



DELIVERING THE WORLD

2015 ANNUAL REPORT

HOUSTON AIRPORT SYSTEM

provides a safe and dynamic air service network that fosters economic vitality for the transportation industry and the greater Houston region.

Bringing air service to the more than six million people living in the Houston area are three airport facilities: George Bush Intercontinental Airport, William P. Hobby Airport and Ellington Airport (a joint-use airport that accommodates general aviation flights, U.S. government operations and Houston Spaceport). The two commercial airports served more than 55 million passengers in 2015, including more than 10.7 million international travelers.

OUR MISSION

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

OUR VISION

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

CORE VALUES

Relationships

We honor our commitments and earn trust

Innovation

We consider unconventional ways of thinking

Service

We WOW our customers through a "can-do" attitude

Excellence

We strive for skillful execution without compromise





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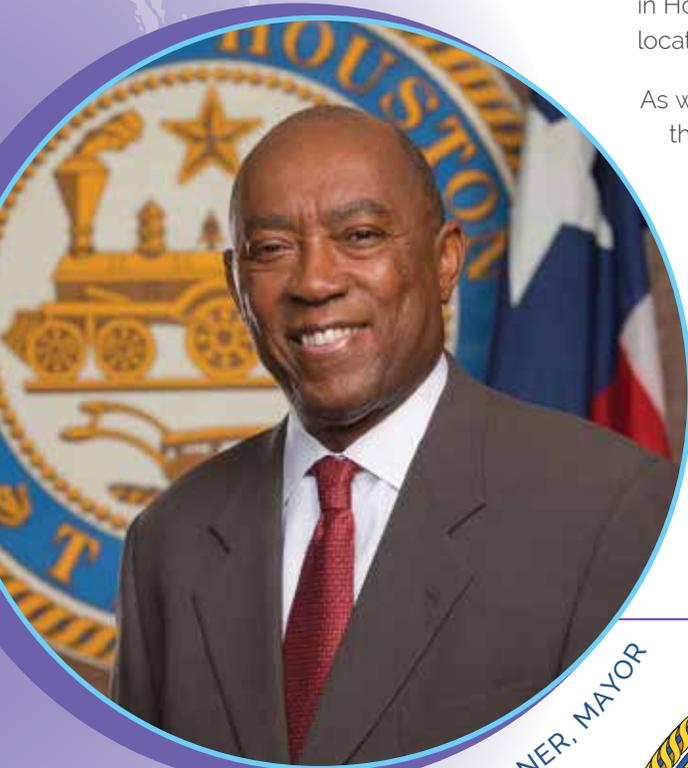
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Dear Citizens of Houston,

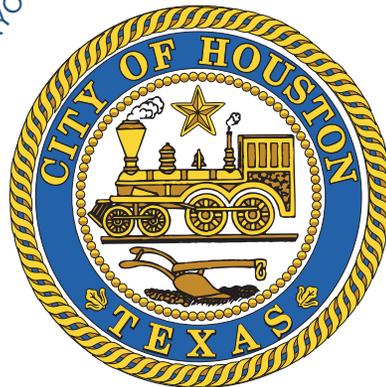
It is my pleasure to address you with an introductory message in this publication, as the Houston Airport System presents you with a retrospective look back at some of the many highlights that were enjoyed throughout the course of 2015 at George Bush Intercontinental Airport, William P. Hobby Airport and Ellington Airport. As a lifelong Houstonian, I am keenly aware of the pivotal role played by our three airport facilities. Not only are they a vital cog in Houston's economic engine but they also provide Houston's diverse population with essential access to various locations found all across the globe.

As we collectively move forward through the first stages of the 21st century, this direct access is more important than it's ever been before. Our economies and our cultures are connected on a global scale that would have seemed unimaginable just a few years ago and the city of Houston is far better off because of this strong level of connectivity. But in order for Houston to stand on the world stage as a true "global gateway" city, our airports must meet the challenge that is inherently found in the theme of this year's annual report, "Delivering the World." I am proud to say that the team members of the Houston Airport System are doing an outstanding job in meeting that challenge and I look forward to working with them in the future as we scale even greater heights moving forward.

EACH OF THE THREE AIRPORTS WITHIN THE HOUSTON AIRPORT SYSTEM PLAYS A VITAL ROLE IN OUR COLLECTIVE SUCCESS AND EACH IS ESSENTIAL TO THE GOAL OF "DELIVERING THE WORLD" TO THE PEOPLE OF HOUSTON.



HONORABLE SYLVESTER TURNER, MAYOR



I would also like to take a moment to thank and congratulate my predecessor, the Honorable Annise D. Parker. Mayor Parker played a direct role in facilitating many of the accomplishments that are laid out in the subsequent pages of this report, including the return of international air service at Hobby Airport, the licensing of Ellington Airport as a commercial Spaceport and a host of other actions too numerous to mention.

I am committed to building on these accomplishments in the future. Each of the three airports within the Houston Airport System plays a vital role in our collective success and each is essential to the goal of "delivering the world" to the people of Houston.

Dear Stakeholders,

"Delivering the World" is the theme for the Houston Airport System's 2015 annual report, an admittedly bold and potentially daunting choice given the fast-paced world in which we live and operate in the 21st century. But delivering the world is exactly what we do for 55 million people each and every year at the system's three airport facilities. In fact, the mission statement itself for the Houston Airport System reads as follows: "We exist to connect the people, businesses, cultures and economies of the world to Houston." In recent years, the airport system has enjoyed unprecedented success in meeting this incredible challenge. But even by the lofty standards that have been set over the last half-decade, 2015 stands as an unmarked year for historic accomplishment.

The Houston Airport System is comprised of three distinct airport facilities; George Bush Intercontinental Airport (IAH), William P. Hobby Airport (HOU) and Ellington Airport (EFD). While each of these three airports serves the Houston community in its own unique and individual way, each of the three lived up to the challenge set forth in this year's theme and helped "deliver the world" for the six million residents living throughout the region. The three airports not only enjoyed short-term success in accommodating the immediate demands associated with the 2015 operation, but also took significant steps forward in order

"WE EXIST TO CONNECT THE PEOPLE, BUSINESSES, CULTURES
AND ECONOMIES OF THE WORLD TO HOUSTON."

to position themselves for unrivaled growth and success in the future. At George Bush Intercontinental Airport, that meant moving forward with a concrete plan that would allow the City of Houston to accommodate the record-setting increases in international air travel. This increase not only involves additional passengers, but also the arrival of new international air carriers, which calls for a new international terminal building. In 2015, key steps were taken to ensure that this solution was moving forward in a calculated and coordinated fashion. International air travel was also the year's biggest news at William P. Hobby Airport, where nonstop air service to Latin America and the Caribbean marked the return of international flights after a 46-year hiatus. And at Ellington Airport, the newly-licensed Houston Spaceport is promising to "deliver the world" in ways that Houston residents can scarcely imagine, securing the title of "Space City, U.S.A." for the City of Houston for decades to come.

I hope that you enjoy this retrospective look at an amazingly successful 2015. It was a privilege to tackle these projects, and countless others, on your behalf. The entire Houston Airport System team will keep working toward meeting the challenges that are inherently associated with such an ambitious goal as "delivering the world."

Mario C. Diaz



MARIO C. DIAZ, DIRECTOR OF AVIATION



(L TO R): LISA KENT, JESUS SAENZ, HARLEEN SMITH, IAN WADSWORTH, BALRAM BHEODARI, LANCE LYTTLE, MATT TOWNSEND, SABA ABASHAWL, MARIO DIAZ, ARTURO MACHUCA AND JEFFREY BROWN





George Bush Intercontinental

one of the nation's largest and most
vital airport operations

GEORGE BUSH INTERCONTINENTAL AIRPORT (IAH)

Already firmly established as one of the nation's largest airport operations, George Bush Intercontinental Airport (IAH) continues to experience strong growth in both its annual passenger totals as well as the number of airlines offering nonstop service at Houston's premier long-haul airport facility. Approximately 43 million passengers traveled through IAH in 2015, a total that included a record-setting number of passengers traveling aboard international flights. New airlines entering the Houston market opened new destinations to nonstop service and also expanded the number of flight options available to existing markets.



43million
passengers traveled through IAH in 2015

NEW SERVICE TO ASIA

SINCE 2013, THE NUMBER OF SEATS AVAILABLE BETWEEN HOUSTON AND ASIA HAS TRIPLED

EVA
AIR

EVA AIR

EVA Air introduced its brand-new, specially painted Boeing 777-300ER aircraft in June 2015, as it launched nonstop service between Houston's George Bush Intercontinental Airport and Taoyuan International Airport in Taipei, Taiwan. The airline tailored its new plane for Texas and named it the EVA Air Hello Kitty Shining Star Jet.

"The Asian community in Houston is growing at a faster rate than any other demographic group in the city," said Houston Mayor Annise Parker. "That's just one of the many reasons why it's imperative that we establish and maintain strong air service throughout the Asian region. The arrival of EVA Airways is a tremendous step forward in meeting that vital goal."

With its excellent services, top safety rankings, exceptional route system and code share alliances, EVA gives travelers from Houston comfortable options for travel worldwide. Houston passengers can connect onward from Taipei, including 83 weekly connections to 10 cities in Southeast Asia, including Singapore, Hanoi, Ho Chi Minh City (Saigon), Manila, Kuala Lumpur, Bangkok, Phnom Penh, Jakarta, Surabaya and Denpasar.



EVA worked with Sanrio to tailor a Hello Kitty Shining Star Jet livery and theme especially for Houston. The cast of colorful, Texas-sized characters painted along the length of the plane include Little Twin Stars Kiki and Lala, flying through the skies with their pet teddy bear, while Hello Kitty and My Melody happily ride along on stars. Each of EVA's exclusive Hello Kitty Jets has its own unique livery and theme. The new EVA Hello Kitty Shining Star Jet is the airline's seventh specially painted aircraft and its second using a long-range Boeing 777-300ER.

CONNECTING TO:

SOUTHEAST ASIA, INCLUDING SINGAPORE, HANOI, HO CHI MINH CITY (SAIGON), MANILA, KUALA LUMPUR, BANGKOK, PHNOM PENH, JAKARTA, SURABAYA AND DENPASAR



NEW SERVICE TO ASIA

ANA CONNECTS HOUSTON AND TOKYO
WITH DAILY NONSTOP SERVICE

ANA

ALL NIPPON AIRWAYS

The traditional ribbon cutting ceremony was followed by a unique sake toast as the inaugural flight of All Nippon Airways route between Tokyo's Narita International Airport and George Bush International Airport was launched.

A member of the Star Alliance and joint venture partner with United Airlines, ANA expanded its nonstop route map to include service to Houston, providing passengers with an additional daily flight between Houston and Tokyo, Japan. Star Alliance members can now choose a morning or afternoon departure in each direction, providing greater flexibility for travelers, especially those taking advantage of ANA's expanded service to other Asian destinations beyond Tokyo and partner United Airlines' American destinations beyond Houston.

"The demand for nonstop air service between Houston and Asia is currently at unprecedented levels," said Houston Aviation Director Mario Diaz. "All Nippon Airways recognizes the strong growth opportunities that exist in the Houston market and they're anxious to capitalize on them. We welcome their arrival and look forward to a long and mutually beneficial partnership."



The background of the entire image is a photograph of an ANA Boeing 777-300ER aircraft on a tarmac. The aircraft is white with a blue and red livery. The text "ANA" is prominently displayed on the fuselage, along with the slogan "Inspiration of Japan" and the Japanese characters "ANA". The aircraft is positioned on the left side of the frame, facing left. The sky is bright blue with scattered white clouds. In the bottom right corner, there is a circular inset showing a group of people in traditional Japanese attire performing a drumming ceremony. The drums are large and red with white drumheads. The performers are wearing red and black clothing. The inset is set against a white backdrop with the ANA logo repeated. The overall composition is a promotional graphic for ANA's flight service.

"THE DEMAND
FOR NONSTOP
AIR SERVICE BETWEEN
HOUSTON AND ASIA
IS CURRENTLY AT
UNPRECEDENTED
LEVELS."

Houston Aviation Director
Mario Diaz

NEW SERVICE TO OCEANIA

HOUSTON IS THE ONLY CITY IN THE WESTERN HEMISPHERE TO OFFER NONSTOP SERVICE TO ALL SIX INHABITED CONTINENTS

AIR
NEW
ZEALAND



AIR NEW ZEALAND

The other side of the world seemed a little closer to home on December 15, 2015, when Air New Zealand's inaugural flight touched down at George Bush Intercontinental Airport.

That first flight, arriving from Auckland, New Zealand, was greeted by a Haka group performing a traditional Māori dance. The landing signaled the beginning of five-day-a-week nonstop service and also marked a major milestone in the recognition of Houston as a key global gateway.

Named the Airline of the Year for 2015 by flight rating website AirlineRatings.com, Air New Zealand will use its completely refitted Boeing 777-200 aircraft to operate the route, giving Bush Intercontinental more than 20 foreign flag carriers providing service to more than 70 international destinations.

Air New Zealand's Star Alliance partner United Airlines will codeshare into Houston from numerous North American cities. With the arrival of Air New Zealand and its flight to Auckland, Houston becomes the only city in the Western Hemisphere to offer nonstop air service to all six inhabited continents. Houston now joins a list of only four other cities in the world that can claim this level of global connectivity.



**THE FIVE CITIES
CONNECTING ALL
SIX INHABITED
CONTINENTS ARE:**

HOUSTON, TEXAS

ABU DHABI, UNITED ARAB EMIRATES

DOHA, QATAR

DUBAI, UNITED ARAB EMIRATES

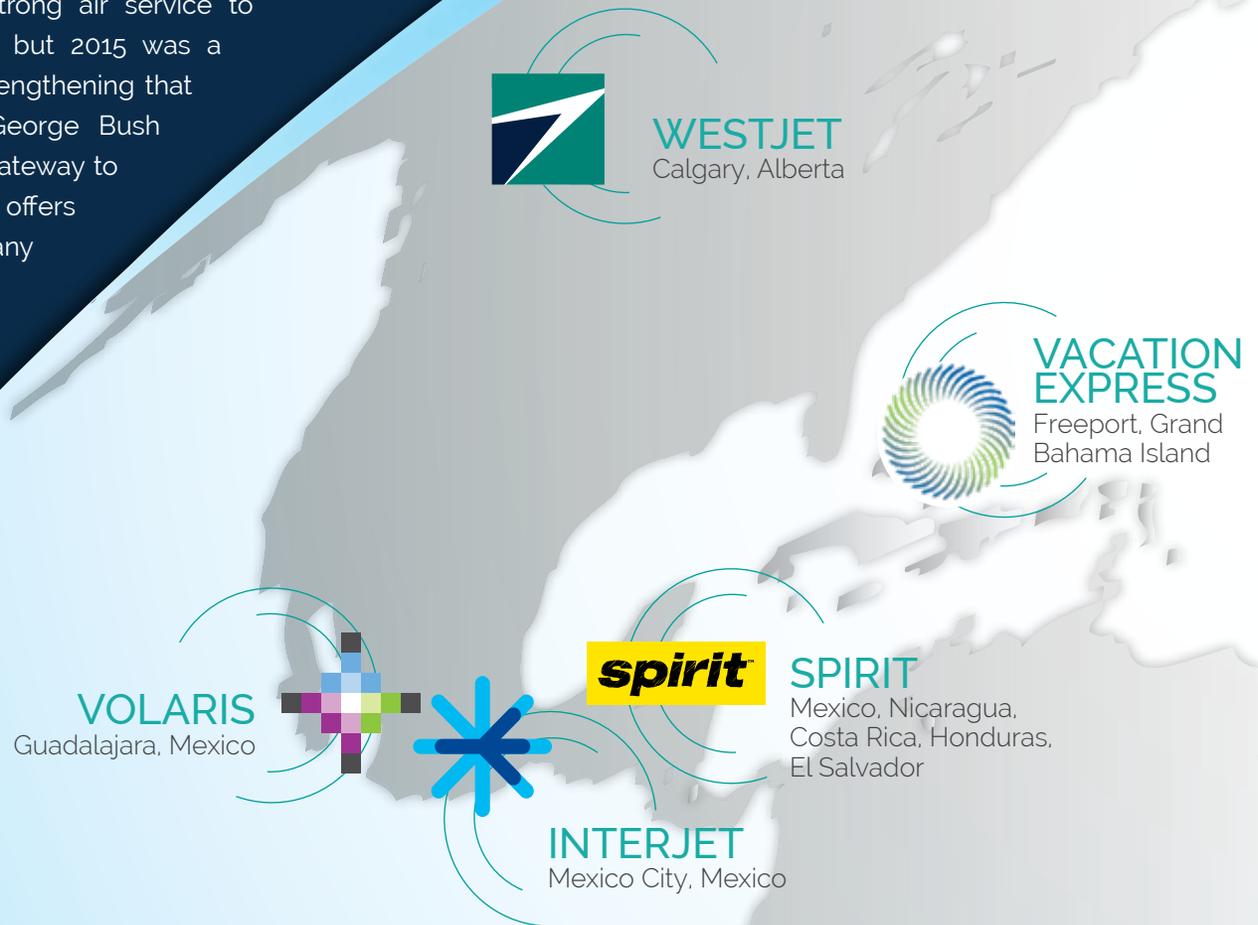
JOHANNESBURG, SOUTH AFRICA

**2015
AIRLINE
OF THE
YEAR**

DELIVERING THE AMERICAS

NEW SERVICE TO CANADA, LATIN AMERICA AND THE CARIBBEAN

The city of Houston has long enjoyed strong air service to locations found throughout the Americas, but 2015 was a particularly impressive year in regard to strengthening that already powerful level of connectivity. George Bush Intercontinental Airport serves as a global gateway to more than 70 international destinations and offers service to more Mexican destinations than any other U.S. airport.



WESTJET: WestJet celebrated the launch of nonstop service between Houston and Calgary, Alberta when the inaugural flight from Calgary International Airport to George Bush Intercontinental Airport landed in September 2015. Both Houston and Calgary are key players in the global energy sector, particularly within the oil and gas industry.

VOLARIS: Volaris added to its expanding route network in 2015, connecting Houston's George Bush Intercontinental Airport and Guadalajara International Airport in Guadalajara, Mexico. The inaugural service was celebrated when the March 25 flight touched down in Houston, greeted by the traditional water cannon salute and dozens of well-wishers. Since beginning operations in March 2006, Volaris has safely and efficiently served more than six million passengers on flights between Mexico and the United States, operating 50 aircraft that make up one of the newest fleets in the Americas.

VACATION EXPRESS: Vacation Express, one of the country's largest tour operators, celebrated their inaugural flight from George Bush Intercontinental Airport to Grand Bahama International Airport in May 2015. Travelers immediately began taking advantage of the summer seasonal flights, leading them to crystal-clear water and the perfect playground for water sports of all kinds, from kayaking and scuba diving to boating, fishing and parasailing.

SPIRIT: Within three years of arriving to the Houston market, Spirit Airlines has already established itself as one of the busiest airlines operating at George Bush Intercontinental Airport and shows no signs of the ultra-low-cost carrier slowing down any time soon. In 2015, the ultra-low-cost carrier launched international air service from IAH, connecting its route map to three destinations in Mexico (Cancun, Los Cabos and Toluca), as well as Nicaragua (Managua), Costa Rica (San Jose), Honduras (San Pedro Sula) and El Salvador (San Salvador). These launches were in addition to new domestic service from IAH to Tampa, Oakland and Baltimore.

INTERJET: Interjet actually arrived to Houston in the fourth quarter of 2014, but the Mexico-based carrier enjoyed a busy 2015 as well. Less than six months after its inaugural flight took off in Houston, Interjet began nonstop service between George Bush Intercontinental Airport and Mexico City, Mexico. With the new service in place, Interjet now offers Houston passengers nonstop access to both Mexico City and Monterrey.



INTERNATIONAL PASSENGER NUMBERS CONTINUE TO SOAR

+9%

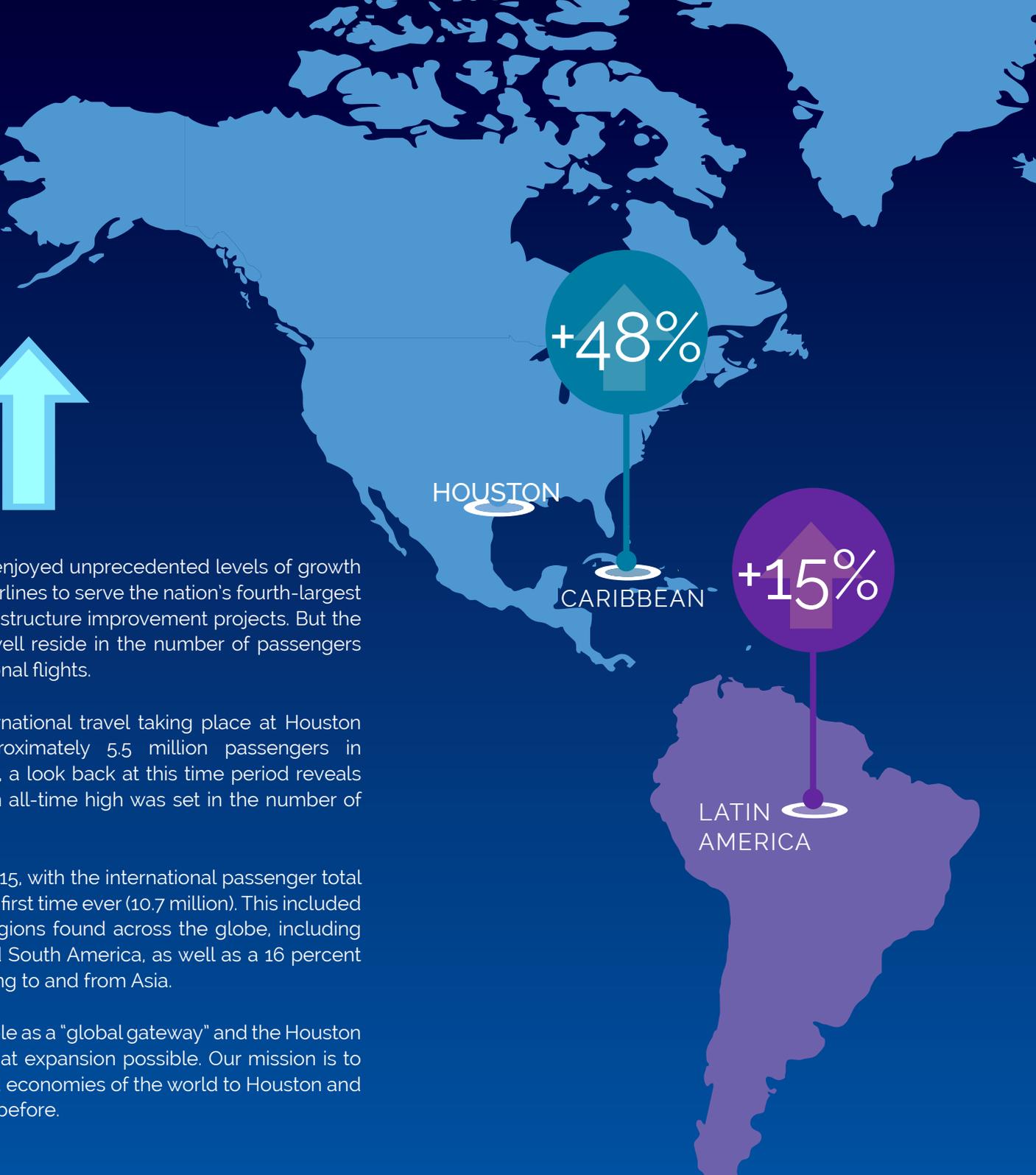


Since the year 2000, Houston airports have enjoyed unprecedented levels of growth in several key areas, from the arrival of new airlines to serve the nation's fourth-largest city to the completion of a wide array of infrastructure improvement projects. But the most impressive growth pattern may very well reside in the number of passengers flying in and out of Houston aboard international flights.

Over the past 15 years, the amount of international travel taking place at Houston airports has almost doubled, from approximately 5.5 million passengers in 2000 to more than 10 million in 2015. In fact, a look back at this time period reveals that in all but two years (2003 and 2009), an all-time high was set in the number of international passengers.

The record-setting trend definitely held in 2015, with the international passenger total topping the 10 million passenger mark for the first time ever (10.7 million). This included dramatic increases in air travel to various regions found across the globe, including a 15 percent increase in traffic to Central and South America, as well as a 16 percent increase in the number of passengers traveling to and from Asia.

The City of Houston continues to expand its role as a "global gateway" and the Houston Airport System plays a key role in making that expansion possible. Our mission is to connect the people, businesses, cultures and economies of the world to Houston and that mission is being accomplished as never before.



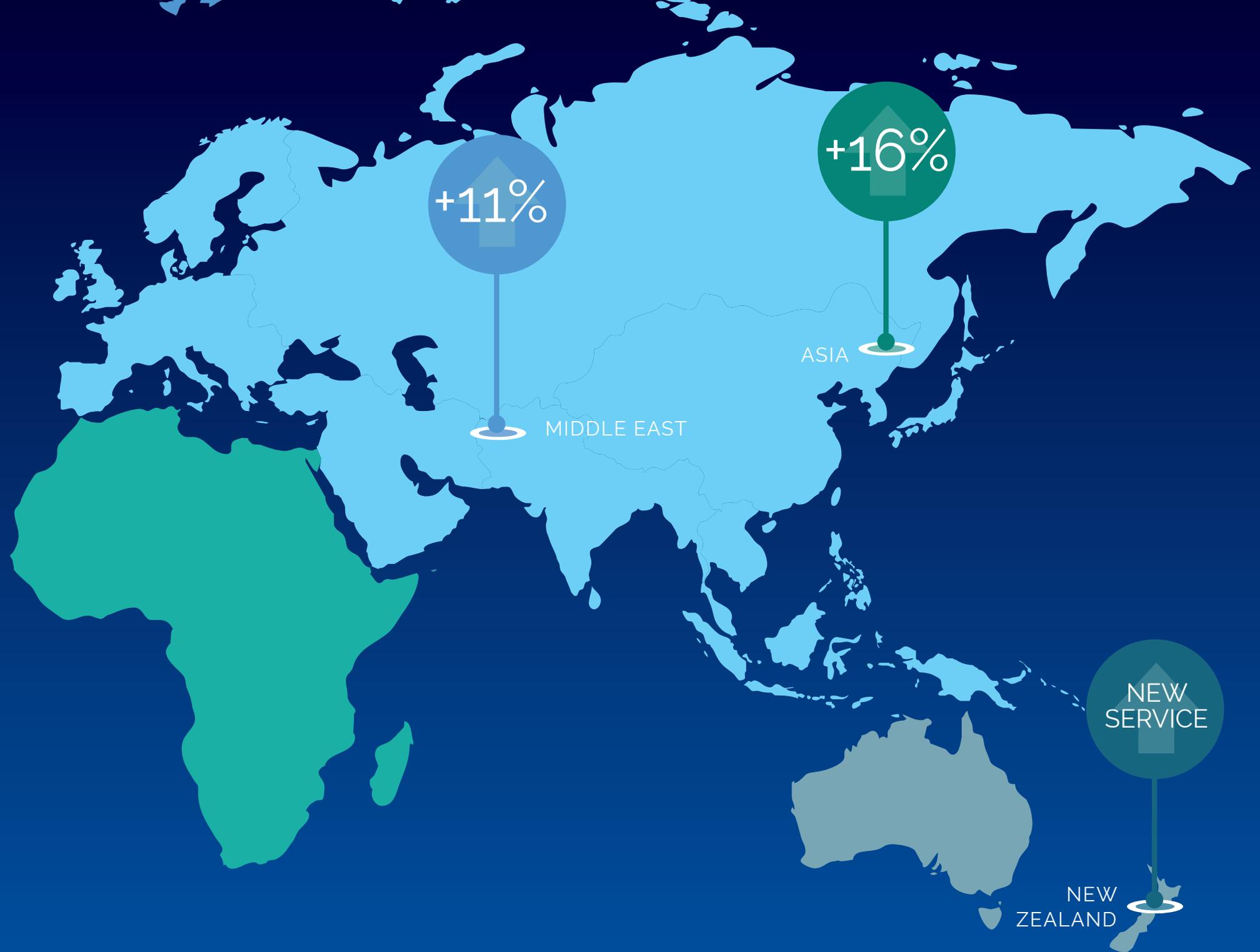
+48%

HOUSTON

CARIBBEAN

+15%

LATIN AMERICA



+11%

MIDDLE EAST

+16%

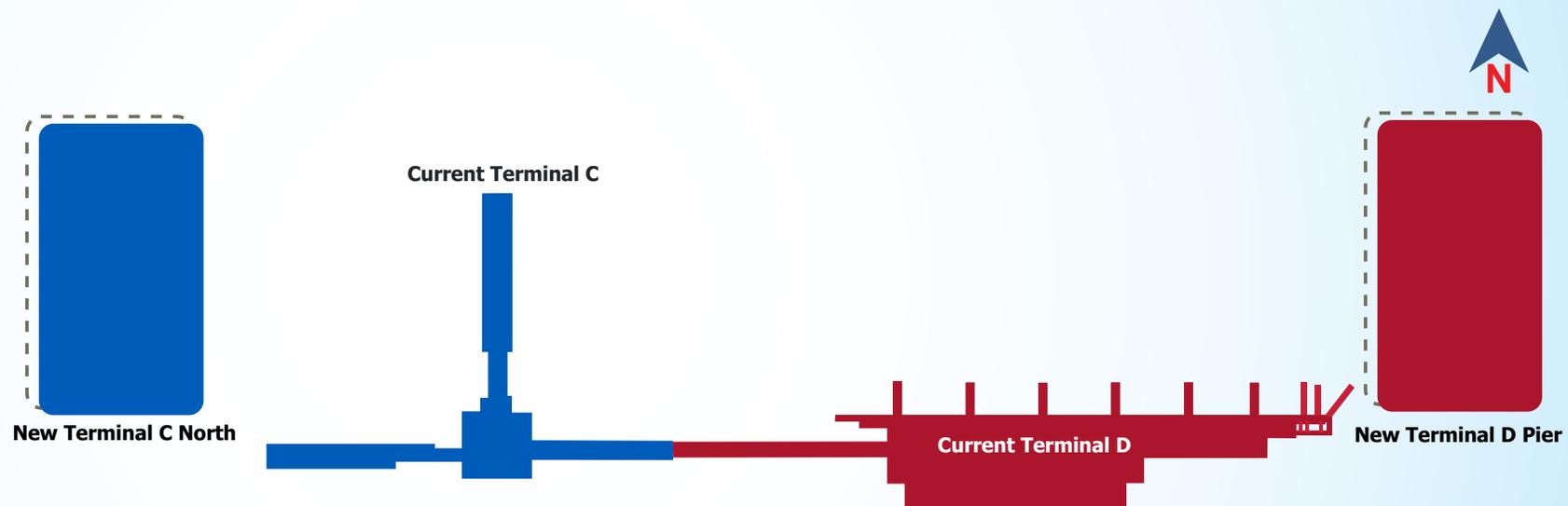
ASIA

NEW SERVICE

NEW ZEALAND

IAH TERMINAL REDEVELOPMENT PROGRAM (ITRP)

The dramatic increase in the number of passengers traveling aboard international flights in Houston is the driving force behind an expansion plan known as the IAH Terminal Redevelopment Program. It's a plan that calls for two new terminal facilities and a host of other vital improvements. Below is a snapshot of how the project will unfold over the coming years.



1

Replace the existing Terminal C North with a new facility immediately west

On May 15, 2015, a groundbreaking ceremony launched the construction of a new Terminal C North



2

United Airlines Moves into "New C North" – Foreign flag carriers in Terminal D move into "Old C North"

Once complete, the "new" Terminal C North will accommodate narrow-, mid- and wide-body flight operations from United Airlines. The previous Terminal C North will house the 20 international carriers operating in Houston.



3

Existing Terminal D (Mickey Leland International Terminal) is demolished and new international terminal is constructed

The new international terminal will be more than 50 percent larger than the existing Terminal D and will feature a number of customer service enhancements.



4

Foreign flag carriers occupy new international terminal

As foreign flag carriers move into their new facility, the prior Terminal C North building is demolished and rebuilt as a western pier of the new international terminal.



TERMINAL C NORTH

- Floor to ceiling windows
- 265,000 square feet
- 11 passenger gates
- Accommodates variety of aircraft types and sizes

ITRP MAJOR IMPROVEMENTS

The new Terminal C North concourse and the new Mickey Leland International Terminal will both bring major aesthetic and operational improvements to George Bush Intercontinental Airport. Both facilities are promising an open and welcoming experience for future guests and are designed to create a "sense of place" that immediately conveys to passengers that they are enjoying a Houston experience.

TERMINAL D

- 15 gates (all wide-body capable)
- 4 gates can accommodate Group VI aircraft (A380)
- 53% larger than current Terminal D
- Strong use of natural light



ADDITIONAL IMPROVEMENTS

In addition to the new international gateway facility, the IAH Terminal Redevelopment Program calls for major improvements in a variety of other areas as well, including:

- Improved north terminal roadway
- Expanded aircraft parking areas
- Expanded Federal Inspection Services (FIS) facilities
- Terminal D baggage handling system
- New Terminal C West Parking Garage
- Infrastructure and utilities modernization

HACEC TRAINING CENTER

In order to ensure that Houston's available workforce is capable of handling these vital projects, the Houston Airport System embarked on a unique collaborative in 2015 designed to enhance the skill sets of workers involved in Houston airports projects and increase the level of safety at the same time. This initiative resulted in the Houston Area Construction Education Collaborative, a training center located at George Bush Intercontinental Airport.

- 40,000-square-foot facility
- Mix of classroom, laboratory & office space
- Provides variety of construction craft skill training
- Highlights OSHA & Houston airports safety & security programs





William P. Hobby Airport

the convenient home to low-cost carriers, offering
extensive domestic connections and international
service to Latin America and the Caribbean

WILLIAM P. HOBBY AIRPORT

With eight decades of service to the Houston community already in place, William P. Hobby Airport (HOU) may very well have enjoyed its most transformative and productive year ever in 2015. Record passenger totals were once again recorded at Hobby Airport, while a major expansion of the airport's route map opened up new and exciting opportunities for the decades to come. Located within minutes of the downtown skyline, Hobby remains the convenient home to low-cost carriers operating a well-connected domestic route map, but now new possibilities are arriving daily with international air service resuming at HOU after a 46-year hiatus.

International
Service +
HOU =

NEW POSSIBILITIES





INTERNATIONAL FLIGHTS RETURN TO HOBBY AIRPORT

William P. Hobby Airport has enjoyed a number of significant events and momentous occasions over the years, but the opening of a new international concourse building on October 15, 2015 undoubtedly stands as one of the facility's major highlights. The new five-gate concourse not only expanded Hobby's operational capacity, but more importantly, it established the infrastructure necessary to accommodate regional international flight service to locations throughout Latin America and the Caribbean.



INTERNATIONAL CONCOURSE AT HOU

The new international concourse, which was budgeted for \$156 million and completed for \$146 million, was funded by both Southwest Airlines and the Houston Airport System. The concourse has five gates, four of which are designated for Southwest's preferential use. The remaining gate will accommodate future international flight operations from other interested air carriers. While Southwest Airlines has previously launched international flight operations at other airports, the 280,000-square-foot facility represents the first time that the airline has invested in constructing a concourse specifically built to accommodate international air service.

DESTINATIONS NOW AVAILABLE:

ARUBA

BELIZE CITY, BELIZE

CANCÚN, MEXICO

LIBERIA, COSTA RICA

LOS CABOS, MEXICO

MEXICO CITY, MEXICO

MONTEGO BAY, JAMAICA

PUERTO VALLARTA, MEXICO

SAN JOSÉ, COSTA RICA

LOBBY

The enhanced customer experience at William P. Hobby Airport begins at the front door with an all-new ticketing lobby for Southwest Airlines. The new check-in operation now accommodates all Southwest customers whether the passenger is flying aboard a domestic or international flight.

With an open and spacious feel, the new ticketing lobby maximizes the use of natural light by using floor-to-ceiling glass panels along the front of the structure.



INSIDE A NEW



CONCOURSE AMENITIES

Once passengers reach the gate area of the new concourse, a number of enhanced customer service features become immediately apparent, ranging from technological accommodations to a broad array of dining and shopping options.

One of the strongest Wi-Fi signals found at any airport in the nation is available to passengers at William P. Hobby Airport. Each section of row seating found in the new concourse is equipped with multiple power ports, offering both charging capabilities as well as USB access.

The number of dining and shopping choices at Hobby Airport has been greatly expanded thanks to the new concourse. Pappasito's Cantina, Yia Yia Mary's Pappas Mediterranean Kitchen, Chick-fil-A and Peet's Coffee & Tea can all be found at Hobby Airport, covering more than 16,000 square feet of airport space.



FEDERAL INSPECTION SERVICES (FIS)

Passengers arriving in Houston aboard international flights will not only be greeted by the world-famous friendly Houston spirit, but also by a technologically advanced and intuitive customs processing operation. The Federal Inspection Services facility at Hobby Airport, where arriving passengers clear immigration, is equipped with two separate kiosk-based information systems. Fourteen kiosks are available for passengers using the Automated Passport Control (APC) system, while the Global Entry program offers passengers access to six easy-to-use kiosks.

EXPERIENCE

ART

Dramatic works of art represent a key aspect of the new international flight experience at Hobby Airport. Seven large-scale contemporary works are now introducing guests to the city's vibrant arts and culture scene through the presentation of diverse paintings, drawings, collages and sculptures. The works range from a dynamic timeline that greets passengers in the FIS baggage claim area to the fun-filled seating area outside the concourse, which uses cement letters to announce the location "somewhere between here and there." The City of Houston has a "Percent for Art" ordinance, which mandates that 1.75 percent of qualified Capital Improvement Project monies be set aside for the acquisition of new artworks.



PARKING & ROADWAY EXPANDED

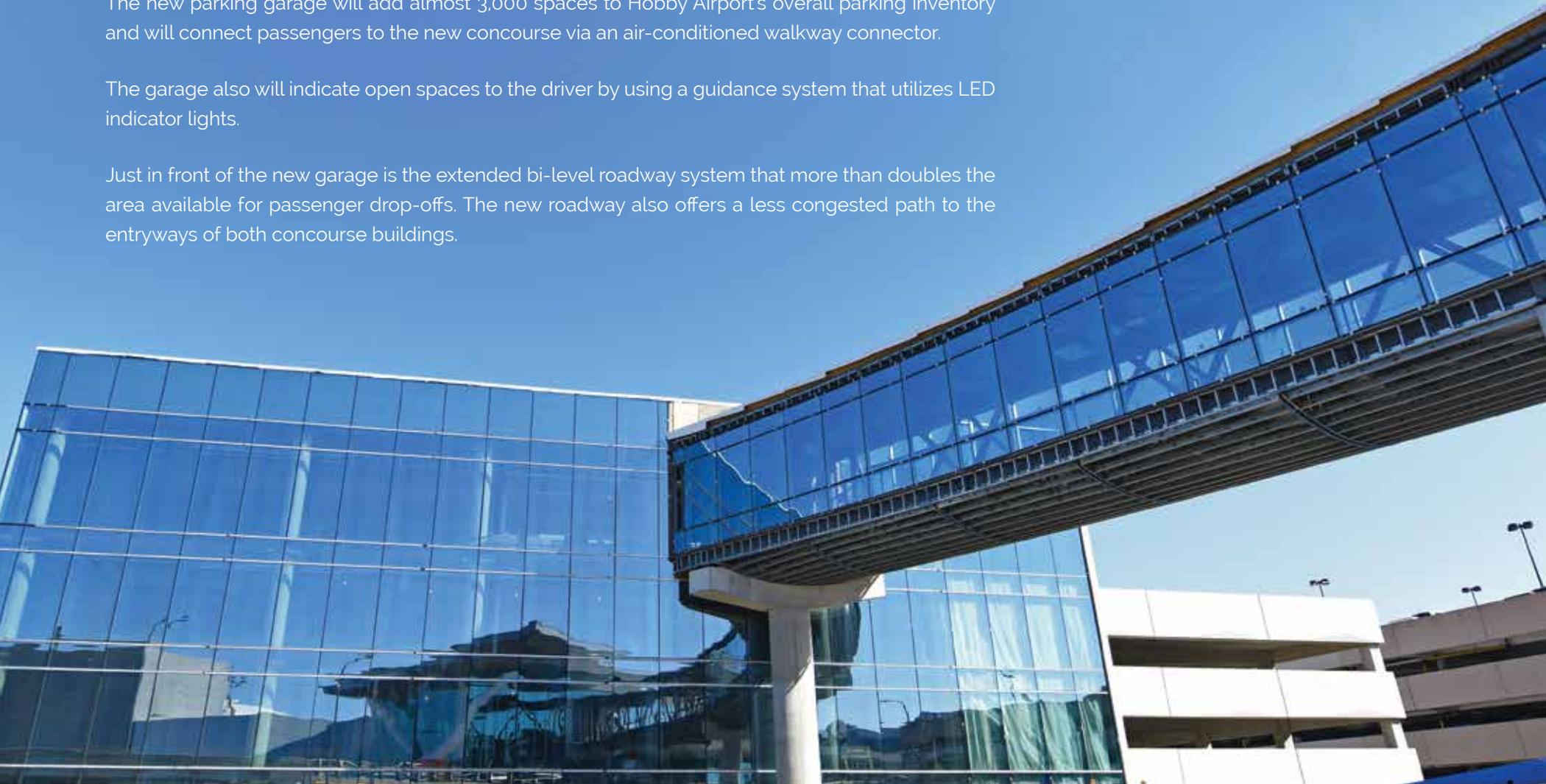
The arrival of international air service at Hobby Airport is expected to generate an additional one million passengers each year, and that's on top of the unprecedented travel totals already being recorded at Hobby on a regular basis.

With this growth in mind, the Houston Airport System worked in tandem with the concourse project in constructing a new multi-level parking garage and an extended bi-level roadway system.

The new parking garage will add almost 3,000 spaces to Hobby Airport's overall parking inventory and will connect passengers to the new concourse via an air-conditioned walkway connector.

The garage also will indicate open spaces to the driver by using a guidance system that utilizes LED indicator lights.

Just in front of the new garage is the extended bi-level roadway system that more than doubles the area available for passenger drop-offs. The new roadway also offers a less congested path to the entryways of both concourse buildings.



RECORD PASSENGER GROWTH

2015 will be remembered for a number of remarkable accomplishments at Hobby Airport, but one of the most important is the continuance of record-setting annual passenger totals. For the first time in its history, William P. Hobby Airport has topped the 12 million mark, closing the 2015 year with a grand total of 12,163,344 passengers.

Just as impressive is the fact that the most recent tally represents the sixth consecutive year that Hobby Airport has set an all-time high in its total number of passengers. The number of passengers passing through the gates at Hobby Airport has increased by almost 50 percent in just the past decade alone, jumping from the 8.6 million mark in 2006 to the most recent total of 12.2 million in 2015.

IN 2015, WILLIAM P. HOBBY TOPPED
THE 12 MILLION PASSENGER MARK
FOR THE FIRST TIME IN ITS HISTORY.

An even larger increase has occurred in the number of cities available via nonstop flights. Between 2005 and 2015, that number at Hobby Airport has increased from 33 different cities to the current total of 58.



58
CITIES WITH
NONSTOP
FLIGHTS

A
GRAND
ENTRANCE

WELCOME TO HOUSTON



BROADWAY: One of the primary feeders into Hobby Airport, Broadway Boulevard is getting some much needed makeover assistance from two different sources. The Texas Department of Transportation is investing \$17 million in actual street repairs, while the Scenic Houston organization ended 2015 by closing in on their goal of \$7.5 million to fund enhanced lighting, crosswalks and landscaping.

LIGHTING: As drivers make their way around the loop road toward their selected concourse, they're guided with the assistance of newly installed LED lighting fixtures and a new wayfinding signage system. The new system provides better lighting and also is more environmentally friendly.

ENTRYWAY: A new entryway monument now welcomes guests to William P. Hobby Airport as they enter the complex along the northern portion of the property. The sleek, modern structure was designed to mirror its counterpart at George Bush Intercontinental Airport, welcoming drivers with its contrail soaring over the airport name. The monument is illuminated at night and is highlighted by a landscaping arrangement that features a variety of colors and native plant life.

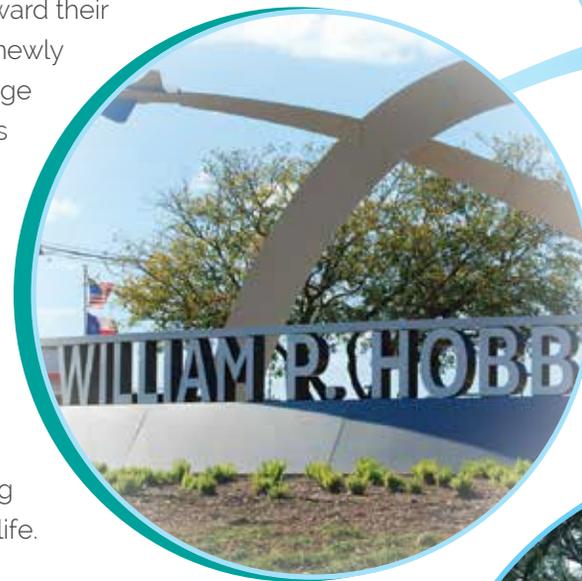
FENCING: New fencing was installed along the perimeter of Airport Boulevard in an effort to improve the aesthetics of the facility's outer reaches. While maintaining an essential level of safety, the new fencing offers a more appealing look to the millions passing by.

LANDSCAPING: The northern face of Hobby Airport was home to a number of landscaping enhancements in 2015, including palm trees and decorative floral beds, each of them strategically placed along the airport's primary entry roadway.

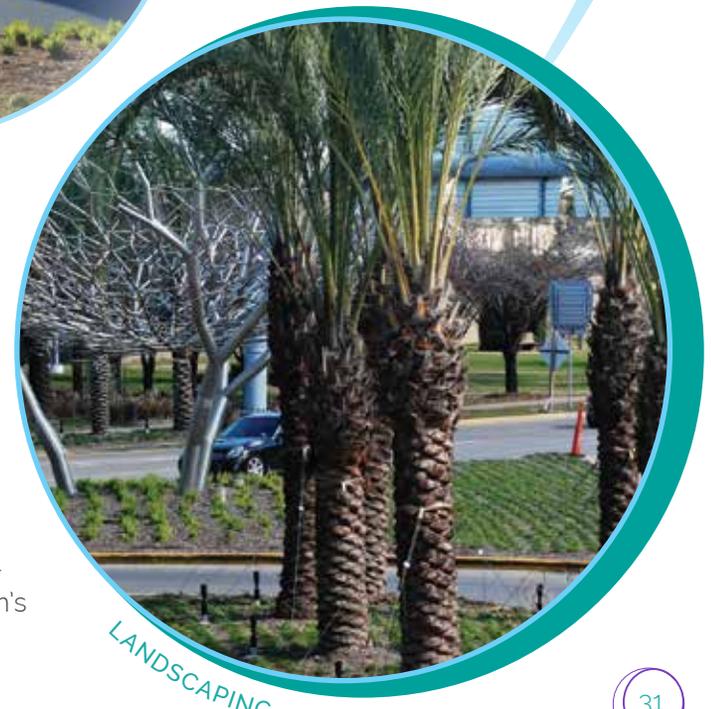
◀ **VIDEO BOARD:** As customers leave the airport property, they're welcomed to Houston by a video message board displaying a rotating collage of some of the most dramatic and beautiful images found anywhere in Houston. The images capture the dynamism and diversity of the nation's fourth-largest city and help to create a tone that reflects Houston's welcoming attitude.



BROADWAY



ENTRYWAY



LANDSCAPING



Ellington Airport

the nation's 10th licensed commercial Spaceport...
the sky is no longer the limit

ELLINGTON AIRPORT

It's highly unusual to say that an individual or an airport would be "hitting their stride" at the age of 100, but that definitely appears to be the case with Ellington Airport. Established as a military airfield 99 years ago, Ellington Airport continues to serve a multitude of vital functions for the Houston region and its future has never looked brighter than it does today. As the airport continues to support both general aviation flights and operations with the United States government and armed forces, Ellington also is taking major steps forward in an exciting new direction. Ellington Airport now stands as the nation's 10th licensed commercial Spaceport, capable of accommodating a variety of aerospace and space exploration operations. Which means, as Ellington Airport approaches the century mark, the sky is no longer the limit.

HOUSTON, WE HAVE A SPACEPORT



HOUSTON, WE HAVE A SPACEPORT

Almost 50 years ago, Astronaut Neil Armstrong forever linked the nation's fourth-largest city with the field of space exploration. By uttering the simple phrase, "Houston, the Eagle has landed," Armstrong forever cemented Houston's status as being the first word ever spoken from the surface of the moon.

In 2015, Ellington Airport took a "giant leap" forward in making sure that the city of Houston continues to play a leading role in this vital industry throughout the 21st century by securing a Launch Site License from the Federal Aviation Administration (FAA), enabling the airport to establish itself as a launch site for Reusable Launch Vehicles (RLV).

Nearly two years after Houston City Council members gave their overwhelming support for the project, the FAA's formal approval opens the door for plans that could see Ellington Airport become a focal point for aerospace operations, such as the launching of micro satellites, astronaut training, zero gravity experimentation, spacecraft manufacturing and a host of other potential activities.

"Houston has been at the forefront of aviation history and innovation for decades," Houston Aviation Director Mario C. Diaz said. "Not only does this opportunity reinforce an already long-established connection with the aerospace industry, it offers Houston an opportunity to strengthen its reputation as a forward-looking city and leader in creating high-tech, next-generation type jobs."



HOUSTON SPACEPORT

HOUSTON SPACEPORT FOCUS

Establish Houston as a hub for aerospace and space exploration operations, such as:

Space vehicle manufacturing

Multi-office aerospace complex

Zero-gravity scientific and medical experiments

Astronaut training and development

WHY HOUSTON MAKES SENSE

Strong economy

Diverse population

Aerospace presence

Proximity to Gulf of Mexico

Home to NASA and Johnson Space Center

Globally connected

HOW WILL FLIGHT OPERATIONS FUNCTION

Take-off and land via runways at Ellington Airport

Horizontal launches only from Houston Spaceport

Spacecraft change trajectory upward over Gulf of Mexico



07.17
2013

Houston City Council members approve moving forward with Spaceport application

09.04
2013

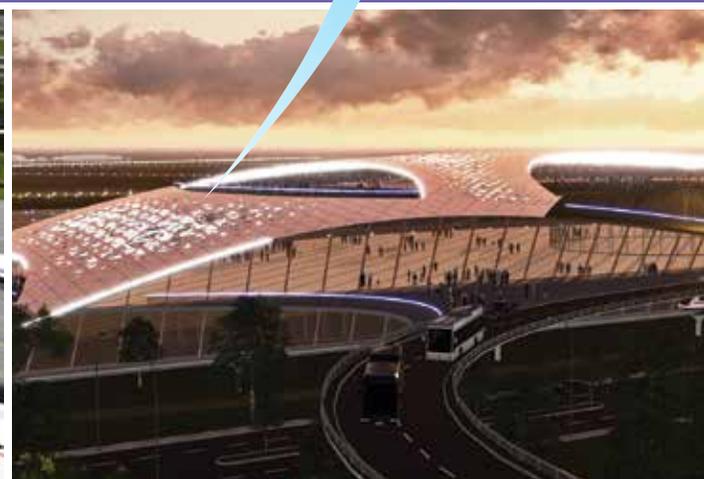
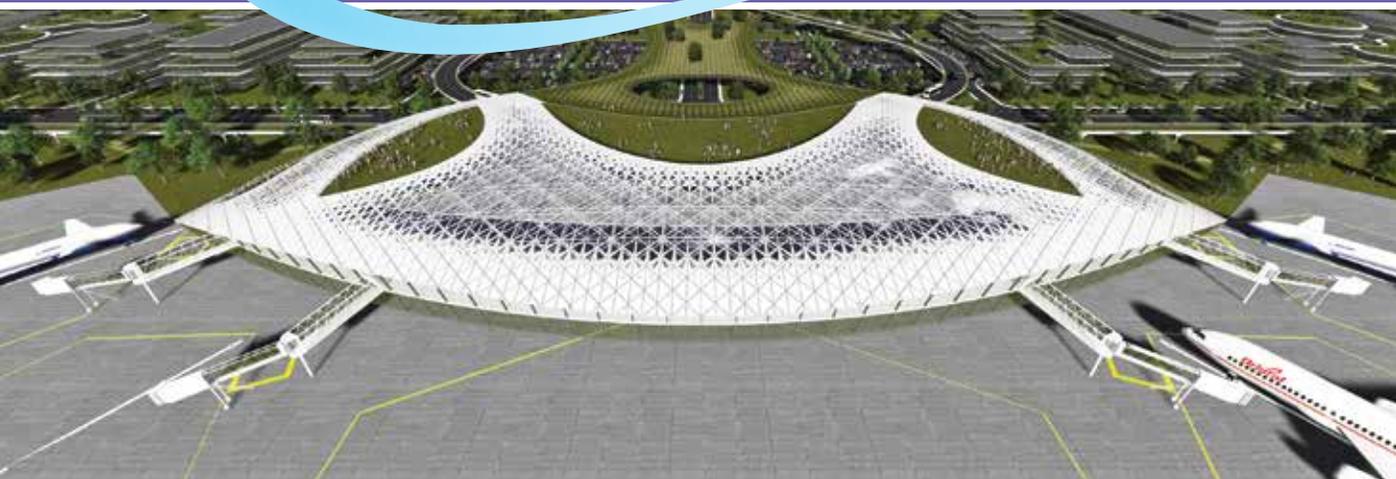
HAS unveils first renderings, depicting vision for Houston Spaceport

12.29
2014

HAS files application for Spaceport license

06.30
2015

Houston Spaceport is licensed by FAA



THE PLAN TAKES OFF

With license in hand, the real work began for those Houston Airport System team members tasked with moving Houston Spaceport from concept to reality. Ellington Airport General Manager Arturo Machuca led the charge in this effort, and throughout 2015, he and his team helped to secure a number of essential success stories.





CREATE INNOVATION CENTER

On November 4, 2015, Houston City Council members approved the \$6.9 million purchase of an aerospace engineering building and land adjacent to Ellington Airport.

Moving forward, the 53,000-square-foot building will operate as a shared use manufacturing and general office facility, eventually housing small and large companies on the same campus in order to encourage collaboration. The co-working space would conceivably include an incubation space for early-stage companies, more permanent offices for developing companies, and even larger facilities for companies that need room to mass produce their products.



ESTABLISH KEY PARTNERSHIPS

NASA

The Houston Airport System wasted no time in tapping into the wealth of knowledge and expertise available at NASA, signing an official agreement that allows the aviation department to pay Johnson Space Center for safety training and skills advancement courses.

SIERRA NEVADA

It was big news when the Houston Airport System signed a letter of intent with Sierra Nevada Space Systems, outlining a path toward landing the Dream Chaser spacecraft at Houston Spaceport. It became even bigger news when NASA chose Sierra Nevada as one of only three companies contracted to resupply the International Space Station. Sierra Nevada has agreed to operate at least six re-supply missions, and the landings for those operations could very well take place at Houston Spaceport.



SPREAD THE WORD

Houston wasted no time in announcing to the world its intention to operate as a key player within the Spaceport industry. The city hosted the first-ever Space Commerce Conference and Exposition at the George R. Brown Convention Center. SpaceCom unites public and private stakeholders involved in domestic and international space commerce with a new group of global business executives looking to apply space technology to their industries.

DELIVERING A BETTER EXPERIENCE

Providing excellent customer service is one of the Houston Airport System's top priorities, and a recent passenger survey suggests that new programs and services at Houston airports are resonating well with passengers.

According to a recent passenger satisfaction assessment, both George Bush Intercontinental Airport and William P. Hobby Airport received increases in Overall Passenger Satisfaction scores, with 80 percent of passengers indicating that they were quite satisfied with their overall experience at Bush Intercontinental — a slight increase over the previous year. The uptrend continued at Hobby Airport with more than nine out of 10 of passengers — 92 percent — being quite satisfied with their overall experience.

To ensure passenger satisfaction for years to come, HAS continues to launch programs focused on elevating the customer experience.

PASSENGER SATISFACTION SCORES

BUSH 80%
HOBBY 92%



NEW CONCESSIONS CONTINUE TO ROLL OUT AT HOUSTON AIRPORTS

With the approval of \$1.6 billion in new concessions contracts, a wide variety of restaurants and shops are opening at both airports — including both big-name brands and local-flavor shops and restaurants — to better meet the needs of Houston's growing and diverse number of travelers.

The lineup provides a variety of products and services, meeting the ambitious goals set when HAS moved forward with plans to enhance the choices and customer experience at the two airports:

- Achieve exceptional customer service and experience
- Showcase Houston as a premier, world-class destination
- Create a sense of place
- Meet the needs of global and international passengers
- Offer greater variety and quality in products and services
- Encourage innovative, unique and exciting concepts

The roll out is expected to be completed by the end of 2016.



CREATING AN IDENTITY



NEW PROGRAM BRINGS HARMONY TO TRAVELERS

Passengers traveling through Houston airports are now greeted by the sound of music with the launch of the Houston Airport System's "Harmony in the Air" program. "Harmony in the Air" is aimed at minimizing the level of stress typically experienced by passengers by offering live performances featuring a diverse repertoire of classical, contemporary classical, smooth jazz and international music.

The program is offered at both George Bush Intercontinental Airport and William P. Hobby Airport. Performances take place in the atrium, beyond the security check point at Hobby Airport and in the walkway that connects Terminal "A" North and Terminal "A" South at Bush Intercontinental Airport.

A schedule of performance days and times are offered on the airport system's website fly2houston.com

AN ARTISTIC EXPRESSION

The Houston Airport System is fortunate to have one of the largest collections of public art in the state of Texas. Passengers traveling through Houston airports experience a grand collection of paintings and sculptures. International travelers at Hobby Airport are greeted by new art installations at the freshly built international concourse. In 2015, the art program unveiled seven large-scale, contemporary art pieces that introduce passengers to the city's vibrant arts and culture scene through a presentation of diverse paintings, drawings, collages and sculptures.

At George Bush Intercontinental Airport, more than 170 pieces of art were on display, helping to create a peaceful setting in an otherwise bustling environment.



AN ARTISTIC EXPRESSION

TERMINAL TRAINS DEBUT NEW LOOK & NEW NAME

The inter-terminal trains at George Bush Intercontinental Airport recently experienced a brand overhaul. The project consisted of creating an identity for the above-ground and below-ground automated people movers that transport passengers between the terminal facilities. The inter-terminal trains were renamed to help passengers more easily navigate through the airport. The above-ground train was renamed Skyway, and the pre-security (below-ground) train was renamed Subway to help passengers and employees more easily differentiate between the two trains.



TERMINAL TRAINS

AIRPORT MARRIOTT HOTEL ENJOYS MULTI-MILLION DOLLAR MAKEOVER

Forty-five years after its initial opening, the Houston Airport Marriott Hotel is looking better than ever before, thanks to a multi-million-dollar renovation project that brought improvements to virtually every area of the facility.

Guestrooms, suites, meeting rooms, lobby, restaurants, public areas and fitness center were all re-designed with a modern style and design that focuses on improving the overall guest experience and fulfills the flagship brand's promise of "Traveling Brilliantly."



MARRIOTT HOTEL

RAISING THE BAR



NEW WEBSITE BEGINS TO TAKE SHAPE

An exciting and vibrant new website began to take shape in 2015, with the passenger experience serving as the driving force behind the design process. Fly2houston.com handles more than eight million hits on an annual basis, providing vital information for George Bush Intercontinental, William P. Hobby and Ellington Airports. The new website, expected to debut in the second quarter of 2016, will greatly enhance the overall customer experience at Houston airports.

DISTRIBUTED ANTENNA SYSTEM (DAS)

In 2015, the Houston Airport System successfully installed a Distributed Antenna System (DAS) at William P. Hobby Airport, providing a stronger telephonic coverage area for the new international concourse.

Modern construction techniques and materials can block or degrade internal and external wireless communications, so DAS was designed to extend wireless coverage within structures and enable radios and cell phones to work regardless of their position within a building. Blocked radio reception is a particular problem for first responders.

CUSTOMER SERVICE TRAINING

Two years ago, the (HAS) launched an ambitious plan to completely revamp its customer service training protocol, implementing a set of uniformed standards that would clearly establish expectations for all badged employees. Phase one focused primarily on training those individuals directly employed by the HAS, but in 2015 the target area was greatly expanded to include all 35,000 badge holders at all three airports (Bush, Hobby and Ellington).

VOLUNTEERS

One of the most important tools in the HAS' drive to effectively meet the customer's needs in a friendly and timely manner is the Volunteer Program. Comprised of more than one hundred dedicated and caring individuals, the program assigns volunteers to staff information booths that are strategically located at high traffic areas in both George Bush Intercontinental Airport and William P. Hobby Airport. In 2015, recruiting efforts for the program were refocused and a new look was created for all collateral material



DISTRIBUTED ANTENNA SYSTEM



CUSTOMER SERVICE



VOLUNTEERS

BUILDING ON SUCCESS

One of the most exciting aspects of the Houston Airport System (HAS) operation is the unlimited potential that lies within the collective skillset of the 1,300-member team. Each business unit has its own area of expertise, but there is a collective understanding within the Houston Airport System that the overwhelming majority of projects will require a team-oriented approach. The improvements and expansions laid out in the following pages can be attributed to team members working in divisions like Infrastructure, Technology, Parking and many, many others. But in the end, each and every one of them represents a "Houston airports success story," and HAS will continue to build on that success moving forward.

COLLECTIVE SKILLSET
1,300
TEAM MEMBERS

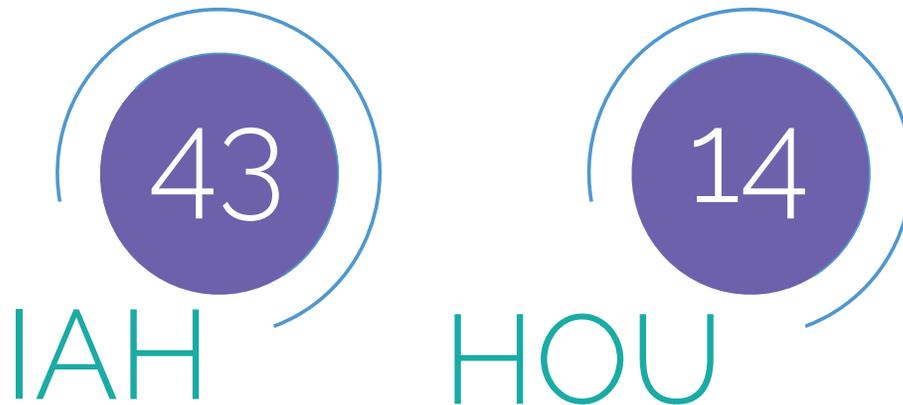


AUTOMATED PASSPORT CONTROL (APC)

A great thing got even better in 2015, as the popular self-serve kiosk program known as "Automated Passport Control" (APC) was expanded at George Bush Intercontinental Airport (IAH) and included in the construction plans at William P. Hobby Airport (HOU).

APC kiosks successfully improve the international arrivals process by expediting the check-in steps required by the U.S. Customs and Border Protection (CBP). In 2015, the Houston Airport System added 43 kiosks at George Bush Intercontinental Airport and installed an additional 14 machines at the newly constructed international concourse at William P. Hobby Airport.

The new kiosks have biometric scanners that will enable CBP to process visa waiver-eligible and lawful permanent resident passengers.





IMPROVEMENTS & EXPANSIONS

ECOPARK 2: Finding a covered parking spot at George Bush Intercontinental Airport is going to be much easier in 2016. That's because an ecopark 2 parking lot is being constructed along Will Clayton Parkway, bringing an additional 2,200 covered spaces to the Bush Airport parking inventory. The \$14.5 million project will reach completion in the first quarter of 2016.

Like the current ecopark lot at IAH, ecopark 2 will offer a cost-efficient, on-airport parking option, including quick access to the terminal buildings via free 24/7 shuttle service.

ELECTRIC CHARGING STATIONS: Drivers of electric cars have more access charging stations at both of Houston's two commercial airports. The Houston Airport System recognizes that electric vehicles are growing in popularity and as a result, added five charging stations at both Bush Airport and Hobby Airport.

VALET EXPANSION: Valet parking provides a premium service to passengers wanting the perks of saving time and seamless convenience. Due to increased customer demand, valet parking was expanded at both airports.

Bush Intercontinental Airport

- Expanded valet parking in the A, B and C garages by 22 percent (120 spaces)

Houston Hobby Airport

- Expanded valet parking by 20 percent (64 spaces)



ECOPARK 2

CENTURION LOUNGE: American Express is expanding its Centurion Lounge network, and in 2015, announced that it will open its seventh location at Houston's George Bush Intercontinental Airport inside Terminal D. Construction began in the summer of 2015 on the 8,500-square-foot lounge, which is currently slated to open in the first half of 2016.



CENTURION LOUNGE

BATHROOM UPGRADES: New sinks and countertops were installed in bathrooms at William P. Hobby Airport in 2015, with the goal of presenting an opening day fresh facility to the 12 million passengers visiting on an annual basis. The renovation and improvement project is a direct result of the Houston Airport System listening to customer feedback. The improvements at Hobby Airport come on the heels of similar work being done inside restroom facilities at George Bush Intercontinental Airport.



ELECTRIC CHARGING STATIONS

MASTER PLANS: The Houston Airport System is committed to ensuring that the best interests of the traveling public are met by providing safe and efficient travel options on its way to becoming a five-star rated airport system.

To help fulfill these goals in both the short-and long-term future, Infrastructure team members created master plans for all three airports identifying services and facilities that needed to be added, replaced or upgraded for the public's safety, use and convenience.



EXPANDING

CREATING A BETTER EXPERIENCE

THE POWER OF PARTNERSHIPS

The city of Houston has both an economy and a population that are globally connected on a scale that has never been seen before in the city's 180-year history. Houston has the nation's second-largest collection of Fortune 500 headquarters, almost a hundred different countries are represented in the city's Consular Corps, and dozens of different languages are spoken by the millions of people who collectively make up the nation's most diverse population base.

But establishing, maintaining and enhancing a true "global gateway" status for the city of Houston demands a coordinated effort, with key partnerships, strong communication skills and community buy-in all representing absolutely essential components. The Houston Airport System enjoyed tremendous success in meeting these goals throughout 2015.

Houston
Airports +
partnerships =
GLOBAL GATEWAY



Houston Airport System team members often establish these partnerships in foreign countries, frequently traveling with Houston business groups such as the Greater Houston Partnership to meet face-to-face with dignitaries and elected officials from virtually every corner of the world. In 2015, the "Houston Message" was carried to Asia, Africa, Oceania, Europe and a host of other global locales. The results of these trade missions can range from new and enhanced air service to the possibility of collective business ventures forming in the future.

Back here at home, the Houston Airport System ensures the smooth travel experience of various diplomats as they look to enhance the relations that exist between their representative country and the City of Houston. This effort often entails a tremendous amount of coordination between airport representatives and the federal agencies that share jurisdiction over airport operations.

That multi-jurisdictional coordination is prevalent in other areas as well, as each flight operating within Houston airspace is subject to oversight from a variety of federal agencies and departments. That's why the Houston Airport System partners with representatives from the Federal Aviation Administration, the U.S. Department of Homeland Security and many others, working to ensure that the "Houston position" is being heard and considered on a number of aviation-related issues.



INDIA



TAIPEI



AUCKLAND

KEY MEDIA OUTLETS

Another key partnership involves the Houston Airport System (HAS) and the various communication platforms that are available for use in the 21st century. With so many developments unfolding at all three airport facilities, it's imperative that HAS team members remain fluent in the various forms of modern communication, whether they involve standard interviews with members of the news media, "snippets" of information passed along through social media outlets, or presentations to key business and community groups.

Regardless of the platform, the Houston Airport System enjoyed remarkable success in conveying its message to a broad and global audience in 2015.



MEDIA COVERAGE

\$55 million in earned
media value through local
and national media coverage



WEBSITE USAGE

8.6 million hits on
fly2houston.com
Website (+11%)



SOCIAL MEDIA

Almost 20,000 followers
on IAH and HOU
Twitter accounts (+38%)



SPEAKER'S BUREAU

Presentations given to
more than 40 organizations
throughout Houston region



And finally, one of the most important partnerships of all is our connection with the Houston community and our commitment to be "good neighbors" to the six million residents living throughout the Houston region.

WINGS FOR ALL PROGRAM TAKES OFF AT HOUSTON AIRPORTS

On two separate occasions in 2015, George Bush Intercontinental Airport hosted The Arc's Wings for All® event, giving individuals with intellectual and developmental disabilities and their families an opportunity to participate in the entire airport experience by practicing entering the airport, obtaining boarding passes, going through security, and boarding an airplane.

Wings for All® is designed to alleviate some of the stress that people with disabilities and their families experience when traveling by air. The program also gives airport, airline, TSA and other personnel the opportunity to observe, interact and deliver their services in a structured learning environment.

WREATHS ACROSS AMERICA

Each year, Houston Airport System team members take part in one of the city's more moving gatherings, the "National Wreaths Across America" Day at Houston National Cemetery. Once again, hundreds gathered to pay tribute to those fallen veterans and to lay a wreath at each of the markers commemorating fallen U.S. service members.

CUSTOMER APPRECIATION

While customer appreciation is certainly not limited to one day, the Houston Airport System team likes to set aside an occasion to formally thank guests at both George Bush Intercontinental Airport and William P. Hobby Airport for their patronage. In 2015, this occasion was once again recognized with thousands of customers receiving various giveaway items.

HOLIDAY ENTERTAINMENT

The sounds of the holiday season once again rang out at both of Houston's commercial airports in 2015, thanks to the dedication and talents of local school students. Choirs, orchestras and bands from several different districts help keep the season festive during one of the busiest times of the year.





Funding the Future

The Houston Airport System (HAS) is a self-sustaining department of the City of Houston, generating on its own all revenues necessary to pay operating and maintenance expenses, debt service, and approximately \$70 million annually for reinvestment into its airport facilities; HAS levies no property or other taxes.

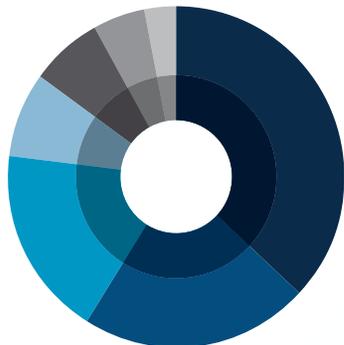
Airport revenues are categorized into two main groups: airline revenues (rates and charges paid by airlines for the use of terminal and airfield facilities) and non-airline revenues (parking fees, terminal concession privilege fees, rental car privilege fees, ground transportation privilege fees, and land and building rentals).

By federal law, airline rates and charges must be set to recover only properly allocated operating and capital costs; in this sense, airline revenues are cost recovery, and HAS cannot generate "profit" from these cost centers.

HAS IS A SELF-SUSTAINING DEPARTMENT OF THE CITY OF HOUSTON GENERATING \$500 MILLION ANNUALLY

Various airline use and lease agreements at IAH and HOU specify the rate-making principles, cost centers, and cost accounting methodologies that provide the basis for the rates and charges paid by the airlines at HAS.

All earnings retained by the airport enterprise are generated from non-airline revenues and must be reinvested into HAS airports by federal law; any allocations of City expenses to HAS must be properly allocated under a transparent and fair cost allocation plan whereby HAS is charged as any other City department and only to the extent HAS directly benefits from the services provided by the City.



ANNUAL REVENUES

- Terminal rentals and use fees: 37%
- Parking and ground transportation: 22%
- Landing fees: 18%
- Terminal concessions: 8%
- Rental car concessions: 7%
- Land and building rentals: 5%
- Other: 3%



MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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

FINANCIAL HIGHLIGHTS

The Airport System Fund's net position decreased by \$103.7 million or 7.5% during fiscal year 2015 due mostly to the cumulative effect of implementation of new accounting principle and increased by \$18.5 million or 1.4% during fiscal year 2014.

In fiscal year 2015, operating income increased \$20.2 million or 254.4% due to an increase in operating revenue of \$24.2 million or 5.3 %. In fiscal year 2014, operating income increased \$4.6 million or 36.8%, because an increase in operating revenue of \$19.1 million or 4.4 %.

Maintenance and operating expenses increased \$1.3 million or 0.5% in fiscal year 2015 and increased \$13.1 million or 4.8% in fiscal year 2014. Depreciation expense increased \$2.7 million or 1.5% in fiscal year 2015 and increased \$1.4 million or 0.8% in fiscal year 2014.

Investment income decreased by \$3.7 million or 32.9% in fiscal year 2015 and increased by \$13.1 million or 677.6% in fiscal year 2014.

The Fund had a net increase before capital contributions of \$37.8 million in fiscal year 2015, compared with a net loss before capital contributions of \$26.1 million in fiscal year 2014.

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

The Fund made a voluntary change in accounting principle effective in fiscal year 2015, and is now including the assets, liabilities, revenues, expenses, net position, and additional notes of the Consolidated Rental Car Facility (CRCF) at George Bush Intercontinental Airport (IAH) in the Fund comprehensive annual financial report. The Fund has retroactively updated the comparative columns for fiscal year 2014 and fiscal year 2013 as well.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Airport System Fund's financial statements. The Airport System Fund's financial statements consist of the following components: this management's discussion and analysis, the financial statements, the notes to the financial statements, and required supplementary information. The notes are essential to a full understanding of this report. In addition, a statistical section is included for further analysis. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. An enterprise fund is used to account for a business-like activity within a government. The Airport System Fund is an enterprise fund of the City of Houston. The Houston Airport System (HAS), consisting of George Bush Intercontinental Airport (IAH), William P. Hobby Airport (HOU), and Ellington Airport (EFD), is managed and operated as a department of the City. The Airport System Fund is also included in the City of Houston's Comprehensive Annual Financial Report (CAFR).

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

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

The statement of cash flows reports how much cash was provided by or used for the Fund's operations, investing activities, and acquisition or retirement of capital assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

NET POSITION

Total net position at June 30, 2015 was \$1,281.4 million, a 7.5% decrease from June 30, 2014.

Total net position at June 30, 2014 was \$1,385.1 million, a 18.5% increase from June 30, 2013.

More than a third of the Fund's total net position (36.4% in fiscal year 2015; 33.9% in fiscal year 2014) 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 portions of the Fund's net position represent resources that are restricted and the unrestricted deficit. The restricted resources (77.5% in fiscal year 2015; 66.1% in fiscal year 2014) are subjected to external restrictions on how they may be used. Most of these restrictions are due to covenants made to the holders of the Fund's revenue bonds within ordinances passed by City Council. These covenants further require that any positive unrestricted net position carried in cash and cash equivalents at the end of the fiscal year be restricted for future capital improvements. The unrestricted net position decreased from \$0 to \$(178 million) due to the change from net pension obligation to net pension liability required by the Government Accounting Standards Board in Statement No. 68.

NET POSITION

June 30, 2015, June 30, 2014, and June 30, 2013

(in thousands)

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Current assets	\$ 379,126	\$ 336,278	\$ 332,259
Noncurrent assets	881,893	831,733	789,638
Capital assets	<u>2,918,004</u>	<u>2,861,794</u>	<u>2,922,363</u>
Total assets	<u>4,179,023</u>	<u>4,029,805</u>	<u>4,044,260</u>
Deferred Outflows of Resources	<u>43,490</u>	<u>35,973</u>	<u>38,961</u>
Current liabilities	188,524	174,941	182,982
Long term liabilities	<u>2,750,775</u>	<u>2,505,729</u>	<u>2,533,614</u>
Total liabilities	<u>2,939,299</u>	<u>2,680,670</u>	<u>2,716,596</u>
Deferred Inflows of Resources	<u>1,847</u>	-	-
Net investment in capital assets	466,196	469,971	518,464
Restricted net position	993,174	915,137	848,161
Unrestricted (deficit)	<u>(178,003)</u>	-	-
Total net position	<u>\$ 1,281,367</u>	<u>\$ 1,385,108</u>	<u>\$ 1,366,625</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

CHANGES IN NET POSITION

From July 1, 2014 to June 30, 2015, net position of the Airport System Fund decreased by \$103.7 million or 7.5%.

From July 1, 2013 to June 30, 2014, net position of the Airport System Fund increased by \$18.5 million or 1.4%.

Operating revenues increased by \$24.2 million or 5.3% for fiscal year 2015 and by \$19.1 million or 4.4% for fiscal year 2014. These changes in operating revenues compare with changes in total (enplaned and deplaned) system (IAH and HOU) passenger volume of positive 3.7% in fiscal year 2015 and positive 3.2% in fiscal year 2014. Operating revenue increases in fiscal year 2015 over fiscal year 2014 were primarily attributable to increases in nonairline revenues resulting from increases in parking fees and passenger volume.

For fiscal year 2015, total operating expenses increased \$4.0 million or 0.9%. Maintenance and operating expenses decreased by \$1.3 million or 0.5% and depreciation increased by \$2.7 million or 1.5%. For fiscal year 2014, total operating expenses increased \$14.5 million or 3.3%. 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 because of the costs incurred on authorized master plans for each of the three airports. An impairment expense of \$7.7 million was included in fiscal year 2014 maintenance and operating expenses.

CHANGES IN NET POSITION Years Ended June 30, 2015, June 30, 2014, and June 30, 2013 (in thousands)

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Operating revenue:			
Landing area fees	\$ 93,575	\$ 88,342	\$ 91,059
Rentals, building and ground areas	197,039	186,505	181,701
Parking and concessions	180,684	172,701	155,361
Other	4,984	4,559	4,873
Total operating revenues	<u>476,282</u>	<u>452,107</u>	<u>432,994</u>
Nonoperating revenue:			
Investment income (loss)	7,496	11,170	(1,934)
Passenger facility charges	85,392	62,602	61,195
Customer facility charges	17,535	17,152	17,104
Other nonoperating	7,969	3,225	1,978
Total nonoperating revenues	<u>118,392</u>	<u>94,149</u>	<u>78,343</u>
Total revenues	<u>594,674</u>	<u>546,256</u>	<u>511,337</u>
Operating expenses:			
Maintenance and operating	286,529	285,212	272,091
Depreciation and amortization	177,512	174,825	173,449
Total operating expenses	<u>464,041</u>	<u>460,037</u>	<u>445,540</u>
Nonoperating expenses:			
Interest expense	89,999	94,183	93,950
(Gain) / Loss on disposal of assets	1,856	17,267	(225)
Special facility cost	948	900	23
Total nonoperating expenses	<u>92,803</u>	<u>112,350</u>	<u>93,748</u>
Total expenses	<u>556,844</u>	<u>572,387</u>	<u>539,288</u>
Excess (deficit) before contributions	37,830	(26,131)	(27,951)
Capital contributions	36,432	44,614	12,761
Change in net position	<u>74,262</u>	<u>18,483</u>	<u>(15,190)</u>
Beginning net position as previously reported	1,385,108	1,366,625	1,379,464
Cumulative effect of implementation of new accounting principle	(178,003)	-	-
Cumulative effect of change in accounting principle	-	-	2,351
Total net position, July 1	<u>1,207,105</u>	<u>1,366,625</u>	<u>1,381,815</u>
Total net position, June 30	<u>\$ 1,281,367</u>	<u>\$ 1,385,108</u>	<u>\$ 1,366,625</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Capital contributions are grant awards that primarily relate to reimbursements for expenses from construction projects. Amounts received from Federal Aviation Administration (FAA) discretionary, FAA entitlement and Transportation Security Administration (TSA) grants fluctuate year-to-year because of timing differences between the date of the award and the date of construction completion. In fiscal year 2015, capital contributions decreased \$8.2 million or 18.3% and in fiscal year 2014, capital contributions increased by \$31.9 million or 249.6%.

Non-operating revenue increased by \$24.2 million or 25.7% in fiscal year 2015, primarily due to a \$22.8 million increase in passenger facility charges (PFC). On January 20, 2015, the FAA approved an amendment to the existing PFC at both IAH and HOU increasing the rate from \$3.00 per enplaned passenger to \$4.50 per enplaned passenger. The new rate was effective March 1, 2015. Non-operating revenue increased by \$15.8 million or 20.2% 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.

In fiscal year 2015, interest expense decreased by \$4.2 million or 4.4% because of principal payments on various debt issues and the partial refunding of the Special Facility Revenue Bonds for the Consolidated Rental Car Facility Project, Series 2001. In fiscal year 2014, interest expense increased by \$0.2 million or 0.2% because less interest could be capitalized as part of the cost of constructing capital assets.

CAPITAL ASSETS

The Airport System Fund's investment in capital assets amounts to \$5.41 billion at June 30, 2015, an increase of \$214.1 million, or 4.1%, from June 30, 2014. Capital assets at June 30, 2014 were \$5.20 billion, an increase of \$108.4 million, or 2.1%, from June 30, 2013.

CAPITAL ASSETS June 30, 2015, June 30, 2014, and June 30, 2013 (net of accumulated depreciation in thousands)

	June 30, 2015	June 30, 2014	June 30, 2013
Land	\$ 220,626	\$ 209,967	\$ 209,967
Rights & Intangibles - Non-Depreciable	9,387	8,371	8,070
Buildings and building improvements	2,703,195	2,672,949	2,626,416
Improvements other than buildings	2,009,275	1,973,443	1,927,643
Equipment	233,321	212,904	202,756
Rights & Intangibles - Amortizable	2,411	2,411	2,492
Construction work in progress	236,163	120,187	114,439
	<u>\$ 5,414,378</u>	<u>\$ 5,200,232</u>	<u>\$ 5,091,783</u>

At IAH, HAS recently finalized the program definition planning phase for the Mickey Leland International Terminal, a new international terminal to replace the existing Terminal D on the current site of Terminals C-North and D.

At HOU, capital improvements related to the new international concourse are nearing completion. The project includes a 5-gate international concourse, an FIS facility, a new ticketing lobby for Southwest Airlines, a 3,000-space parking garage, a satellite utility plant, improved roadway signage, and various landscaping and beautification projects. The ticketing lobby opened in September 2015, and the international concourse opened in mid-October 2015. All other projects are expected to be completed later in FY 2016.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

DEBT

At the end of the fiscal year, the Airport System Fund had total debt of \$2.4 billion, which represents outstanding senior and subordinate lien revenue bonds net of unamortized discounts and premiums, senior lien commercial paper, and an inferior lien contract, all secured solely by Airport System Fund revenues. In addition, the Fund is responsible for \$2.0 million of taxable general obligation pension bonds and \$102.1 million of special facility revenue bonds (consolidated rental car facility). At the end of fiscal years 2015 and 2014, the Fund had total debt of \$2.4 billion and \$2.4 billion, respectively.

Total outstanding debt decreased \$22.2 million or 0.9% during fiscal year 2015, due to issuance of the new commercial paper, retirement of existing debt, and a partial refunding of the special facility revenue bonds for the consolidated rental car facility project. During fiscal year 2014, total outstanding debt decreased \$69.5 million or 2.8%, due to retirement of outstanding debt.

The underlying ratings of the Airport System Fund's obligations for fiscal year 2015:

	As of June 30, 2015	
	Senior	Subordinate
Standard & Poor's	AA-	A
Moody's	Aa3	A1*
Fitch	Not Rated	A

* Moody's upgraded the subordinate lien rating to "A1" on August 5, 2015.

The rating for the Airport System Special Facilities Taxable Revenue and Revenue Refunding Bonds (Consolidated Rental Car Facility Project) for fiscal year 2015 are:

Standard & Poor's	A-
Moody's	A3
Fitch	A-

OUTSTANDING DEBT June 30, 2015, June 30, 2014, and June 30, 2013 (in thousands)

	June 30, 2015	June 30, 2014	June 30, 2013
Senior lien debt:			
Long-term revenue bonds payable	\$ 449,660	\$ 449,660	\$ 449,660
Unamortized discounts and premium	(737)	(878)	(1,011)
Commercial Paper	49,500	1,200	-
Total senior lien debt	<u>498,423</u>	<u>449,982</u>	<u>448,649</u>
Subordinate lien debt:			
Current maturities-revenue bonds	65,730	54,965	55,045
Long-term revenue bonds payable	1,635,415	1,701,145	1,756,110
Unamortized discounts, premium	72,562	79,577	86,693
Total subordinate lien debt	<u>1,773,707</u>	<u>1,835,687</u>	<u>1,897,848</u>
Inferior lien debt:			
Current maturities-contract	5,605	5,315	5,040
Long-term contract payable	12,155	17,760	23,075
Total inferior lien debt	<u>17,760</u>	<u>23,075</u>	<u>28,115</u>
Other debt:			
Pension obligation bonds	2,006	2,006	2,006
Special Facility Revenue Bonds - Consolidated Rental Car Facility	102,055	105,430	109,020
Total other debt	<u>104,061</u>	<u>107,436</u>	<u>111,026</u>
Total outstanding debt	<u>\$ 2,393,951</u>	<u>\$ 2,416,180</u>	<u>\$ 2,485,638</u>
Deferred outflows of resources:			
Unamortized costs of refunding debt	<u>\$ (33,044)</u>	<u>\$ (35,973)</u>	<u>\$ (38,961)</u>

STATEMENT OF NET POSITION JUNE 30, 2015 AND 2014
(IN THOUSANDS)

	<u>2015</u>	<u>2014</u>
Assets		
Current assets		
Pooled cash and investment	\$ 336,484	\$ 304,175
Restricted cash and cash equivalents	5,514	5,753
Accounts Receivable (net of allowance for doubtful accounts of \$1,010 in 2015 and \$4,614 in 2014)	25,180	8,333
Due from City of Houston	873	1,544
Inventory	1,538	1,489
Prepays	2,894	3,306
Due from other governments - grants receivable	<u>6,643</u>	<u>11,678</u>
Total current assets	<u>379,126</u>	<u>336,278</u>
Noncurrent assets		
Pooled cash and investment	846,242	790,722
Restricted cash and cash equivalents	34,067	39,305
Prepays	1,584	1,706
Capital Assets		
Land	220,626	209,967
Intangibles	11,798	10,782
Buildings, improvements and equipment	4,945,791	4,859,296
Construction in progress	<u>236,163</u>	<u>120,187</u>
Total capital assets	5,414,378	5,200,232
Less accumulated depreciation	<u>(2,496,374)</u>	<u>(2,338,438)</u>
Net capital assets	<u>2,918,004</u>	<u>2,861,794</u>
Total noncurrent assets	<u>3,799,897</u>	<u>3,693,527</u>
Total assets	<u>4,179,023</u>	<u>4,029,805</u>
Deferred Outflows of Resources		
Unamortized costs	33,044	35,973
Deferred outflows on pension liability	10,446	-
Total deferred outflows of resources	<u>\$ 43,490</u>	<u>\$ 35,973</u>

STATEMENT OF NET POSITION JUNE 30, 2015 AND 2014

(IN THOUSANDS)

	<u>2015</u>	<u>2014</u>
Liabilities		
Current Liabilities		
Accounts payable	\$ 14,666	\$ 10,262
Accrued payroll liabilities	2,499	2,159
Due to City of Houston	361	314
Advances and deposits	1,980	1,876
Unearned revenue	1,974	2,287
Claims for workers' compensation	927	1,096
Compensated absences	5,570	5,511
Revenue bonds payable	65,730	54,965
Special facility revenue bonds payable	5,160	3,945
Inferior lien contract payable	5,605	5,315
Accrued interest payable	48,638	50,840
Contracts and retainages payable	35,414	36,371
Total current liabilities	<u>188,524</u>	<u>174,941</u>
Long-term liabilities		
Revenue bonds payable, net	2,156,900	2,229,504
Special facility revenue bonds payable	96,895	101,485
Inferior lien contract	12,155	17,760
Commercial paper payable	49,500	1,200
Pension obligation bonds payable	2,006	2,006
Long term contracts payable	111,620	32,803
Claims for workers' compensation	1,210	1,588
Compensated absences	6,980	6,535
Net pension liability payable	248,348	51,988
Other post employment benefits	65,161	60,445
Other long-term liabilities	-	415
Total long-term liabilities	<u>2,750,775</u>	<u>2,505,729</u>
Total liabilities	<u>2,939,299</u>	<u>2,680,670</u>
Deferred Inflows of Resources		
Deferred inflows on pension liability	1,847	-
Total deferred inflows of resources	<u>1,847</u>	<u>-</u>
Net Position		
Net investment in capital assets	466,196	469,971
Restricted net position		
Restricted for debt service	303,371	242,558
Restricted for maintenance and operations	53,912	49,736
Restricted for special facility	25,732	30,986
Restricted for renewal and replacement	10,000	10,000
Restricted for capital improvements	600,159	581,857
Unrestricted (deficit)	(178,003)	-
Total net position	<u>\$ 1,281,367</u>	<u>\$ 1,385,108</u>

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR YEARS ENDED JUNE 30, 2015 AND 2014
(IN THOUSANDS)

	2015	2014
Operating Revenues		
Landing area fees	\$ 93,575	\$ 88,342
Rentals, building and ground areas	197,039	186,505
Parking	97,515	90,173
Concessions	83,169	82,528
Other	4,984	4,559
Total operating revenues	<u>476,282</u>	<u>452,107</u>
Operating Expenses		
Maintenance and operating	286,529	285,212
Depreciation	<u>177,512</u>	<u>174,825</u>
Total operating expenses	<u>464,041</u>	<u>460,037</u>
Operating income (loss)	<u>12,241</u>	<u>(7,930)</u>
Nonoperating revenues (expenses)		
Investment income (loss)	7,496	11,170
Interest expense	(89,999)	(94,183)
Gain / (Loss) on disposal of assets	(1,856)	(17,267)
Passenger facility charges	85,392	62,602
Customer facility charges	17,535	17,152
Special facility cost	(948)	(900)
Other revenue	<u>7,969</u>	<u>3,225</u>
Total nonoperating revenues (expenses)	<u>25,589</u>	<u>(18,201)</u>
Income/(loss) before capital contributions	37,830	(26,131)
Capital contributions	<u>36,432</u>	<u>44,614</u>
Change in net position	<u>74,262</u>	<u>18,483</u>
Beginning net position as previously reported	1,385,108	1,357,450
Cumulative effect of implementation of new accounting principle	(178,003)	-
Cumulative effect of change in accounting principle	<u>-</u>	<u>9,175</u>
Total net position, July 1	<u>1,207,105</u>	<u>1,366,625</u>
Total net position, June 30	<u>\$ 1,281,367</u>	<u>\$ 1,385,108</u>

STATEMENT OF CASH FLOWS FOR YEARS ENDED JUNE 30, 2015 AND 2014
(IN THOUSANDS)

	2015	2014
Cash flows from operating activities		
Receipts from customers	\$ 469,062	\$ 451,197
Payments to employees	(99,326)	(97,177)
Payments to suppliers	(105,743)	(105,221)
Payments to the City of Houston	(57,553)	(49,539)
Claims paid	(928)	(1,096)
Other receipts	7,969	3,225
Net cash provided by operating activities	<u>213,481</u>	<u>201,389</u>
Cash flows from investing activities		
Sale of investments	1,945,584	1,851,299
Purchase of investments	(2,033,660)	(1,900,557)
Investment income (loss)	5,059	11,171
Net cash (used for) provided by investing activities	<u>(83,017)</u>	<u>(38,087)</u>
Cash flows from noncapital financing activities		
Interest expense pension obligation bonds	(106)	(107)
Net cash (used for) provided by noncapital financing activities	<u>(106)</u>	<u>(107)</u>
Cash flows from capital and related financing activities		
Retirement of revenue bonds	(54,965)	(55,045)
Proceeds from issuance of special facility bonds	38,225	-
Refunding of special facility bonds	(37,245)	-
Proceeds from issuance of commercial paper	48,300	1,200
Interest expense on debt	(101,791)	(105,083)
Retirement of inferior lien contract	(5,315)	(5,040)
Retirement of special facility bonds	(4,355)	(3,590)
Passenger facility charges	75,572	62,569
Customer facility charges	17,540	17,172
Costs of issuing special facility bonds	(899)	-
Grant receipts	41,467	41,550
Acquisition of capital assets	(155,053)	(113,624)
Net cash (used for) capital and related financing activities	<u>(138,519)</u>	<u>(159,891)</u>
Net increase (decrease) in cash and cash equivalents	(8,161)	3,304
Cash and cash equivalents, beginning of year	<u>52,632</u>	<u>49,328</u>
Cash and cash equivalents, end of the year	<u>\$ 44,471</u>	<u>\$ 52,632</u>
Current Restricted - cash and cash equivalents	\$ 5,514	\$ 5,754
Non-Current Restricted Cash and Cash Equivalents	34,066	39,305
Pooled Cash	4,891	7,573
Cash and cash equivalents, end of the year	<u>\$ 44,471</u>	<u>\$ 52,632</u>

STATEMENT OF CASH FLOWS FOR YEARS ENDED JUNE 30, 2015 AND 2014
(IN THOUSANDS)

	<u>2015</u>	<u>2014</u>
Noncash transactions		
Capitalized interest expense	\$ 5,849	\$ 5,858
Capital additions included in liabilities	(957)	(2,873)
Grants included in receivables	(5,035)	3,064
Gain (loss) on disposal of assets	<u>(1,410)</u>	<u>(17,267)</u>
Noncash transactions	<u>\$ (1,553)</u>	<u>\$ (11,218)</u>
Reconciliation of operating income (loss) to net cash provided by operating activities		
Operating income (loss)	\$ 13,615	\$ (7,930)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	177,512	174,825
Impairment of capital asset	-	7,709
Capital improvement plan expense	2,719	8,864
Other receipts	7,969	3,225
Changes in assets and liabilities		
Accounts receivable	(7,012)	4,058
Due from the City of Houston	671	237
Inventory and prepaids	367	5,075
Accounts payable	4,404	175
Accrued payroll liabilities	340	351
Due to the City of Houston	47	(58)
Advances and deposits	(209)	(4,967)
Other post-employment benefits	8,384	3,179
Pension related payables and deferred amounts	4,716	6,251
Claims for workers' compensation	(546)	(161)
Compensated absences	<u>504</u>	<u>556</u>
Net cash provided by operating activities	<u>\$ 213,481</u>	<u>\$ 201,389</u>

HOUSTON AIRPORT SYSTEM LEADERSHIP

Director of Aviation, **Mario Diaz**

Deputy Director, Chief Operating Officer **Lance Lyttle**

Deputy Director, Chief Commercial Officer **Ian Wadsworth**

Deputy Director, Chief Human Resources Officer **Harleen Smith**

Deputy Director, Chief Financial Officer **Matt Townsend**

Deputy Director, Chief Development Officer **Jeffrey Brown**

Deputy Director, Chief External Affairs Officer **Saba Abashawl**

Deputy Director, Chief Technology Officer **Lisa Kent**

General Manager, Intercontinental Airport **Balram Bheodari**

General Manager, Hobby Airport **Jesus Saenz**

General Manager, Ellington Airport **Arturo Machuca**

AS OF DECEMBER 31, 2015







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