EFD), three unique airport facilities that collectively support the City of Houston in a variety of different ways. Collectively, the three airports make it possible for local flight operations to span the Atlantic and Pacific Oceans, they support operations for a variety of United States military branches and they offer a permanent home to popular community events such as the Wings Over Houston Airshow and the 9/11 Heroes Run.

Coming on the heels of a year that featured unprecedented growth and activity, 2014 quickly established itself as a historic time period in its own right. In fact, the airport system would end 2014 enjoying more success in attracting international air carriers than ever before, and handling more international passengers than the City of Houston had ever seen. Korean Airlines, Scandinavian Airlines and Interjet Airlines all recognized the amazing opportunities that currently exist in our city and decided to establish operations in Houston as a result.

At Hobby Airport, the groundwork was literally being laid in 2014 for a return to commercial international air service. Through a partnership with Southwest Airlines, a new international concourse is being built at HOU, a project that will help usher in regional international flights to Latin America and the Caribbean by the end of 2015. Meanwhile at Ellington Airport, work continued on establishing Houston as the site for the nation's 10th licensed commercial spaceport.

At all three airport facilities, HAS team members truly are "Building the Future," and thanks to their efforts, hard work and determination, Houston's future has never looked brighter.

Mayor Annise D. Parker



Dear Houston Airport System Stakeholder,

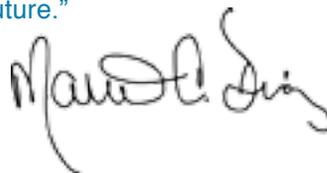
The Houston Airport System (HAS) could not have selected a more appropriate theme for its 2014 annual report than the chosen phrase, “Building the Future”. Those three simple words summarize perfectly the airport system’s keen focus on building the facilities, route network and workforce necessary to properly serve the nation’s fourth-largest city, which also happens to feature the country’s most dynamic economy and diverse population base. The 2014 calendar year ended with various projects and initiatives resting in various stages of completion but a common theme can be found throughout. In each instance, the goal is to prepare for the future by building stronger connections between the City of Houston and the people, businesses, cultures and economies of the world.

In this report, major construction projects will come to life through vivid photography, informative graphics and illustrative artist renderings. Among the infrastructure-related topics covered in this report: the new international concourse building already being constructed at William P. Hobby Airport (HOU), the new international terminal (Mickey Leland International Terminal Building) at George Bush Intercontinental Airport (IAH) and the proposed commercial spaceport complex at Ellington Airport (EFD). Individually, each of these projects represent a historic moment in the evolution of their host airport; collectively, they likely represent the most eventful period in the history of the Houston Airport System.

Of course the driving force behind this unprecedented growth is the increase in passenger totals and the corresponding arrival of new air carriers to the Houston market. All-time highs were once again recorded in two key statistical areas: domestic traffic at Hobby Airport and international air travel at Bush Airport. These growth trends were certainly noticed by the aviation industry, with three new international air carriers establishing operations in Houston in 2014 and additional airlines announcing their plans to launch inaugural flights in 2015.

And of course through it all, the Houston Airport System remained diligent in its drive to establish itself as a “high performance organization.” Throughout the course of 2014 this effort took on many different forms, from improving the lines of communication that exist between the airport system and its customers to improving the lines of communication that exist between the airport system’s own internal divisions.

I hope that you enjoy this retrospective look at the highlights of 2014. Speaking on behalf of the 1,300 HAS employees, I can tell you with absolute certainty that it was a privilege and an honor to help bring those highlights to life. Working in an airport environment is always an exciting experience but it’s even more thrilling when the entire working group has a keen awareness that with each collective step forward, the team is literally “Building the Future.”



Mario C. Diaz





Building the Future







George Bush Intercontinental

George Bush Intercontinental Airport (IAH) celebrated a significant milestone in 2014, as the 8th busiest airport in the nation marked its 45th year of flight operations. Since first opening its doors in 1969, George Bush Intercontinental Airport has stood as the City of Houston's flagship airport facility and has consistently provided a premier level of service and connectivity to millions of passengers. During its 45th year of flight operations, IAH experienced several different events and milestones warranting both celebration and recognition. New airlines continued to enter the Houston market at an unprecedented pace and existing airlines continued to enhance and expand their individual route maps. The end result of this flurry of activity was a level of global connectivity never seen before in Houston's rich aviation history.

Driven by a robust economy and the most diverse population of any major U.S. city, the 2014 passenger totals at IAH once again topped the 40 million mark, with the number of international travelers reaching an all-time high. New nonstop flights spanned Latin America, Asia and Europe, while the domestic passenger totals at IAH increased over the previous year's totals for the first time since 2007. Additional air service is expected to arrive moving forward and major construction projects are set to be launched but one fact is abundantly clear; George Bush Intercontinental Airport is approaching its fifth decade with unprecedented momentum and limitless potential.

Korean Air

New Airlines

On May 2, 2014, America's largest Asian airline began daily nonstop flight service from Houston. On that day, Korean Air officially launched service between Houston's George Bush Intercontinental Airport (IAH) and Seoul's Incheon International Airport (ICN).

"Korean Air gains access to one of the most dynamic economies and fastest growing populations in the world, while passengers in Houston find themselves with direct access to both Seoul and other key destinations located throughout Southeast Asia" said Houston Aviation Director Mario C. Diaz.

By the end of 2014, it was clear that Korean Air had chosen wisely when selecting Houston as the site for its latest market expansion, with the nonstop route performing extremely well with passengers at IAH. That's not particularly surprising when one considers the dramatic expansion that's taken place in Houston's Asian population over the past decade. During that time, the Asian demographic has expanded by 70 percent, a growth rate that tops the levels found in traditional Asian hubs such as New York, San Francisco, Los Angeles and Seattle.

In a span of less than 50 years, Korean Air has firmly established itself as a premier international carrier within the aviation industry, accommodating more than 24 million passengers on an annual basis through flights that span six continents. With those numbers, Korean Air operates as one of the world's 20 busiest airlines.



Scandinavian Airlines

Scandinavian Airlines (SAS) made its Houston debut on August 22, 2014, with a unique nonstop flight to Stavanger, Norway. Houston Mayor Annise Parker was on hand for the celebration at George Bush Intercontinental Airport and congratulated airline representatives on both their successful launch and their targeted business plan.

“This aircraft is specifically designed to accommodate the needs of the business traveler, a concept that should resonate well with passengers located throughout the Houston region,” Mayor Parker said.

The route utilizes the Boeing Business Jet (BBJ), a modified 737 aircraft which features just 44 comfortable business seats, in-flight entertainment and full-service meals. With fewer seats than are typically found, aboard the typical 737, passengers are able to enjoy substantially more space and legroom.

SAS is the single largest airline in Scandinavia, carrying almost 30 million passengers per year to destinations in Europe, the United States and Asia. The flight to Stavanger was given an especially hearty welcome by those Houstonians working in the energy industry, since both cities are well-established leaders within that particular economic sector. Houston enjoys a well-earned reputation as the “Energy Capital of the World,” while Stavanger, Norway is also widely recognized as an energy capital within the European region.



Interjet



Interjet officially began operations in Houston on October 23, 2014. On that day the airline launched nonstop service between George Bush Intercontinental Airport (IAH) and Monterrey International Airport (MTY) in Monterrey, Mexico.

“Houston already enjoys greater connectivity with Mexico than any other city in the United States and that bond is going to be even stronger with the arrival of Interjet,” said Houston Mayor Annise Parker.

The airline offers passengers a choice between two daily flights Monday through Friday and one daily flight on Saturdays and Sundays. Houston and Monterrey already share significant business and cultural ties with one another, and those connections are definitely expected to strengthen with the arrival of new nonstop air service.

“With these new flights, Interjet strengthens its international presence by connecting two of the most important cities in terms of international business. Monterrey and Houston are key destinations to the expansion of our airline and passengers can enjoy all the benefits they will receive flying with us,” said Interjet CEO Jose Luis Garza.



Future Service

In addition to the three international air carriers that established operations in Houston in 2014, another three airlines formally announced their intentions to establish flight operations at George Bush Intercontinental Airport in 2015. Two of the carriers will focus their nonstop flights on Asian markets, while the third is looking to capitalize on the millions of passengers traveling each year to locales in Latin America.



All Nippon Airways

ANA, Japan's leading airline, announced plans in 2014 to connect Tokyo and Houston with nonstop air service beginning in the spring of 2015. The new flight will operate between Houston's George Bush Intercontinental Airport (IAH) and Tokyo's Narita International Airport (NRT) and will dramatically enhance connection options for passengers traveling between Asia and various destinations located throughout the Americas.



EVA Air

EVA Air will initiate non stop flights between Taipei, Taiwan and Houston on June 19, 2015. The airline will start the new service with three flights a week and increase frequency to four on July 1, 2015. The route will give passengers a comfortable way to fly from the Gulf region of the United States to Taipei and with just one easy stop, connect onward to major destinations throughout Asia, including mainland China, Singapore and Vietnam.



Volaris

Volaris announced its plans to come to Houston just before the close of the year, with service expected to begin on March 23, 2015. Volaris is widely recognized as one of the premier low-cost carriers in Mexico.

Spirit Airlines

Enhanced Services

Spirit Airlines arrived to Houston in September 2012 with two nonstop flights and a promise. The ultra low cost carrier immediately pledged that the Houston market would be a key focal point for future growth plans and since that announcement, the Florida-based airline has certainly made good on that promise. It began with a series of announcements regarding domestic service, with new nonstop flights from Spirit targeting Chicago (O'Hare), Denver, Detroit, Fort Lauderdale, Kansas City, Las Vegas, Los Angeles, Minneapolis/St. Paul, New Orleans, Orlando and San Diego. But 2014 brought about two significant changes for the Spirit Airlines team. Their livery was changed to an eye-catching black and yellow design, and their operation at George Bush Intercontinental Airport was dramatically expanded. Ten new nonstop destinations were added to the Houston route map, seven of which involved international flights to destinations located throughout Latin America. The new flights are slated to begin in the spring of 2015, with customers finding new options to Cancun, Los Cabos and Toluca in Mexico, as well as service to Managua, Nicaragua; San Jose, Costa Rica; San Pedro Sula, Honduras; and San Salvador, El Salvador.

On the domestic route map, Spirit Airlines also added Baltimore/Washington, D.C., Oakland and Tampa throughout the Houston region. Based on destinations served and seat capacity, the new routes will make Spirit Airlines the second most active carrier at George Bush Intercontinental Airport.

New Destinations

Cancun, Mexico

Los Cabos, Mexico

Toluca, Mexico

Managua, Nicaragua

San Jose, Costa Rica

San Pedro Sula, Honduras

San Salvador, El Salvador

Baltimore, Maryland

Oakland, California

Tampa, Florida



Emirates A380

Just two years after becoming the first airport in Texas to welcome scheduled air service from the Airbus A380 aircraft, George Bush Intercontinental Airport welcomed its second "Texas-sized" plane on December 3, 2014, when Emirates upgraded its service from Houston to Dubai, United Arab Emirates.

Emirates immediately increased its seat capacity by 40 percent when it began using the A380 and also began offering passengers a chance to enjoy new levels of service, with private suites, shower/spas and lounges equipped with a fully stocked bar, all of which can be found aboard the double-decker A380.



Service Expansion in 2014

Routes Added in 2014

March

Air China to Beijing, China: Expands to daily service
Turkish Airlines to Istanbul, Turkey: Expands to daily service
United Airlines to Tokyo, Japan: Doubles frequency to 2x/day

April

United Airlines to Atlantic City, New Jersey: Launches daily service
United Airlines to Lagos, Nigeria: Adds frequency - 6x/week
United Airlines to Munich, Germany: Launches daily service

May

Korean Airlines to Seoul, South Korea: Launches daily service
Spirit Airlines to Minneapolis, Minnesota: Launches daily service

June

United Airlines to Bozeman, Montana: Launches new service 2x/week

August

Spirit Airlines to New Orleans, Louisiana: Launches daily service
Spirit Airlines to Atlanta, Georgia: Launches daily service
Spirit Airlines to Kansas City, Missouri: Launches daily service
United Airlines to Boise, Idaho: Launches daily service
United Airlines to Williston, North Dakota: Launches daily service
Scandinavian Airlines to Stavanger, Norway: Launches new service (6x/week)

September

Spirit Airlines to Fort Lauderdale, Florida: Launches daily service
Spirit Airlines to San Diego, California: Launches daily service

October

United Airlines to Hartford, Connecticut: Launches daily service
Interjet to Monterrey, Mexico: Launches 2x/day service

November

Aeromexico to Monterrey, Mexico: Launches 2x/day service
VivaAerobus to Monterrey, Mexico: Added frequency to daily
Frontier Airlines to Phoenix, Arizona: Launches daily service
Frontier Airlines to San Francisco, California: Launches daily service
VivaAerobus to Guadalajara, Mexico: Launches new service 4x/week

December

VivaAerobus to Cancun, Mexico: Launches new service 5x/week
Emirates to Dubai, United Arab Emirates: Upgrades to Airbus A380

United Airlines to Santiago, Chile: Launches daily service
Aeromexico to Mexico City, Mexico: Adds frequency - 5x/day
United Airlines to Punta Cana, Dominican Republic: Launches new service

Future Routes in 2015

March

United Airlines to Panama City, Florida
United Airlines to Peoria, Illinois
Spirit Airlines to Tampa, Florida
Spirit Airlines to Baltimore, Maryland
Volaris to Guadalajara, Mexico

April

Spirit Airlines to Oakland, California

May

Spirit Airlines to Cabo San Lucas, Mexico
Spirit Airlines to San Jose, Costa Rica
Spirit Airlines to San Pedro Sula, Honduras
Spirit Airlines to Toluca, Mexico
Spirit Airlines to San Salvador, El Salvador
Spirit Airlines to Managua, Nicaragua
Spirit Airlines to Cancun, Mexico
Vacation Express to Freeport, Grand Bahamas

June

All Nippon Airways to Tokyo, Japan
EVA Air to Taipei, Taiwan

September

WestJet to Calgary, Alberta, Canada



Growth in International Traffic

Simply put, the City of Houston has enjoyed unprecedented success in growing the amount of international air travel and in attracting new international service to the local market.

Ten years ago, the City of Houston was seeing approximately 6.3 million international air passengers on an annual basis. By the end of 2014, that number had skyrocketed to almost 10 million international travelers, a staggering increase of approximately 56 percent.

During that time, Houston has experienced dynamic growth in air travel to major world regions. For example, the number of travelers flying between Houston and Europe has increased 42 percent since 2004, while traffic between Houston and the region classified as Asia/Africa has gone up by 180 percent during that same time period. As for the Caribbean, Central and South American regions, traffic has increased by 75 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.

International Passenger Growth



Europe



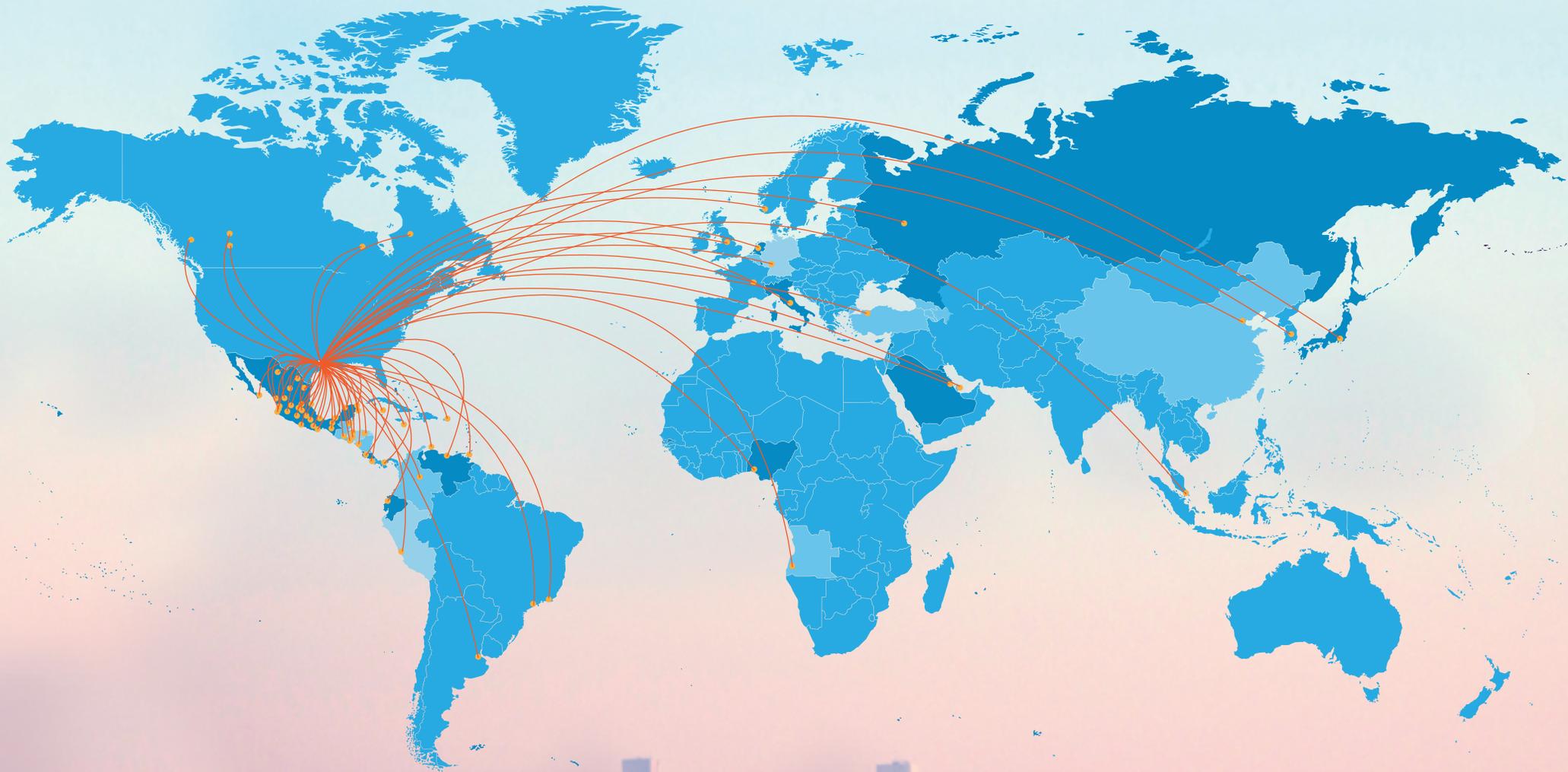
Central / South America



Asia / Africa



IAH Route Map



New International Terminal

Because of this historic period of growth, the Houston Airport System is now set to embark on one of the most ambitious and essential construction projects it has ever undertaken. On June 18, 2014, members of Houston's City Council voted overwhelmingly in favor of approving a funding and phasing plan which would lead to a new Mickey Leland International Terminal building (Terminal D) at George Bush Intercontinental Airport.

The Plan

In order to make room for a new international terminal at IAH, the existing Terminal D must be completely demolished and removed. The new building will be more than 50 percent larger than its predecessor, covering more than 800,000 square feet. As before, the terminal will accommodate Houston operations for more than a dozen foreign flag carriers but a new addition will be the international flights from United Airlines.



Mickey Leland International Terminal

The Timeline:



Amenities

The new international terminal at George Bush Intercontinental Airport will offer customers a dramatic upgrade in virtually every manner imaginable. The aesthetics of the building will offer guests an open and spacious experience, with an intuitive design leading them through the entire travel experience. A heavy reliance on oversized windows will allow natural lighting to create and maintain a bright atmosphere, while dramatic works of art and specifically chosen food and retail shops will create a definitive “sense of place,” ensuring that guests fully realize that they are enjoying a “Houston experience.” The new international gateway will also offer upscale executive lounges, a large space specifically designed for public entertainment and the latest technological amenities for the e-connected traveler.



Operational Upgrades

Once complete, the new terminal will offer a total of 15 gates, each of them capable of accommodating wide-body aircraft. Four of the 15 gates will be designed and built specifically for “jumbo jets” such as the Airbus A380. The new facility will also feature an expanded hall for U.S. Customs & Border Protection (CBP), where passengers arriving aboard international flights can be processed by CBP personnel.

2014 IAH Improvements

In addition to the long-term improvements that are making their way through the various planning stages, the Houston Airport System is also aggressively moving forward with enhancements that are making a more immediate impact. Throughout 2014, passengers at George Bush Intercontinental Airport experienced a number of improvements in both amenities and services.

Terminal D seating

Sometimes it's the simplest touches that wind up offering the biggest impact. This sentiment definitely holds true when considering the new lounge furnishings found in the Mickey Leland International Terminal. In September 2014, HAS team members began placing area rugs and oversized couches in the ticketing area of Terminal D. The simple goal was to provide passengers, along with their friends and/or loved ones, a comfortable place to relax as they began their international travel process. Conveniently located near the terminal's ticket counters and flight information displays, the lounge areas also offer multiple power sources that can be used for recharging electrical devices.

Global Entry hits one million

In 2014, it was announced that one million people in the U.S. had been given the 'trusted traveler' designation through the Global Entry program. Six years earlier, George Bush Intercontinental Airport was one of the first airports in the nation to launch the expedited travel program and since that time has consistently stood as a national leader in both enrollment and kiosk usage. The kiosk program encourages international travelers to pre-enroll, which allows for a speedier processing experience, thanks to a previously conducted background check.

APC kiosks expanded

In December 2014, Houston City Council members authorized the purchase of 45 additional kiosks to be used in the Automated Passport Control (APC) program. APC offers touch-screen kiosks to scan the passports of passengers arriving aboard international flights, thereby eliminating the need for handwritten cards to be used during U.S. Customs processing. The kiosks cut down on potential errors and typically reduce the passenger's wait time by approximately 30 to 35 percent.

Executive lounge

The executive lounge in Terminal D began the new year literally "looking like a million bucks." An extensive remodeling project brought numerous improvements to the space, including spacious work areas and food service.



Entryway monuments:

Two dramatic entryway monuments found a permanent home at George Bush Intercontinental Airport in 2014. The two sleek, modern structures can be found along John F. Kennedy Boulevard and Will Clayton Parkway and are designed to create a warm and inviting welcome to those drivers who are approaching the IAH terminals. The design features an aircraft and its contrail soaring over the airport's name, which is written out in aluminum cladding over steel.

The monuments are illuminated at night and both are highlighted by a landscaping arrangement that features a variety of colors and native plant life.



Video welcome board:

Guests are also treated to a new messaging system as they leave the airport property, with new video display boards being erected along JFK Blvd. and Will Clayton Parkway. The video board portion of the display spans a width of approximately 50 feet a height of seven feet. The board also features a light emitting diode (LED) screen. The supporting design pieces that surround the screen were created in a manner that would complement the new entryway monuments, utilizing the same sleek, metallic material.

The screen rotates a series of city landmark photos, while a static display directly in front of the screen conveys the message "Welcome to Houston."



Terminal A & D restrooms:

The Houston Airport System not only brought major renovation projects to its IAH restroom facilities in 2014 but also used the remodeling period as an opportunity to solicit customer feedback regarding what type of amenities they prefer to see in public washrooms.

New sink basin fixtures, hand dryers and tile were installed in restrooms in both Terminals A and D in 2014 and in both instances, customers were given an opportunity to submit electronic feedback as to whether or not these were the types of amenities they would like to see on a broader scale.

A Look Forward...

And a good thing is about to get even better!

Even with all the improvements already in place at George Bush Intercontinental Airport, even more enhancements are waiting right around the corner. These improvement projects will touch a number of different areas at IAH, making the travel experience even better for customers in 2015.

Terminal B North (New Terminal C)

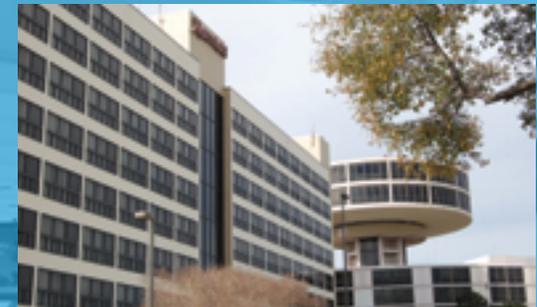
Passengers in Terminal B North can get a general sense of what's headed their way soon, simply by walking a few steps to the South. The Terminal B building at IAH is currently a facility featuring two halves, with the northern section featuring the same design that was unveiled when the airport first opened in 1969 and the southern end of the terminal, which was completely rebuilt by United Airlines in 2013. In the coming year, the northern portion of Terminal B will also undergo a complete demolition, with the new facility representing the "new Terminal C."

Marriott Hotel

The Airport Marriott Hotel will continue to move forward towards its dramatic unveiling, following more than two years worth of renovations. More than \$40 million is going into a remodeling project that's designed to bring improvements to each of the 565 rooms available to customers, as well as marked improvements to the lobby, lounge areas, gyms and other areas. The airport hotel, which is located directly between Terminals B and C, has been operating at IAH since first opening in 1974.

ecopark 2

Drivers looking for additional parking options will be happy to hear that an ecopark 2 parking lot is set to be constructed at George Bush Intercontinental Airport in 2015. The new lot will be located along Will Clayton Parkway near Colonel Fischer Road and will operate in the same manner as its counterpart on JFK Blvd. Drivers will park their vehicle in either covered or open spaces and then climb aboard one of the airport's new shuttle buses, enjoying a free transport to any one of the facility's five airport terminals.



And a Look Back...

But George Bush Intercontinental Airport cannot put a bow on its 2014 year without a quick look back at its 45th birthday celebration. On June 7, 2014, team members with the Houston Airport System invited the public to come out to IAH and help celebrate almost a half century's worth of service from Houston's "Big Airport." Thousands responded to that invitation.

With a collection of static aircraft on hand, games and toys for the kids and plenty of Texas barbecue available, approximately 2,000 people gathered inside an IAH hangar to enjoy the birthday bash. It was an enormous success and officially launched the countdown to the Big 5-0!





William P Hobby Airport



William P. Hobby Airport (HOU) is located within seven miles of the downtown Houston area and is home to many of the low cost air carriers with operations in the nation's fourth-largest city. For several decades, Hobby Airport served as the sole source for commercial air travel in the Houston region, until the opening of IAH in 1969. Since that time, Hobby Airport has built and maintained a stellar reputation as an efficient and convenient "downtown airport," with passenger totals rising dramatically on a consistent basis.

Now approaching its ninth decade of service, the role of Hobby Airport has never been more vital to the businesses and people of Houston, as it prepares to once again accommodate commercial international flights.

HOU Record Year

In 2014, William P. Hobby Airport once again made history with a record-breaking passenger total, with the most recent tally coming in just shy of the 12 million mark. The total of 11.9 million passengers not only represented an increase of 7.5 percent over the previous year's unprecedented total, it also marked the fifth consecutive year that Hobby Airport had set an all-time record for the total number of passengers processed aboard arriving and departing flights.

The new threshold not only represents a dramatic single accomplishment for the team at Hobby Airport but also provides an exclamation point to the amazing overall growth story that's been unfolding at HOU over the past decade. Ten years ago, the passenger total at Hobby Airport was just above the 8 million person mark, which means that the 2014 total represents a passenger increase of 44 percent, an astonishing gain in a relatively short period of time.

This increase in passenger totals has brought with it a flood of activity in regards to new nonstop flight options. In 2004, passengers at Hobby Airport could fly aboard nonstop flights to 32 different domestic airports. As the year 2014 came to a close, that number stood at 52 and new international destinations in Latin America and the Caribbean were waiting just around the corner.

- 11.9 million passengers in 2014
- 7.5 percent increase over 2013 total
- 44 percent increase in past decade
- 5th consecutive year for passenger record



HOU Passenger Growth



Going International

The City of Houston is perfectly positioned to establish itself as a key global gateway to the Latin American region of the world. The nation's fourth-largest city offers a dynamic economy, the country's most diverse population base and strong business and cultural ties with multiple countries that are located to the south of Texas' border. With this goal in mind, the Houston Airport System has been working hand in hand with its partners at Southwest Airlines to re-establish commercial international air travel at William P. Hobby Airport.

The two sides agreed that Southwest Airlines would finance the construction of a \$156 million concourse building, capable of immediately accommodating five international gates.

Significant progress was made on the international concourse throughout 2014, along with the supporting projects that are necessary to bring broadbased international flights back to Hobby Airport. Along with the infrastructure progress made during the year, Southwest Airlines also made news by announcing the list of Latin American cities they're hoping to connect with once their international operations begin. (These are in addition to nonstop service to Aruba, which is a "pre-clearance" destination. Nonstops there are slated to begin on March 5, 2015)

The six cities are:

- Cancun, Mexico
- Mexico City, Mexico
- Puerto Vallarta, Mexico
- San Jose, Costa Rica
- Los Cabos, Mexico
- Belize City, Belize



Hobby International Concourse

In late September 2013, Houston Mayor Annise Parker joined the CEO of Southwest Airlines, Mr. Gary Kelly and Houston's Aviation Director Mario C. Diaz for a very special ceremony at William P. Hobby Airport. Flanked by other city leaders and colleagues, the three individuals turned over a small bit of ceremonial earth in the exact location where a new international concourse building was set to be built over the next two years.

More than a year later, the scene of that groundbreaking ceremony is almost unrecognizable, as work crews have converted the space into a bustling construction zone that will eventually house regional international air travel to and from Latin America and the Caribbean.

The Plan

The plan calls for the construction of a 5-gate facility to be built along the southwest corner of the existing terminal building. Southwest Airlines will have a preferred designation on four of the five gates, while the fifth will be designated for other qualified air carriers who are interested in connecting Houston to Latin American and/or Caribbean destinations.

The new concourse will cover approximately 280,000 square feet and will feature a new and expanded Southwest Airlines ticket counter. Also under construction is a Federal Inspection Services (FIS) facility with 16 primary inspection stations, capable of processing 400 to 800 arriving passenger at any given time.



The Timeline:

2012

April

Houston Airport System unveils results of study examining impact of HOU international travel

May

Houston City Council members vote overwhelmingly in support of international travel at HOU

2013

September

Groundbreaking ceremony is held for concourse project

2014

December

Southwest announces their six target cities in Latin America & Caribbean. Work continues throughout the year with the project reaching the midway point by the end of 2014

2015

March

Nonstop to Aruba begins, prior to concourse opening

October

International Concourse scheduled to open

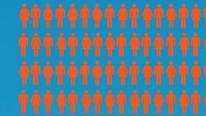
The Impact

According to independent analysis, establishing international air travel at Hobby Airport is expected to generate the following:

The impact



Economic impact to the Houston region of \$1.6 Billion



1 Million additional passengers



10 K Jobs

Garage and Roadway

Since the arrival of commercial international air travel is expected to generate an additional one million passengers, other infrastructure projects at Hobby Airport are needed in addition to the new concourse. The projects include a new multi-level parking garage, a new roadway system with upper-level drop-off at the new concourse and a satellite utility complex.

Parking Garage

- Four levels
- 3,000+ parking spaces
- Air conditioned walkway connecting to new concourse
- Electronic real-time space locator system

Roadway

- Broaden width of available lanes
- Upper-level to connect to new concourse
- Renovated signage to guide drivers

Utility Center

- Remote satellite utility plant
- New updated chill water and heating Systems
- Increased efficiency & improved environmental impact



Other Improvements

In addition to the new international concourse and multi-level parking garage, customers at William P. Hobby Airport will also soon be enjoying improvements found along the entry roadway system and inside the existing central concourse ticketing lobby.

Surrounding roadway

The Houston Airport System will look to upgrade the airport's perimeter by moving forward with dramatic upgrades to Airport Boulevard and other surrounding roadways. These improvements will include:

- New LED lighting
- More attractive fencing
- Entry monument
- Hardscaped roundabout

Expanded security checkpoint

With an additional 1 million passengers expected to arrive at Hobby Airport, an expansion was also needed in regards to the Transportation Security Administration's (TSA) checkpoint operation. In response to the expected increase in passenger flow, the airport system has dramatically increased the amount of space designated for TSA screening requirements. This, along with a recent \$350 million renovation program, has Hobby Airport looking better than ever.

Broadway boulevard

While not an HAS project, the renovation of Broadway Boulevard between Airport Blvd. and Interstate 45 most definitely has a significant impact on the overall airport experience. The Texas Department of Transportation is currently making significant improvements to the roadway, promising a more aesthetically-pleasing drive for airport guests and nearby residents. The project is scheduled for completion in the latter portion of 2016.



FBO Improvements

Not only does William P. Hobby Airport offer a broad range of commercial airline options, the airport also features private flight services through five different Fixed Based Operators (FBO's). These general aviation operators offer premium service with special amenities that are specifically designed to cater to today's executive traveler. All of these FBO's underwent substantial expansion and/or renovation projects during 2014, collectively investing more than \$40 million on their Houston operations. A sixth FBO (Galaxy FBO) is set to join the group in 2015, with a launch investment of more than \$17 million.



Atlantic Aviation
\$14 million



Jet Aviation
\$4 million



Million Air
\$12 million



Signature
\$9 million



Wilson Air Center
\$3 million



Galaxy FBO (Coming in 2015)
\$17 million





Ellington Airport

Ellington Airport (EFD) is quickly approaching its 100th year of service to the Houston community and its future has never looked more promising than it does today. Located within 15 minutes of the downtown Houston area, Ellington Airport continues to fill a multitude of essential aviation-related roles. The airport handles approximately 100,000 flight operations each year, with the majority of those involving general aviation aircraft. The airport facility is also an essential component to the training schedule of several military/government operations, including the Texas Army National Guard, Texas Air Guard, the 75th Reserve Division, U.S. Coast Guard and NASA. Moving forward, the Houston Airport System hopes to establish Ellington as the nation's 10th licensed commercial spaceport, capable of handling horizontal launches involving Reusable Launch Vehicles. Much of 2014 was spent assembling and crafting the paperwork necessary for such a designation and we expect that 2015 will bring final approval.

Spaceport Moves Forward

One of the most exciting and far-reaching projects currently underway within the Houston Airport System involves the drive to establish Ellington Airport as a licensed commercial spaceport. Should EFD obtain this designation from the Federal Aviation Administration, then the facility would be cleared to handle horizontal launches involving Reusable Launch Vehicles (RLV's). These spacecraft would take off in a manner similar to commercial aircraft but once over the Gulf of Mexico would change their trajectory in a manner that guides them towards the closest reaches of outer space. These types of launches are currently used by private sector companies for a variety of different reasons, such as the launching of micro-satellites, zero gravity experimentation, astronaut training, and eventually space tourism.

A Houston Spaceport Would Likely Include:

- Vehicle Manufacturing Capabilities
- Aviation Museum
- Terminal Facility
- Office Complexes for Aerospace Companies
- Campuses for Educational Institutions



Key Steps Forward in 2014

- Conducted an Environmental Assessment (EA) to gauge potential environmental impact
- Coordinated and assembled a formal application to the Federal Aviation Administration
- Unveiled Web site (www.fly2houston.spaceport.com) to inform public as to project details
- Established numerous domestic and international relationships to lay groundwork for future business partnerships

Houston Makes Sense

- Strong & diverse economy
- Heavy aerospace presence
- Educated workforce
- Proximity to Gulf of Mexico
- Presence of Johnson Space Center and NASA

Next Steps

- Public hearings
- Formal application filed with FAA
- Design & build various infrastructure projects
- Partner with private sector aerospace companies



Ellington News & Events

Arturo Machuca named Ellington Airport General Manager

Arturo Machuca was named as Ellington Airport's new General Manager in 2014. Machuca has enjoyed a long career with the Houston Airport System, first joining HAS as a member of the Air Service Development team in 2001. Machuca also has direct experience working within the airline industry, working for both Aeromexico and Mexicana Airlines during his brief time away from the HAS operation. When Machuca returned to HAS in 2004, he was charged with spearheading the efforts to establish Ellington Airport as a licensed commercial spaceport. This experience will undoubtedly prove to be invaluable as EFD continues to move forward in this new and exciting direction.

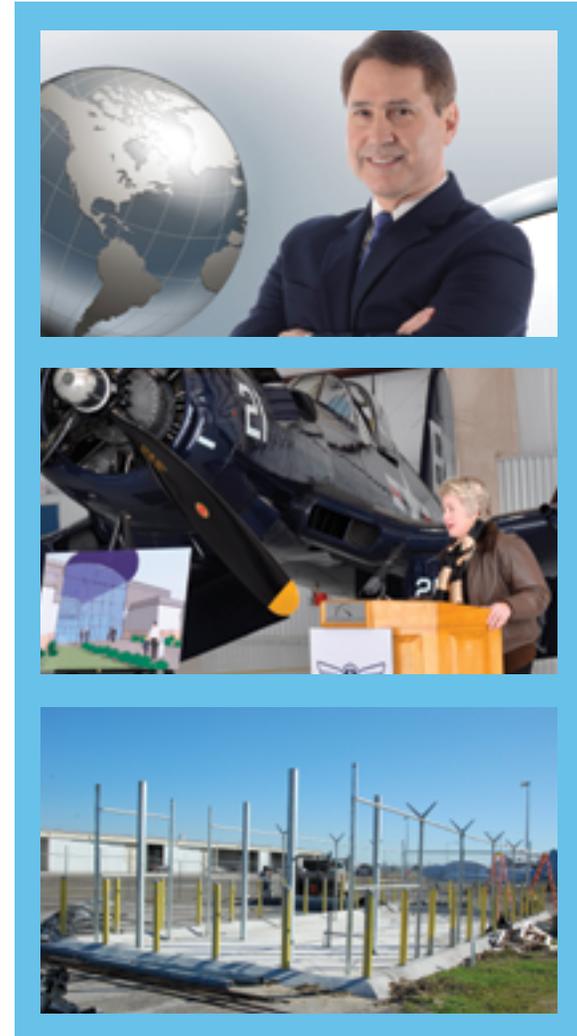
"I can't imagine a more exciting time to be leading the operation at Ellington Airport," Machuca says. "I get to enjoy a front row seat as one of the world's most dynamic industries unfolds and develops right in front of me. I am excited to play a direct role in the development of the spaceport project and I look forward to doing my part to help solidify Houston's standing as "Space City, U.S.A.""

Lone Star museum

The Lone Star Flight museum unveiled details surrounding its plans to move operations from its current home in Galveston to a new location at Ellington Airport. At a November press conference, museum leaders joined Houston Mayor Annise Parker in unveiling details behind a new state-of-the-art 130,000 square-foot facility to be completed in 2016. After sustaining substantial damage during Hurricane Ike in 2008, museum board members began exploring their options in regards to a move further away from the Gulf of Mexico coastline. A deal was reached with the Houston Airport System for a permanent home to be located at Ellington Airport, bringing with it a host of vintage aircraft, an aviation learning center and the Texas Hall of Fame Flight Hangar. The museum will also offer a number of additional amenities for visitors to enjoy, from an aircraft restoration area showcasing the aircraft preservation process to a research library and archive facility offering visitors and researchers access to historic aviation information. The new facility will span across 13 acres at Ellington Airport.

Self-fueling station

General aviation pilots will soon find it more convenient than ever before to refuel their planes at Ellington Airport. In 2014, the Houston Airport System unveiled its plan for a satellite refueling station to be built. Scheduled to be located near the Southwest Services hangar at Ellington Airport, the AVGAS station will work in an almost identical manner to your corner convenience store. Pilots will simply taxi up to a self-serve fueling station and swipe their payment card prior to pumping the necessary fuel.



Wings Over Houston Air Show record

It's already one of the largest air shows in the nation and, in 2014, the Wings Over Houston Air Show enjoyed its most successful event ever recorded. Thousands of Houstonians came out for the 30th Annual Commemorative Air Force Wings Over Houston Airshow on Saturday, November 1 and Sunday, November 2. The U.S. Navy Demonstration Team's Blue Angels performed stunts in their C-130 "Fat Albert" aircraft that delighted the crowd, while a returning favorite was the always-popular Tora! Tora! Tora! reenactment of the World War II air power attack on Pearl Harbor and other historical battles.

"The Wings Over Houston Airshow is a tradition in our family, and the kids always look forward to the amazing air show," said Houston native Kelly Green. "It gets better and bigger each year."

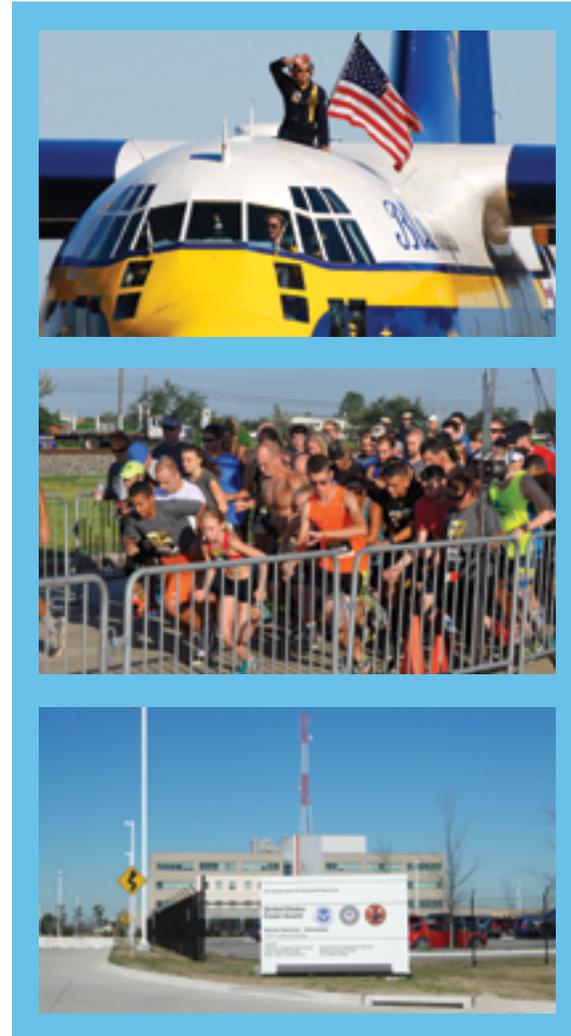
9-11 Heroes Run

On September 6, Ellington Airport once again served as the location for the 9/11 Heroes Run in Houston, with more than 3,000 Houstonians coming together for the annual race. Houston has the most active and successful 9/11 Heroes Run among the more than 50 races held across the United States and at military installations around the world including Iraq, Afghanistan, Guam, Italy, England and a ship in the Persian Gulf. Half of the proceeds go to the Travis Manion Foundation, which provides veterans and families of fallen service members support through service-based team building events that foster camaraderie and facilitate successful life transitions, and the Character Does Matter program.

The other half of the proceeds remain in Houston, specifically this year for the Assist the Officer and the Houston Fire Fighters Burned Children's Fund.

Coast Guard moves in

Members of the United States Coast Guard stationed at the Houston-Galveston operation spent the first part of 2014 moving into their new home. A new 117,000 square foot headquarters facility was completed in January at Ellington Airport and more than 300 Coast Guard personnel made the move from the Houston Ship Channel area to their new space. The new HQ at Ellington Airport now houses the Sector's command center, investigative services, electronic support, public affairs and the regional civil rights office.



MAKING CONNECTIONS

The mission of the Houston Airport System is to connect the people, businesses, cultures and economies of the world to Houston. It's a simple and direct mission but one that calls for a tremendous amount of coordination and teamwork in order for success to be obtained. Government agencies and private companies must meld their operational approaches, a sense of inclusion must be created within the communities surrounding an individual airport and, above all else, the individual customer must feel as though they are being valued throughout their airport stay.

The External Affairs division within the Houston Airport System is the group charged with building and maintaining many of these vital relationships. The External Affairs team looks to make connections necessary to establish Houston as a global gateway: Connecting with the passenger, the community and the world.

**Passengers
Quite
Satisfied**

Source:
Phoenix Marketing International

IAH



**78% 2014
68% 2013**

HOU



**86% 2014
85% 2013**

Connecting with the Passenger

Re-building “Houston Friendly” customer service

One of the most ambitious projects undertaken by the Houston Airport System in 2014 was the complete revamping of the customer service training protocol carried out at all three airport facilities. The scope of the project was enormous for one simple reason: the new standards and training regimen would be applied to any and all badged employees working at an HAS airport and not solely HAS employees themselves. This meant that more than 35,000 team members (from airlines, retail shops, federal agencies and more) would be required to complete a uniformed training session outlining specific standards regarding everything from appearance to operations.

2014 represents an unbelievably successful start in this vital area:

- Uniform standards were created and accepted by all HAS stakeholder partners
- Training team was assembled and classes began
- All employees with the Houston Airport System completed training in 2014
- Detailed schedule was laid out for stakeholder training in 2015
- First annual “Houston Friendly” luncheon” was held, featuring individual honors for exceptional customer service and a dynamic performance from an HAS Flash Mob



Customer response

Throughout 2014, the Houston Airport System also improved the manner in which it listened to customer’s input and suggestions. An electronic customer relationship management system (CRMS) was created, in an effort to better connect with both the positive and negative feedback being offered by our guests. The traditional paper-based comment cards were replaced with a modern web-based system, allowing for both quicker responses and more efficient trend monitoring.

Volunteers

An essential component in the effort to effectively meet the customer’s needs in a friendly and timely manner is the HAS Volunteer Program. Comprised of approximately 100 dedicated and caring individuals, these selfless volunteers man information booths that are located at various locations in George Bush Intercontinental Airport and William P. Hobby Airport.

On a daily basis, these volunteers relay vital information to customers and present a “Houston Friendly” face to 53 million passengers on an annual basis.



Customer appreciation day

While the Houston Airport System obviously values its customers on a daily basis, a particular time is set aside each year to formally thank the guests at both George Bush Intercontinental Airport and William P. Hobby Airport. During this time, guests are treated to a host of giveaway items, ranging from snacks to beach towels. The free giveaway session is typically carried out each fall and is intended to show the airport’s system’s immense gratitude for the 53 million customers who fly in and out of Houston each year.



Holiday entertainment

The winter holiday season offers the Houston Airport System a unique opportunity to provide its guests with festive sounds to ease any possible travel stress that they may be experiencing. Each year, HAS partners with choirs, orchestras and bands from area schools in order to provide passengers with a series of free holiday musical concerts. The sights and sounds of elementary, middle and high school children creating holiday music is the perfect gift for those guests wanting to enjoy the experience the spirit of the season.



Connecting with the Community



At its core, the Houston Airport System means nonstop access to more than 170 worldwide destinations and an economic impact of \$27.5 billion, but the system's three airports also connect to the Houston community on a much more personal level. From honoring our nation's fallen heroes to educating community leaders on recent airport developments, the External Affairs team strives to play a key role in making the nation's fourth-largest city a better place in which to live and work.

Speakers Bureau

With so much activity and growth occurring at Houston's airports, it's not surprising that key business and social groups would be interested in scheduling presentations from HAS representatives so that they can have a clear understanding of the various activities and projects being undertaken by the HAS team. These requests are handled by the Community Relations and Communications team within the External Affairs division, with a special emphasis placed on matching the requesting organization with the appropriate HAS representative. In 2014, the HAS team provided public presentations to more than 40 organizations, providing valuable insight on a variety of topics ranging from construction projects to new air service options. In addition to these personal updates, HAS leadership also made several appearances on television programs airing on Houston Community Television (HCT).



Chamber partnerships

The Houston Airport System team also enjoys a productive relationship with 35 individual Chambers of Commerce, representing individuals and businesses throughout the Houston region. The Community Relations department routinely attends the various chamber meetings occurring on a regular basis and uses the subsequent relationships to maintain strong ties with the business community.

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.



"National Wreaths Across America" Day

One of the more moving events that the HAS team takes part in is the annual "National Wreaths Across America" Day at Houston National Cemetery. Hundreds of team members gather together each year in order to lay wreaths at the markers of fallen U.S. service members. The program pays tribute to those fallen veterans and gives HAS personnel a chance to show their appreciation for all the men and women who protect the United States by wearing a uniform and serving in the military.



Texas Children's Hospital

Another heartfelt tradition is carried out each December at Texas Children's Hospital, as HAS employees deliver holiday gifts to children undergoing medical treatment. Almost a hundred team members visit the medical facility to pass out gifts and holiday hats to recovering children, while also offering emotional support to the family members of patients during their time of need.

Airport Rangers

The Houston Airports Ranger Program is one of the more unique and effective ways in which the airport system connects with the local community. Comprised of horse riding enthusiasts, the Rangers program offers an added layer of security at George Bush Intercontinental Airport by allowing riders access to IAH trails, provided those individuals undergo specialized security training in return. In 2014, the Airport Rangers celebrated their 10th year of existence with a Texas-sized party, joining Houston Mayor Annise Parker and others for a trail ride and barbecue luncheon. The Rangers not only help protect the perimeter fence line at IAH but also represent a valuable public relations tool, as they routinely represent HAS in special events such as the Houston Livestock Show & Rodeo Parade.



Connecting with the World

International connectivity is absolutely essential to a city as dynamic and diverse as Houston. Standing as the nation's fourth-largest city, Houston has the most diverse population of any major city in the United States and the Houston Airport System supports this diversity in a number of essential ways. From coordinating various events with foreign diplomats to taking part in direct trips to international locales, the Houston Airport System keeps Houston connected on a global scale, all the while spreading the "Houston message of success" to the rest of the world.

International Affairs

The International Affairs team with HAS routinely works hand in hand with representatives from the 93 Consul General offices located in Houston (the 3rd largest Consular Corps in the U.S.) in a number of different areas. For example, this coordination is vital in ensuring the smooth travel of diplomats looking to enhance relations between their representative country and the City of Houston. This international presence is celebrated each year with an event called the Houston Consular Ball and once again, the Houston Airport System plays a leading role. Various members with the airport system team take an active role in organizing and supporting Houston's premier white tie event. The 2014 Houston Consular Ball, with its theme of "Northern Lights, Southern Hospitality" celebrating the Arctic region, was viewed as an overwhelming success.

The "Houston Message"

At times, international partners are somewhat surprised to learn that Houston enjoys the most dynamic economy and most diverse population of any major city in the United States and they're not always familiar with the airports' extensive international route network either. Because of this, members of the Houston Airport System leadership team will occasionally take the "Houston message" to international locales themselves. For example in 2014, Houston Aviation Director Mario C. Diaz made trips to various locations in China, Korea, Japan, South Africa, Panama and Mexico. These trips, which are often taken in coordination with other City of Houston departments, highlight the myriad of opportunities that exist at Houston's airports, including expanded air service, along with commercial spaceport and aerospace manufacturing.



Government Affairs

With a multitude of government agencies involved in each and every flight operation, it is imperative that the Houston Airport System build and maintain a strong working relationship with representatives from the Federal Aviation Administration, the U.S. Department of Transportation, the U.S. Department of Homeland Security and many others. The HAS Government Affairs team not only works closely with these agencies but also coordinates on a regular basis with elected officials in order to ensure that Houston's voice is heard in regards to funding measures and upgraded capacity issues for agencies such as the FAA, Transportation Security Administration (TSA) and U.S. Customs & Border Protection (CBP). These advocacy measures routinely lead to Houston's participation in the industry's latest pilot programs and state-of-the-art technological advancements. In 2014, these efforts led to:

- Securing CBP staffing at new HOU Customs Processing Center
- Implementation of Automated Passport Control kiosks
- Upgraded capacity of Passenger Facility Charge

Communications

Without a doubt, the Houston Airport System's Communications team had plenty of news to pass along to the general public in 2014. New airlines, record passenger totals and major construction projects were just a few of the items that garnered significant attention for the airport system, both locally as well as internationally. This attention typically comes in the form of news media coverage, web traffic on the HAS Web site www.fly2houston.com and social media activity on the twitter pages for both Bush and Hobby Airports.

The growth in all three of these areas was nothing short of staggering in 2014. The earned media value generated by the various 2014 news stories totaled more than \$8 million. Web traffic in 2014 increased by more than 8 percent over the record setting totals posted during the previous year and the number of twitter followers @IAH and @hobbyairport increased by more than 50 percent at both airport's twitter pages.

HOU twitter:
2012: 1,335 followers
2013: 2,659 followers
2014: 4,367 followers

IAH twitter:
2012: 3,181 followers
2013: 6,108 followers
2014: 9,116 followers

HOU



IAH



Global Entry IAH



Kiosk Usage:

Total	433.5K	61.9K
1,194,669	2014	2010

(Total since 2008)

Program Enrollment:

Total	46.9K	7.1K
147,239	2014	2010

(Total since 2008)



fly2houston.com traffic

2014 7.8 Million

2013 7.2 Million

2012 5.9 Million



HAS Utilizing Technology

Free Wi-Fi

Free Wi-Fi service arrived at Houston Airports in 2014, representing one of the most exciting customer service enhancements in recent memory. The new service is available in all public areas of both George Bush Intercontinental Airport and William P. Hobby Airport, including all lobby areas, gate hold areas, parking garages and more. The new free network boasts faster speeds and easy connection to the web. Connection speeds will average between 6 and 8 megabits per second (Mbps) — more than enough data to handle a rich-streaming video. With a strong internet connection in mind, hundreds of access points were installed at IAH and Hobby Airport to ensure a reliable network.



Metroplex initiative

Houston was once again a trendsetter within the aviation industry in 2014, as it became the first U.S. city to complete the Metroplex NextGen airspace redesign project. U.S. Transportation Secretary Anthony Foxx and Federal Aviation Administration (FAA) Administrator Michael Huerta joined Houston Aviation Director Mario C. Diaz in announcing the successful implementation of the program, which delivers more on-time flights for passengers while reducing pollution by thousands of metric tons each year. The Houston Metroplex initiative includes a number of strategies that have streamlined the airspace and helped reduce complexity for air traffic controllers and flight crews. As part of the program, the FAA developed 61 new procedures to take advantage of the precision of Global Positioning System (GPS) technology.

The strategies include:

- Creating Optimized Profile Descent (OPD) procedures into George Bush Intercontinental and William P. Hobby airports, allowing pilots to almost idle the engines while the aircraft descends at a constant rate, like sliding down a banister.
- Creating more efficient routes between Houston and the Dallas/Fort Worth Metroplex areas to shave miles off of each flight through this busy corridor.
- Utilizing side-by-side arrival routes into George Bush Intercontinental Airport to increase airspace efficiency and provide more direct routing.
- Developing satellite-based departure procedures that provide predictable, repeatable flight paths that enable planes to climb steadily without leveling off from time to time, allowing them to reach a cruising altitude sooner.

TRACON opens

The FAA dedicated a new Terminal Radar Approach Control (TRACON) facility at George Bush Intercontinental Airport in 2014, a move that increases the FAA's ability to handle the expected growth in flight operations in the Houston area. The Houston TRACON is responsible for controlling air traffic over roughly 16,000 square miles of airspace stretching from the Texas-Louisiana border to approximately 35 miles east of Austin and from Galveston to 30 miles north of College Station. The previous TRACON facility had become outdated since being commissioned 40 years ago. Approximately 218 air-traffic controllers, managers and technical support personnel are assigned to the new TRACON, handling more than 940,000 individual aircraft operations each year.

GBAS expands

George Bush Intercontinental Airport witnessed a dramatic increase in the usage of the Ground Based Augmentation System (GBAS) in 2014. IAH was already one of only two commercial airports in the nation to utilize the cutting edge GPS-based technology when United Airlines began using the system in 2013 but two more airlines began utilizing the equipment in 2014. Delta Airlines had their inaugural GBAS flight in December 2014, while Emirates began utilizing GBAS when the Airbus A380 aircraft took over its route to the United Arab Emirates. GBAS technology offers pinpoint directional guidance to pilots as they approach an IAH runway for landing.



Parking

The parking division within the Houston Airport System once again celebrated an incredibly successful year, with expanded capacity and equipment upgrades taking place throughout 2014. The HAS parking team oversees an operation that handles more than 57 million vehicles on an annual basis at IAH and HOU airports, entering and departing seven individual parking structures/lots and more than 30,000 spaces. Some of the major developments from 2014 include:

Rebrand all ground transportation

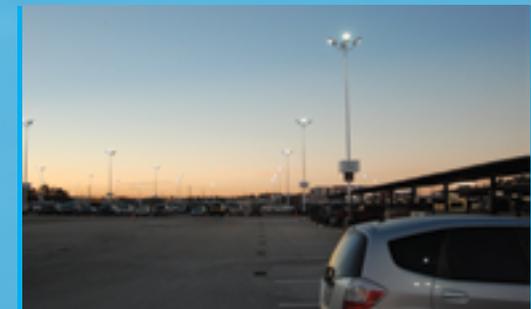
It was a new look for passengers using the consolidated rental car facility at George Bush Intercontinental Airport, as 28 new shuttle vehicles were brought into operation featuring a dramatic new design. The rental car facility at IAH uses a common bus system for all rental car agencies operating at the airport to limit the number of vehicles on the airport roadways and reduce its carbon footprint. In 2014 a uniform design was adopted for all HAS ground transportation vehicles featuring a common color scheme throughout the fleet. The new shuttle buses are “clean diesel” vehicles, reducing nitrogen oxide (NOX) emissions by as much as two tons per day. Each year, the shuttle buses carry 3 million customers between the rental car facility and the five terminals at IAH.

More covered parking at IAH ecopark

The number of covered parking spaces at George Bush Intercontinental Airport’s ecopark lot was dramatically increased in 2014. More than 750 spaces were converted from uncovered to covered during the course of the year, a testament to the high demand from customers. The ecopark lot at IAH is located along JFK Blvd. and represents the airport’s most economical parking option. Covered parking at the lot was introduced in the summer of 2010 and has quickly proven to be an extremely popular option with customers. The ecopark lot now has approximately 1,700 covered parking spaces available.

New LED lighting at ecopark

In addition to the new covered parking spaces at IAH ecopark, customers are also noticing a dramatic improvement in the facility’s lighting fixtures. Construction crews spent part of 2014 bringing in a more advanced Light Emitting Diode (LED) lighting system to the area. The new lighting fixtures are not only viewed as a safety enhancement, since they increase the overall brightness of the area but they also bring an environmental advantage into play, since LED lighting is more efficient than traditional lighting methods.



ecopark



ecopark

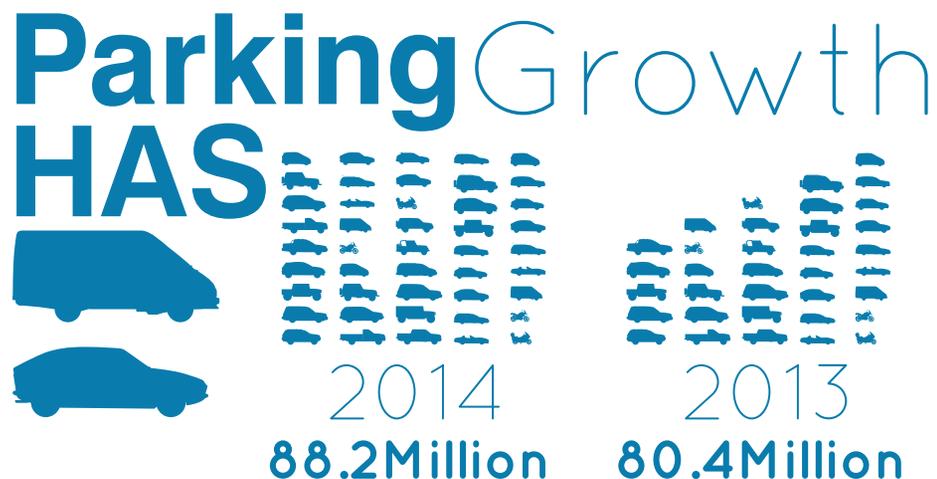
Expanded valet service

Valet parking has proven to be such a popular option with airport customers, the service was expanded in 2014 at both George Bush Intercontinental Airport and William P. Hobby Airport. At Bush Airport, the number of available valet spaces was increased by a full third, expanding to a total of 556 spaces. At Hobby Airport the number of available valet spaces was increased by an even greater margin. A total of 347 valet spaces are now available to customers, an increase of 36 percent over the previous total.

- IAH valet parking increased by 33 percent (556 spaces)
- HOU valet parking increased by 36 percent (347 spaces)

IPI Marketing Award

Of course a new service such as valet parking demands an accompanying public outreach campaign so that the customer is aware that the new service is available for purchase, and in this area, the parking division produced award-winning results. The marketing campaign included everything from promotional discount pricing to public advertising on TV, radio and billboards. The message was also conveyed through a partnership established with Houston Rockets and Houston Texans.



Awards



Mario C. Diaz

Public Official of the Year
University of Houston



Saba Abashawl

2014 STEAM Role Model
Greater Houston Women's Chamber of
Commerce



Randy Goodman

Property Manager of the Year
Airport Revenue News



Air Service Development

Routes Americas Marketing Award
Luis Aviles, Carl Schultz, Molly Waits
and Richard Martinez.



Liliana Rambo

Woman of Distinction
Texas Association of Mexican
American Chambers



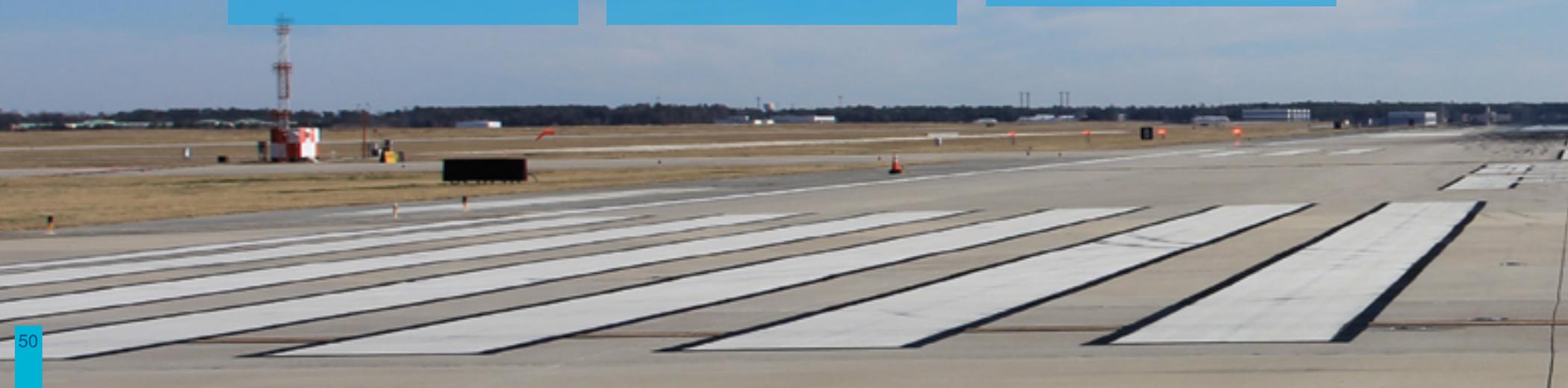
Rhonda Arnold

Breakthrough Woman
Greater Houston Women's
Chamber of Commerce



Zeljka Momirovic & Molly Waits

Top 40 Under 40
Airport Business Magazine



U.S. Mexico bi-lateral agreement

In addition to William P. Hobby Airport launching regional nonstop air service to Latin America in 2015, the United States government is also taking steps to maximize the amount of air traffic between the two regions. In November 2014, the U.S. and Mexico agreed to update their bilateral aviation agreement to permit more airlines to serve U.S.-Mexico routes. It is expected to become effective on Jan. 1, 2016. Houston already enjoys stronger connectivity with Mexico than any U.S. airport.



Airlines profitable again

The airline industry bounced back in a big way in 2014, returning to profitability after losing tens of billions of dollars during a series of difficult economic years over the past decade. The four largest airline companies in the United States - American Airlines Group, United Continental Holdings, Delta Air Lines and Southwest Airlines – collectively earned more than \$10 billion for all of 2014. Several reasons are being cited as the cause for the return to profitability but two explanations seem to stand out more than the others, those being an improved economy and airlines monitoring capacity more than ever before.



Southwest Airlines changes livery

Southwest Airlines, the largest air carrier at William P. Hobby Airport, unveiled a dramatic change to its look in 2014. The Texas-based low cost carrier adopted a new livery in September, a modern look that the airline dubbed “Heart”. Through studies and focus groups, the airline heard that it was important to remain unique and to retain its personality. For these reasons, Southwest continues to use the vibrant color palette and striped tail that has long identified the carrier.



American/US Airways Merger

It was an historic year for teams at both American Airlines and US Airways, as the two carriers joined forces to create the world’s largest airline. After signing the merger papers in December 2013, the two airlines spent the majority of 2014 making the necessary adjustments to turn that paperwork into reality. The two carriers have since merged their operations at more than 90 airports, selling tickets on each other’s flights and offering reciprocal frequent-flier benefits. The physical merging was a fairly simple process in Houston, since both carriers operate inside the Terminal A facility at George Bush Intercontinental Airport.



Technology

With each passing year, airport customers become more and more dependent on technology to help guide them through the entire travel experience. This means that members of the Houston Airport System's Technology Division play a constantly evolving and expanding role in working to meet the needs of 53 million annual passengers.

Many of the Technology division's major accomplishments have been highlighted in previous sections of this report. For example, the Technology team was absolutely essential in the establishment of powerful, reliable and free Wi-Fi service at IAH and HOU airports. The group's contribution can also be seen in the expansion of travel programs such as Global Entry and the streamlining of the customer response system. In addition to these vital projects, the Technology division also focused their attention on these key areas throughout the course of 2014:

Passenger app

This new customer service is set to debut in 2015 but the majority of the heavy lifting took place in 2014, with Technology team members spending the year working on virtually every aspect of planning, testing and design modification. Once it's made available to the public, airport customers will enjoy a Passenger App that offers these exciting features:



- Flight info & tracking
- Interactive Maps
- Turn by Turn Navigation
- Integration with Social Media
- Multiple Languages
- Parking Locator System

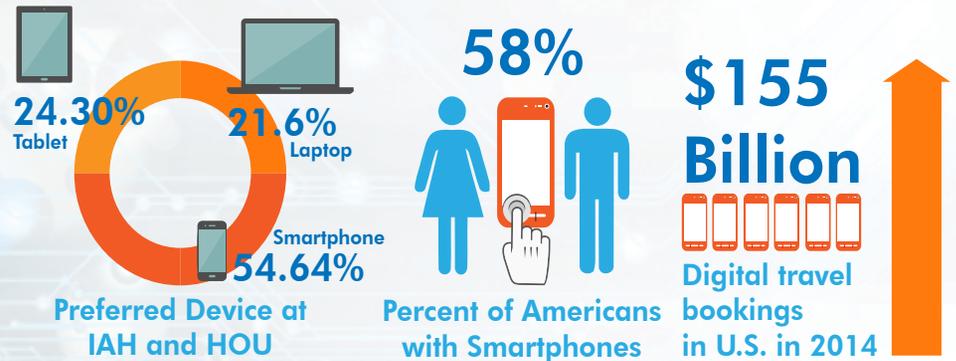
Advanced surveillance program

Members of the Technology division spearheaded a significant security investment in 2014, enhancing the surveillance capabilities found at both Bush Airport and Hobby Airport. The federally-funded program, which was valued at \$18 million, brought in new camera and video recording equipment to various areas of both airport facilities. The new cameras utilize and capture high-definition signals and offer security personnel a 360 degree view of key airport areas.



Common use terminals

The concept of "Common Use" ticket counters was expanded within the Terminal A facility at George Bush Intercontinental Airport. Common use allows for multiple airlines to enjoy access to any given ticket counter, as opposed to a permanent designation that locks an individual airline into one particular location. The concept allows for greater flexibility in handling changing flight schedules. The Terminal D building (Mickey Leland International Terminal) at IAH is already common use and in 2014, that same approach was expanded to include part of the Terminal A building. Common use ticket counters, self-serve kiosks and gate check-in stations were all added to the Terminal A operation throughout the course of the year.



Technology Management Team: Jeff Bream, Bryan Helaire & Fred McDowell

Infrastructure

The Infrastructure Division (formerly known as Planning, Design & Construction) within the Houston Airport System once again enjoyed a highly eventful and extremely successful year. The Infrastructure team filled the 2014 calendar with a series of projects that either improved operational efficiency or enhanced the overall customer experience, at times accomplishing both tasks within the same project. The designers, planners, engineers and many, many other team members played an absolutely vital role in ensuring the success of many of the high profile projects that were mentioned earlier in this report (lobby seating, APC kiosks, executive lounge, entryways, parking, etc). But the Infrastructure division also spent 2014 moving forward on a series of other vital projects:

Roadway at Ellington Airport

HAS crews finished 2014 at the halfway point for a significant roadway upgrade at Ellington Airport. Challenger 7 Parkway is being extended and repaired at the same time, a project that's allowing for improvements to the airport's utilities and drainage systems. The project is expected to be completed in the spring of 2015.



Satellite utility plant at Hobby Airport

While Southwest Airlines is spearheading most of the construction-related work on the new concourse building, there are numerous other steps necessary in order for Hobby Airport to begin accommodating international traffic. For example, HAS crews are in the process of building a new satellite Central Utilities Plant at HOU. The new facility will provide both water and electricity to the newly constructed parking garage and other vital aspects of the Hobby Airport operation.

Terminal D - Gate 9 at Bush Airport

In order to accommodate the arrival of yet another Airbus A380 aircraft (Emirates' upgrade in December 2014), Infrastructure team members had to work against an extremely challenging deadline. Gate 9 at the Terminal D facility had to be altered in a manner that would allow the operation of a dual jet bridge, clearing the way for Emirates to load and unload its 500+ passengers. The HAS team answered the challenge in flawless fashion.



Signage at Hobby & Ellington Airports

One of the key planning projects that kept the Infrastructure team busy in 2014 was the new signage package, slated to be installed at both Hobby and Ellington Airports. Designed to mirror the signage package already put into place at IAH, the project at HOU and EFD is expected to be complete by the 4th quarter of 2015.



Concessions

The concessions team within the Houston Airport System is comprised of five distinct divisions (Advertising, Food & Beverage, Passenger Services, Retail Concessions & Rental Car) and collectively helps generate and manage more than \$63 million in revenue on an annual basis. This group is charged with creating a unique and enjoyable experience for the airport guests, from the food and retail options found in the lobbies and gate hold areas to the ground transportation network that operates outside the terminal facilities. In the past, they have met this challenge with award-winning service and the work that was done in 2014 promises an even brighter future.

At William P. Hobby Airport, much of the discussion centered around which food & beverage options would be located within the new international concourse building. The five-gate facility will accommodate flights to Latin America, the Caribbean and parts of South America, with operations slated to begin in October 2015.

Once open, customers will find a wide variety of options in regards to both full meal service, and snacks & coffee:

Via Yia Mary's
Greek/Mediterranean healthy

Oyster Bar
Fresh seafood

Peet's Coffee
Wide selection of coffees, teas, specialty drinks, and pastries

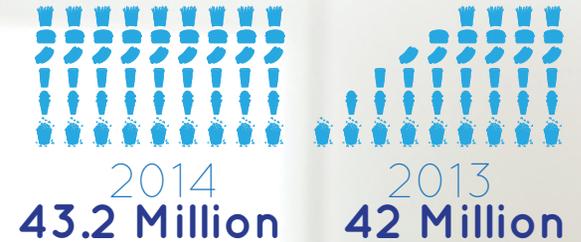
Chick-fil-A
Sandwiches & salads

Pappasito's Cantina & Bar
Local Tex-Mex flavor to travelers featuring burritos, enchiladas and tacos

Wolfgang Puck Express
Features Puck's most popular dishes in a fast, casual setting

(Four additional units will be built on the ticketing level of the existing central concourse and two new food & beverage operations will be built within the central gate area.)

Concessions IAH & HOU Growth



The three airport facilities within the Houston Airport System collectively represent one of the city's most impressive art collections, valued at more than \$20 million, featuring more than two dozen permanent large-scale works and a host of others available for public viewing. It's a collection that's constantly growing and evolving, much like the airport facilities themselves and, in 2014, airport guests were treated to an unparalleled display of sculptures, paintings and multi-media pieces.

With Program Director Pam Ingersoll leading the charge, the HAS art program celebrated an amazingly successful 2014, with major strides being taken in highlighting the portable works collection, planning for the new international concourse at William P. Hobby Airport and making sure that existing art work is properly cared for and a preventative maintenance program is part of the routine work schedule.

Portable Works

The portable works program is designed to ensure that each work of art is displayed in front of as many airport guests as possible, by rotating the location of that particular piece on a regular basis. Not only are existing works featured in new locations but new pieces are constantly being added to the overall inventory. Currently the "portable art" program features approximately 170 paintings and small sculptures. This collection includes the addition of 45 individual works that were purchased in 2014, primarily from Houston-based artists.

Hobby International Concourse

Part of the planning process for a new international concourse building at William P. Hobby Airport involves the selection of art that is to be displayed at the new facility. As part of that decision making process, a prestigious selection panel was assembled and in 2014 they announced that six artists would be commissioned to create works of art for the new facility at Hobby Airport. By the end of 2014, those artists were completing the design work for the various pieces and upon committee approval, will begin fabrication of the permanent works.

Conservation

With the HAS art collection representing a multi-million dollar investment, preservation and conservation are obviously key areas of focus within the art program. Ingersoll and other HAS team members routinely invest both time and resources to the maintenance and upkeep of the various works and at times, that effort can involve more than cleaning solvent and elbow grease. For example, the gateway entry piece "Radiant Fountains" at George Bush Intercontinental Airport underwent a significant improvement during the year. The timing software associated with the choreographed lighting system was upgraded in December and the piece has been glowing perfectly ever since.



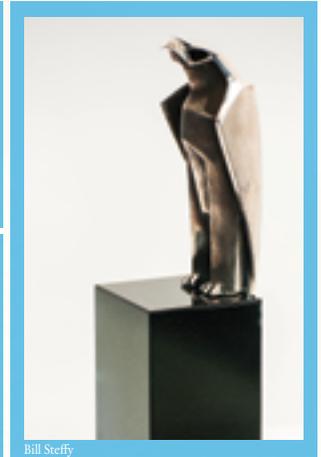
Carlos Cruz Diez



Elizabeth DeLyria



Kurt Dyrhaug



Bill Steffy



Building the Future

Human Capital Management

The Human Capital Management (HCM) Division not only oversees the familiar aspects of a Human Resources operation, such as payroll and benefits but also provides consulting services that ensure operational excellence is being delivered to HAS team members. This collaborative, team-oriented approach helps to create a culture of excellence, where resources are maximized, best practices are followed and a high performing workforce is able to thrive.

In 2014, the drive towards “high performance status” took significant steps forward with major re-alignments at the divisional level, within the areas of job titles and compensation.

Positions Realignment

In 2014, HCM also set out to streamline, coordinate and realign various job titles that were created over the years within the HAS organizational structure. A detailed assessment outlined tasks performed by each team member. As a result, 134 job classifications were streamlined into 14 families within five levels. Hundreds of team members were introduced to more accurate job descriptions that clearly defined purpose and responsibilities.

Compensation

In addition to proper job alignment, HCM focused on consistent pay practices that better reflect the market. This repositioning was studied over the course of a year to determine whether or not the HAS salary structure was competitive. As a result, no HAS team member experienced a reduction in pay, but where appropriate, adjustments were made to bring certain team members within the HAS agreed upon market pay range.

Communication

Luci Rodriguez joined the HAS team in 2014, stepping into the newly created position of Internal Communications Officer. This key position is charged with finding and implementing new and improved methods of communication among the 1,300 team members. Rodriguez is tasked with providing a sense of being “connected” to the happenings and events of the airport system. These communication tools will also prove to be invaluable resources in explaining initiatives set out by the HAS leadership team and contributing to a culture of excellence.



HCM Team: Dolores Rodgers, Gloria Hicks, Luci Rodriguez, Arvis Hagger & Mona Ross

Corporate Strategy & Performance

With its first full year behind it, the Corporate Strategy & Performance (CSP) division spent 2014 further refining the goals and objectives being pursued by the Houston Airport System and increasing team efficiency and productivity along the way. Introducing and utilizing a host of different business techniques, the CSP team helped to create an atmosphere where planning, measurement and teamwork are viewed as the building blocks of success.

Publication of Strategic Plan for Fiscal Year 2015 - Fiscal Year 2017

This roadmap publication laid out a clear path for the entire Houston Airport System team, offering a detailed look at the key priorities set forth by the HAS leadership team and the manner in which those priorities were going to be met.

Six Sigma Implementation

HAS implemented a Six Sigma training program and certified more than 30 employees as Green Belts by the close of 2014. Six Sigma seeks to improve the quality of process outputs by identifying and removing the causes of errors and maximizing consistency. This goal was also in mind when an Enterprise Risk Management system was established, in order to identify hindrances to success.

Measuring success

The CSP Division established a system of key performance indicators (KPI's) as a means of measuring progress and ultimately ensuring completion of variety of different projects and initiatives. KPI's became part of the HAS vocabulary in 2014 and detailed plans mapping out a path towards success were created as a result.



CS&P: Cheryl Barboza, Bill VanRavenswaay, Robel Habtemariam & Melinda Simmons

Office of Business Opportunity

In 2014, HAS awarded more than \$34 million to certified Small, Minority, and Women Disadvantaged Business Enterprises (SMWDBE), a 70 percent increase over the previous year's total. In total, the SMWDBE awards represent almost a third of the total dollar amount awarded to contractors in 2014.



Jason A. McLemore

Municipal Affairs

Serving as the liaison to City Council for the Houston Airport System, Municipal Affairs is integral to the successful operation and continued development of Houston's airports. Consisting of Chief Municipal Affairs Officer Kathy Elek and Municipal Affairs Executive Todd Curry, the Municipal Affairs team facilitates positive relationships with City Council Members and their staff—informing them of the myriad projects occurring at Houston airports while also conveying City Council input to HAS leadership.



Kathy Elek & Todd Curry

HAS Activation Team

The Houston Airport System Activation Team exists to ensure that major construction projects, such as the new international concourse at William P. Hobby Airport, are completed and opened in as smooth a manner as possible. The group's leader is Assistant Director Jesus Saenz, an HAS leader with operational experience at both Hobby and Bush Airports.



Jesus Saenz

Safety & Emergency Management

The Safety and Emergency Management Division exists to reduce accidents and injuries and to prepare HAS to effectively respond to and recover from emergency events. The safety team strives for continuous improvement through audits, data analysis, and providing technical assistance.



Steve Runge

Internal Audit Division

Led by Chief Auditor Kertecia Mond, the Internal Audit division serves to protect and improve HAS through independent, objective assurance and consulting services that evaluate the effectiveness of risk management, internal control and governance process.



Kertecia Mond

The New Finance & Administration: Solution-Oriented, Customer-Driven

In July 2014, nearly 100 employees from the Accounting, Corporate Services, Financial Planning & Analysis, and Supply Chain Management sections joined to form the new Finance & Administration (F&A) division. While F&A's responsibilities are broad—involving everything from making sure HAS lives within its budget; to ensuring that employees get paid on time; to helping HAS procure the services we need; to greeting guests at the front desk—it is unified as a service-oriented team. F&A works behind the scenes to keep HAS's airports running and their passengers happy and in finding ways to meet Houston's demands for future air service growth responsibly.

F&A employees are experts at reorganization—the past several years have brought new management, new coworkers, new policies, and new responsibilities. This has made F&A one of the most adaptable and resilient teams at HAS. And F&A is continuing to adapt by seeking new ways to deliver services to internal customers more efficiently, by reducing shared pain points, and by focusing on our common objectives.

The next 10 years will be unprecedented for HAS, as it expects to deliver more than \$3 billion in investments. These investments are not just the widely publicized new international terminals at Hobby or Intercontinental—more than half of the investments are needed to keep existing assets fully operational and “opening day fresh.” F&A will be working as usual behind the scenes—by selling more than a billion dollars of debt on Wall Street, by working to procure multimillion-dollar construction contracts, by making sure HAS passes its annual audit, and by streamlining records management processes.



Alfredo Oracion, Anh Nguyen, James Storemski, Renee Moore, Lindsay Young, German Canizales, Wynden Smith, Terrence London, Carla Haseltine, Pam Goetz, Darlene Behn, Marcelo Chavez, Regina Spencer.

Accounting

The Accounting section consists of four business units: Accounts Receivable (Revenue); Accounts Payable (Disbursements); Fixed Assets, Construction; and Grant Accounting; and General Accounting and Financial Reporting. Accounting is responsible for processing and monitoring HAS financial transactions and ensuring that HAS complies with the financial regulations set forth by the City, FAA, and GASB.

Corporate Services

The Corporate Services section provides efficient, customer-friendly administrative support services that connect all HAS divisions. These services include records management, travel management, messenger services, and front-desk reception. Corporate Services is in the process of implementing technology solutions that will streamline processes, decrease costs, and increase compliance related to records retention and employee travel.

Financial Planning & Analysis

Financial Planning and Analysis (FP&A) consists of the Budget and Management Reporting and the Financial Analysis business units. Its responsibilities include preparation of the annual budget, management reporting, capital program financial planning, debt management, and investor relations. FP&A's efforts are focused on providing rigorous and thorough financial analyses that support management decision-making.

Supply Chain Management

The Supply Chain Management (SCM) section is HAS's designated procurement unit for the City of Houston. SCM's responsibilities include the development of bid specifications; the evaluation of solicitations; purchasing; contract management and compliance; warehouse operations; and inventory control. As HAS takes steps to improve service offerings and expand facilities, SCM is focused on creating predictable and streamlined procurement processes.

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 increased by \$12.3 million or .09% during fiscal year 2014 and decreased by \$22.0 million or 1.6% during fiscal year 2013.

In fiscal year 2014, operating income increased \$4.6 million or 46.5% due to an increase in total operating expenses of \$14.5 million or 3.3% and an increase in operating revenue of \$19.1 million or 4.4%. In fiscal year 2013, operating income increased \$27.2 million or 73.3%, because of 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%.

Maintenance and operating expenses increased \$13.1 million or 4.8% in fiscal year 2014 and increased \$8.0 million or 3.0% in fiscal year 2013. Depreciation expense increased \$1.4 million or 0.8% in fiscal year 2014 and decreased \$19.8 million or 10.4% in fiscal year 2013.

Interest revenue increased by \$13.1 million or 677.1% in fiscal year 2014 and decreased by \$7.6 million or 134.3% in fiscal year 2013.

The Fund had a net loss before capital contributions of \$32.3 million in fiscal year 2014, compared with a net loss before capital contributions of \$34.8 million in fiscal year 2013.

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. 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, and acquisition or retirement of capital assets.

Management's Discussion and Analysis (Unaudited)

Net Position

Total net position at June 30, 2014 was \$1,369.7 million, a 0.9% increase from June 30, 2013.

Total net position at June 30, 2013 was \$1,357.5 million, a 1.6% decrease from June 30, 2012.

More than a third of the Fund's total net position (35.8% in fiscal year 2014; 39.8% in fiscal year 2013) 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 Fund, since the capital assets themselves cannot be used to liquidate these liabilities.

The other portion of the Fund's net position (64.2% in fiscal year 2014; 60.2% in fiscal year 2013) 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 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, 2014, June 30, 2013, and June 30, 2012 (in thousands)

	<u>June 30, 2014</u>	<u>June 30, 2013*</u>	<u>June 30, 2012*</u>
Current assets	\$ 329,207	\$ 325,230	\$ 306,886
Noncurrent assets	799,016	761,901	747,694
Capital assets	<u>2,777,104</u>	<u>2,835,158</u>	<u>2,924,624</u>
Total assets	<u>3,905,327</u>	<u>3,922,289</u>	<u>3,979,204</u>
Deferred Outflows of Resources	<u>35,972</u>	<u>38,961</u>	<u>42,004</u>
Current liabilities	167,334	175,616	157,250
Long term liabilities	<u>2,404,244</u>	<u>2,428,184</u>	<u>2,484,494</u>
Total liabilities	<u>2,571,578</u>	<u>2,603,800</u>	<u>2,641,744</u>
Net investment in capital assets	490,712	540,279	603,109
Restricted net assets	<u>879,009</u>	<u>817,171</u>	<u>776,355</u>
Total net position	<u>\$ 1,369,721</u>	<u>\$ 1,357,450</u>	<u>\$ 1,379,464</u>

*Prior years have been restated for the implementation of GASB #65.

Management's Discussion and Analysis (Unaudited)

Changes in Net Position

From July 1, 2013 to June 30, 2014, net position of the Airport System Fund increased by \$12.3 million or 0.9%.

From July 1, 2012 to June 30, 2013, net position of the Airport System Fund decreased by \$22.0 million or 1.6%.

Operating revenues increased by \$19.1 million or 4.4% for fiscal year 2014 and by \$15.4 million or 3.7% for fiscal year 2013. These changes in operating revenues compare with changes in total (enplaned and deplaned) system (IAH and HOU) passenger volume of positive 3.2% in fiscal year 2014 and negative 0.7% in fiscal year 2013. Operating revenue increases in fiscal year 2014 over fiscal year 2013 were primarily attributable to increases in nonairline revenues resulting from increases in parking fees and passenger volume.

Total operating expenses increased \$14.5 million or 3.3% for fiscal year 2014. Maintenance and operating expenses increased by \$13.1 million or 4.8% and depreciation increased by \$1.4 million or 0.8%. Increases in Maintenance and operating expenses include a \$2.2 million or 3.7% increase in base salary costs and a \$1.6 million or 12.8% increase in pension costs resulting from the Houston Organization of Public Employees (HOPE) Union Meet and Confer Agreement. In addition, there was a \$6.7 million increase in consulting fees attributable to consulting costs related to master plan updates for each of the three airports. An impairment expense of \$7.7 million was included in fiscal year 2014 maintenance and operating expenses. For fiscal year 2013, total operating expenses decreased \$11.8 million or 2.6%. Maintenance and operating expenses increased \$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 expenses is a \$6.5 million impairment expense. The decrease in depreciation is a result of the one-time \$14.9 million adjustment recorded in fiscal year 2012.

CHANGES IN NET POSITION

Years Ended June 30, 2014, June 30, 2013, and June 30, 2012
(in thousands)

	June 30, 2014	June 30, 2013*	June 30, 2012*
Operating revenue:			
Landing area fees	\$ 88,342	\$ 91,059	\$ 86,935
Rentals, building and ground areas	186,505	181,701	182,320
Parking and concessions	172,701	155,361	144,219
Other	4,559	4,873	4,076
Total operating revenues	<u>452,107</u>	<u>432,994</u>	<u>417,550</u>
Nonoperating revenue:			
Investment income (loss)	11,166	(1,935)	5,634
Passenger facility charges	62,602	61,195	63,550
Other nonoperating	3,225	1,978	4,644
Total nonoperating revenues	<u>76,993</u>	<u>61,238</u>	<u>73,828</u>
Total revenues	<u>529,100</u>	<u>494,232</u>	<u>491,378</u>
Operating expenses:			
Maintenance and operating	285,212	272,091	264,060
Depreciation and amortization	172,218	170,846	190,664
Total operating expenses	<u>457,430</u>	<u>442,937</u>	<u>454,724</u>
Nonoperating expenses:			
Interest expense	86,746	86,295	86,503
Cost of debt issuance	-	-	(385)
(Gain) / Loss on disposal of assets	17,267	(225)	11
Total nonoperating expenses	<u>104,013</u>	<u>86,070</u>	<u>86,129</u>
Total expenses	<u>561,443</u>	<u>529,007</u>	<u>540,853</u>
Excess (deficit) before contributions	(32,343)	(34,775)	(49,475)
Capital contributions	44,614	12,761	15,029
Change in net position	12,271	(22,014)	(34,446)
Beginning net position as previously reported	<u>1,357,450</u>	<u>1,379,464</u>	<u>1,430,490</u>
Cumulative effect of implementation of new accounting principle	-	-	(16,580)
Total net position, July 1	<u>1,357,450</u>	<u>1,379,464</u>	<u>1,413,910</u>
Total net position, June 30	<u>\$ 1,369,721</u>	<u>\$ 1,357,450</u>	<u>\$ 1,379,464</u>

*Prior years have been restated for the implementation of GASB #65.

Management's Discussion and Analysis (Unaudited)

Capital contributions are grant awards that primarily related to reimbursements for expenses from construction projects. In fiscal year 2014, capital contributions increased by \$31.9 million or 249.6%. Amounts received from Federal Aviation Administration (FAA) discretionary, FAA entitlement and Transportation Security Administration (TSA) grants all increased in the current year because of timing differences between the date of the award and the date of construction completion. Capital contributions in fiscal year 2013 decreased by \$2.3 million or 15.1% over fiscal year 2012. The decrease is a result of decrease in discretionary grants.

Non-operating revenue increased by \$15.8 million or 25.7% in fiscal year 2014, primarily due to a \$13.1 million increase in interest revenue. This included realized interest revenue that decreased \$2.0 million in fiscal year 2014 due to a decline in the investment yield in the City's general investment pool. Unrealized gains in the value of the City's investments increased interest revenue by \$15.1 million. Non-operating revenue decreased by \$12.6 million or 17.1% in fiscal year 2013, including a \$7.6 million decrease in interest revenue. Realized interest revenue decreased \$3.7 million in fiscal year 2013 due to a decline in the investment yield in the City's general investment pool. Unrealized losses in the City's investments decreased interest revenue by \$3.8 million. In fiscal year 2013, 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 deferred revenue recognition of Hurricane Ike damage reimbursements in fiscal year 2012.

In fiscal year 2014, interest expense increased by \$0.5 million or 0.5% because less interest could be capitalized as part of the cost of constructing capital assets. In fiscal year 2013, interest expense decreased by \$0.2 million or 0.2% because of a reduction in the outstanding debt.

Capital Assets

The Airport System Fund's investment in capital assets amounts to \$2.77 billion at June 30, 2014, a decrease of \$58.1 million, or 2.0%, from June 30, 2013. Capital assets at June 30, 2013 were \$2.83 billion, a decrease of \$89.5 million, or 3.1%, from June 30, 2012.

CAPITAL ASSETS June 30, 2014, June 30, 2013, and June 30, 2012 (net of accumulated depreciation in thousands)

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Land	\$ 209,967	\$ 209,967	\$ 210,568
Rights & Intangibles - Non-Depreciable	8,371	8,070	7,670
Buildings and building improvements	1,574,335	1,618,416	1,668,786
Improvements other than buildings	825,523	840,944	895,307
Equipment	37,403	41,565	46,148
Rights & Intangibles - Amortizable	1,318	1,757	478
Construction work in progress	120,187	114,439	95,667
	<u>\$ 2,777,104</u>	<u>\$ 2,835,158</u>	<u>\$ 2,924,624</u>

For IAH, HAS recently finalized the plan for constructing the Mickey Leland International Terminal, a new international terminal on the site of current Terminals C-North and D. While still early in design, the new terminal will be completed in three major phases through 2021 and will include 15 widebody gates (compared with 6 in today's Terminal D).

At HOU, Southwest's construction of a new 5-gate international concourse is well underway, and completion is expected in late 2015. Additionally, HAS continues construction on three related support projects (new parking garage, utility improvement and terminal roadway realignment).

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. In addition, the Fund is responsible for \$2.0 million of taxable general obligation pension bonds. At the end of fiscal years 2014 and 2013, the Fund had total debt of \$2.3 billion and \$2.4 billion, respectively.

Unamortized discounts and deferred outflows have been restated at June 30, 2013 and June 30, 2012 in accordance with Governmental Accounting Standards Board Statement No.65.

Total outstanding debt decreased \$65.9 million or 2.8% during fiscal year 2014, due to \$60.1 million in principal payments, \$7.0 million in net amortization, primarily of premiums, and \$1.2 million in commercial paper issuance. During fiscal year 2013, total outstanding debt decreased \$64.7 million or 2.6%, due to \$57.6 million in principal payments, and \$7.1 million in net amortization, primarily of premiums.

The underlying ratings of the Airport System Fund's obligations for fiscal year 2014:

	As of June 30, 2014	
	Senior	Subordinate
Standard & Poor's	AA-	A
Moody's	Aa3	A2
Fitch	Not Rated	A+ *

* Fitch downgraded the subordinate lien rating to "A" on 09/17/14.

OUTSTANDING DEBT June 30, 2014, June 30, 2013, and June 30, 2012 (in thousands)

	<u>June 30, 2014</u>	<u>June 30, 2013*</u>	<u>June 30, 2012*</u>
Senior lien debt:			
Long-term revenue bonds payable	\$ 449,660	\$ 449,660	\$ 449,660
Unamortized discounts and premium	(878)	(1,011)	(1,137)
Commercial Paper	<u>1,200</u>	<u>-</u>	<u>-</u>
Total senior lien debt	<u>449,982</u>	<u>448,649</u>	<u>448,523</u>
Subordinate lien debt:			
Current maturities-revenue bonds	54,965	55,045	52,805
Long-term revenue bonds payable	1,701,145	1,756,110	1,811,155
Unamortized discounts, premium	<u>79,577</u>	<u>86,693</u>	<u>93,889</u>
Total subordinate lien debt	<u>1,835,687</u>	<u>1,897,848</u>	<u>1,957,849</u>
Inferior lien debt:			
Current maturities-contract	5,315	5,040	4,780
Long-term contract payable	<u>17,760</u>	<u>23,075</u>	<u>28,115</u>
Total inferior lien debt	<u>23,075</u>	<u>28,115</u>	<u>32,895</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>\$ 2,310,750</u>	<u>\$ 2,376,618</u>	<u>\$ 2,441,273</u>
Deferred outflows of resources:			
Unamortized costs on refunding of debt	<u>\$ (35,972)</u>	<u>\$ (38,961)</u>	<u>\$ (42,004)</u>

*Prior years have been restated for the implementation of GASB #65.

Statement of Net Position (in thousands) June 30, 2014 and 2013

	2014	RESTATED 2013
Assets		
Current assets		
Cash and cash equivalents	\$ 304,175	\$ 293,890
Accounts Receivable (net of allowance for doubtful accounts of \$4,614 in 2014 and \$4,088 in 2013)	6,937	10,963
Due from City of Houston	1,544	1,781
Inventory	1,489	1,758
Prepays	3,306	8,112
Due from other governments - grants receivable	11,678	8,614
Restricted assets - investments	<u>78</u>	<u>112</u>
Total current assets	<u>329,207</u>	<u>325,230</u>
Noncurrent assets		
Cash and cash equivalents	790,722	753,452
Restricted assets - investments	6,589	6,589
Prepays	1,705	1,860
Capital Assets		
Land	209,967	209,967
Intangibles	10,782	10,562
Buildings, improvements and equipment	4,738,562	4,636,173
Construction in progress	<u>120,187</u>	<u>114,439</u>
Total capital assets	5,079,498	4,971,141
Less accumulated depreciation	<u>(2,302,394)</u>	<u>(2,135,983)</u>
Net capital assets	<u>2,777,104</u>	<u>2,835,158</u>
Total noncurrent assets	<u>3,576,120</u>	<u>3,597,059</u>
Total assets	<u>3,905,327</u>	<u>3,922,289</u>
Deferred Outflows of Resources		
Unamortized costs on refunding of debt	<u>35,972</u>	<u>38,961</u>
Total Deferred Outflows of Resources	<u>\$ 35,972</u>	<u>\$ 38,961</u>

Statement of Net Position (in thousands) June 30, 2014 and 2013

	2014	RESTATED 2013
Liabilities		
Current Liabilities		
Accounts payable	\$ 10,262	\$ 10,097
Accrued payroll liabilities	2,159	1,808
Due to City of Houston	314	372
Advances and deposits	1,876	1,584
Unearned revenue	2,287	7,546
Claims for workers' compensation	1,096	959
Compensated absences	5,511	5,559
Revenue bonds payable	54,965	55,045
Inferior lien contract payable	5,315	5,040
Accrued interest payable	47,179	48,362
Contracts and retainages payable	36,370	39,244
Total current liabilities	<u>167,334</u>	<u>175,616</u>
Long-term liabilities		
Revenue bonds payable, net	2,229,504	2,291,452
Inferior lien contract, net	17,760	23,075
Commercial paper payable	1,200	-
Pension obligation bonds payable	2,006	2,006
Long term contracts payable	32,803	-
Claims for workers compensation	1,588	1,886
Compensated absences	6,535	5,931
Net pension obligation payable	51,988	48,809
Other post employment benefits	60,445	54,194
Other long-term liabilities	415	831
Total long-term liabilities	<u>2,404,244</u>	<u>2,428,184</u>
Total liabilities	<u>2,571,578</u>	<u>2,603,800</u>
Net Position		
Net investment in capital assets	490,712	540,279
Restricted net position		
Restricted for debt service	237,416	208,100
Restricted for maintenance and operations	49,736	46,309
Restricted for renewal and replacement	10,000	10,000
Restricted for capital improvements	581,857	552,762
Total net position	<u>\$ 1,369,721</u>	<u>\$ 1,357,450</u>

Statement of Revenues, Expenses, and Changes in Net Position (in thousands) for Years Ended June 30, 2014 and 2013

	2014	RESTATED 2013
Operating Revenues		
Landing area fees	\$ 88,342	\$ 91,059
Rentals, building and ground areas	186,505	181,701
Parking	90,173	77,596
Concessions	82,528	77,765
Other	4,559	4,873
Total operating revenues	<u>452,107</u>	<u>432,994</u>
Operating Expenses		
Maintenance and operating	285,212	272,091
Depreciation and amortization	172,218	170,846
Total operating expenses	<u>457,430</u>	<u>442,937</u>
Operating income (loss)	<u>(5,323)</u>	<u>(9,943)</u>
Nonoperating revenues (expenses)		
Investment income (loss)	11,166	(1,935)
Interest expense	(86,746)	(86,295)
Gain / (Loss) on disposal of assets	(17,267)	225
Passenger facility charges	62,602	61,195
Other revenue	3,225	1,978
Total nonoperating revenues (expenses)	<u>(27,020)</u>	<u>(24,832)</u>
Income/(loss) before capital contributions	(32,343)	(34,775)
Capital contributions	<u>44,614</u>	<u>12,761</u>
Change in net position	12,271	(22,014)
Beginning net position as previously reported	<u>1,357,450</u>	<u>1,394,510</u>
Cumulative effect of implementation of new accounting principle	-	(15,046)
Total net position, July 1	<u>1,375,450</u>	<u>1,379,464</u>
Total net position, June 30	<u>\$ 1,387,721</u>	<u>\$ 1,375,450</u>

Statement of Cash Flows (in thousands) For Years Ended June 30, 2014, and 2013

	2014	RESTATED 2013
Cash flows from operating activities		
Receipts from customers	\$ 451,165	\$ 448,169
Payments to employees	(97,177)	(92,792)
Payments to suppliers	(105,221)	(93,390)
Payments to the City of Houston	(49,539)	(49,695)
Claims paid	(1,096)	(960)
Other receipts	3,224	1,978
Net cash provided by operating activities	<u>201,356</u>	<u>213,310</u>
Cash flows from investing activities		
Sale of investments	8,033	8,340
Purchase of investments	(7,999)	(8,294)
Interest income (loss)	11,167	(1,935)
Net cash (used for) provided by investing activities	<u>11,201</u>	<u>(1,889)</u>
Cash flows from noncapital financing activities		
Interest expense pension obligation bonds	(107)	(107)
Net cash (used for) provided by noncapital financing activities	<u>(107)</u>	<u>(107)</u>
Cash flows from capital and related financing activities		
Retirement of revenue bonds	(55,045)	(52,805)
Proceeds (use of cash) from issuance of debt	-	(651)
Proceeds from issuance of commercial paper	1,200	-
Interest expense on debt	(97,530)	(93,629)
Retirement of inferior lien contract	(5,040)	(4,780)
Passenger facility charges	62,602	61,195
Contributed capital	41,550	8,860
Acquisition of capital assets	(112,632)	(82,176)
Net cash (used for) capital and related financing activities	<u>(164,895)</u>	<u>(163,986)</u>
Net increase (decrease) in cash and cash equivalents	47,555	47,328
Cash and cash equivalents, beginning of year	<u>1,047,342</u>	<u>1,000,014</u>
Cash and cash equivalents, end of the year	<u>\$ 1,094,897</u>	<u>\$ 1,047,342</u>
Current asset - cash and cash equivalents	\$ 304,175	\$ 293,890
Noncurrent asset - cash and cash equivalents	790,722	753,452
Cash and cash equivalents, end of the year	<u>\$ 1,094,897</u>	<u>\$ 1,047,342</u>

Statement of Cash Flows (in thousands) For Years Ended June 30, 2014, and 2013

	2014	RESTATED 2013
	<u>2014</u>	<u>2013</u>
Noncash transactions		
Capitalized interest expense	\$ 5,858	\$ 9,189
Gain (loss) on disposal of assets	(17,267)	225
Noncash transactions	<u>\$ (11,409)</u>	<u>\$ 9,414</u>
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	\$ (5,323)	\$ (9,943)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	172,218	170,846
Impairment of capital asset	7,710	6,513
Capital improvement plan expense	8,864	12,939
Other receipts	3,224	1,978
Changes in assets and liabilities		
Accounts receivable	4,025	14,705
Due from the City of Houston	237	(499)
Inventory and prepaids	5,075	4,242
Accounts payable	175	3,137
Accrued payroll liabilities	351	187
Due to the City of Houston	(58)	(1,480)
Advances and deposits	(4,967)	469
Other post-employment benefits	3,179	3,332
Net pension obligation payable	6,251	7,305
Claims for workers' compensation	(161)	55
Compensated absences	556	(476)
Net cash provided by operating activities	<u>\$ 201,356</u>	<u>\$ 213,310</u>

Houston Airport System Leadership

Houston Airport System as of June 30, 2014:

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

Mario Diaz
Lance Lyttle
Ian Wadsworth
Harleen Hines Smith
Matt Townsend
Jeffrey Brown
Saba Abashawl
Lisa Kent
Marie Anderson
Carl Newman
Perry Miller
Chuck Farina

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 David Robinson

Council Member, At-Large Position 3 Michael Kubosh

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

Council Member, At-Large Position 5 Jack Christie

Council Member, District A Brenda Stardig

Council Member, District B Jerry Davis

Council Member, District C Ellen Cohen

Council Member, District D Dwight Boykins

Council Member, District E Dave Martin

Council Member, District F Richard Nguyen

Council Member, District G Oliver Pennington

Council Member, District H Ed Gonzalez

Council Member, District I Robert Gallegos

Council Member, District J Mike Laster

Council Member, District K Larry Green



List represents Houston City Council as constituted on December 31, 2014.