

*Interest on the Series 2014 Bonds is not excludable from gross income for federal tax purposes under existing law. See “MATERIAL UNITED STATES FEDERAL INCOME TAX MATTERS” herein.*



**\$38,225,000**  
**CITY OF HOUSTON, TEXAS**

**Airport System Special Facilities Taxable Revenue Refunding Bonds**  
**(Consolidated Rental Car Facility Project),**  
**Series 2014**

**Interest Accrual Date:** Date of Delivery

**CUSIP Prefix:** 442348

**Due:** As shown on inside cover page

The City of Houston, Texas Airport System Special Facilities Taxable Revenue Refunding Bonds (Consolidated Rental Car Facility Project), Series 2014 (the “Series 2014 Bonds”), are issued pursuant to a Trust Indenture dated as of March 1, 2001, and supplemented by a First Supplement to Trust Indenture dated as of May 1, 2003 (together, the “Original Trust Indenture”), as supplemented by a Second Supplemental Trust Indenture dated as of September 1, 2014 (the “Second Supplemental Indenture”) and, together with the Original Trust Indenture, the “Trust Indenture”), by and between the City of Houston, Texas (the “City”), a municipal corporation and home rule city, duly incorporated under the laws of the State of Texas, and The Bank of New York Mellon Trust Company, National Association, as successor trustee to The Chase Manhattan Bank (the “Trustee”). The Series 2014 Bonds are also issued pursuant to an Ordinance adopted by the City Council of the City on May 15, 2013, as ratified and supplemented by an Ordinance adopted by the City Council of the City on July 16, 2014. Interest on the Series 2014 Bonds is payable on January 1, 2015, and on each July 1 and January 1 thereafter until maturity or earlier redemption. Interest will accrue on the Series 2014 Bonds from the date of delivery, at the rate or rates per annum set forth on the inside cover page hereof, calculated on the basis of a 360-day year composed of twelve 30-day months.

The Series 2014 Bonds are being issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Series 2014 Bonds. Individual purchases will initially be made in book-entry form only in denominations of \$5,000 principal amount or any integral multiple thereof. No physical delivery of the Series 2014 Bonds will be made to the owners thereof. See APPENDIX D, which describes DTC’s securities clearance procedures.

The Series 2014 Bonds are being issued to (i) refund a portion of the City’s outstanding Airport System Special Facilities Taxable Revenue Bonds (Consolidated Rental Car Facility Project), Series 2001 (as more specifically described on SCHEDULE I and referred to herein as the “Refunded Bonds”), and (ii) pay costs of issuance of the Series 2014 Bonds. The Series 2014 Bonds, together with the Airport System Special Facilities Taxable Revenue Bonds (Consolidated Rental Car Facility Project), Series 2001 remaining Outstanding after the issuance of the Series 2014 Bonds and any other bonds issued pursuant to the Trust Indenture (collectively, the “Special Facilities Bonds”), are payable solely from and secured by a lien on and pledge of the (i) Pledged Revenues, which include revenues derived from certain daily usage fees (“Customer Facility Charges”) to be collected and remitted by the rental car companies (the “Operators”) using the rental car facility (as further described herein, the “Project”), and (ii) Pledged Funds, which include the funds and accounts established under the Trust Indenture, including a Revenue Fund, Debt Service Fund, Debt Service Reserve Fund, Coverage Fund, Project Fund and Facility Improvement Fund. The City and the Operators have entered into a Master Special Facilities Lease Agreement dated as of January 1, 2001 (the “Master Lease”), pursuant to which the Customer Facility Charges are collected by each Operator from certain persons entering into a motor vehicle rental agreement with respect to the Project. Payment of the principal of and interest on the Series 2014 Bonds is not guaranteed by any of the Operators and no revenues, profits or property of the Operators are pledged as security for the Series 2014 Bonds. See “SECURITY FOR THE SERIES 2014 BONDS.”

The Series 2014 Bonds are subject to redemption prior to maturity, as described herein. See “THE SERIES 2014 BONDS – Make-Whole Redemption Prior to Maturity.”

THE SERIES 2014 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OR GENERAL OBLIGATION OF THE CITY WITHIN THE MEANING OF ANY PROVISION OF THE CONSTITUTION OR LAWS OF THE STATE OF TEXAS OR THE CITY’S HOME RULE CHARTER. NO HOLDER OF ANY BOND SHALL HAVE THE RIGHT TO DEMAND PAYMENT THEREOF FROM ANY FUNDS RAISED OR TO BE RAISED BY TAXATION, OR ANY OTHER REVENUES GENERALLY AVAILABLE TO THE CITY OR THE HOUSTON AIRPORT SYSTEM, OTHER THAN THE PLEDGED REVENUES AND PLEDGED FUNDS.

AN INVESTMENT IN THE SERIES 2014 BONDS INVOLVES CERTAIN RISKS. PROSPECTIVE BONDHOLDERS ARE ADVISED TO READ THIS ENTIRE OFFICIAL STATEMENT PRIOR TO MAKING AN INVESTMENT DECISION WITH RESPECT TO THE SERIES 2014 BONDS, PARTICULARLY THE SECTION HEREOF ENTITLED “INVESTMENT CONSIDERATIONS.”

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SEE INSIDE COVER PAGE FOR MATURITY, PRICING SCHEDULE AND CUSIP NUMBERS

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The Series 2014 Bonds are offered by the Underwriters listed below when, as and if issued by the City and accepted by the Underwriters, subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Bracewell & Giuliani LLP, Houston, Texas, and the Law Offices of Francisco G. Medina, Houston, Texas, Co-Bond Counsel for the City, as to the validity of the issuance of the Series 2014 Bonds under the Constitution and the laws of the State of Texas. Certain matters will be passed upon for the City by its Special Disclosure Co-Counsel, Haynes and Boone, LLP, Houston, Texas, and Bratton & Associates, Houston, Texas. Certain other legal matters will be passed upon for the Underwriters by their counsel, Greenberg Traurig, LLP, Houston, Texas. The Series 2014 Bonds are expected to be available for delivery through the facilities of DTC on or about September 4, 2014 (the “Date of Delivery”).

## MATURITY AND PRICING SCHEDULE

**\$38,225,000**

**CITY OF HOUSTON, TEXAS**

**AIRPORT SYSTEM SPECIAL FACILITIES TAXABLE REVENUE REFUNDING BONDS  
(CONSOLIDATED RENTAL CAR FACILITY PROJECT),  
SERIES 2014**

**CUSIP PREFIX 442348<sup>(1)</sup>**

<u>Maturity (January 1)<sup>(2)</sup></u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>CUSIP Suffix<sup>(1)</sup></u>
2015	\$ 4,355,000	0.400%	100%	7J1
2016	5,160,000	0.740%	100	7K8
2017	5,305,000	1.296%	100	7L6
2018	5,490,000	1.916%	100	7M4
2019	5,715,000	2.316%	100	7N2
2020	5,960,000	2.687%	100	7P7
2021	6,240,000	2.987%	100	7Q5

<sup>(1)</sup> CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard and Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the City, the Co-Financial Advisors, nor the Underwriters are responsible for the selection or correctness of the CUSIP numbers set forth herein.

<sup>(2)</sup> The Series 2014 Bonds are subject to redemption prior to maturity, as described in "THE SERIES 2014 BONDS – Make-Whole Redemption Prior to Maturity."

THE SERIES 2014 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACT. ANY REGISTRATION OR QUALIFICATION OF THE SERIES 2014 BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAWS OF THE STATES IN WHICH THE SERIES 2014 BONDS MAY HAVE BEEN REGISTERED OR QUALIFIED AND ANY EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THIS OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE SERIES 2014 BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the other matters described herein since the date hereof.

This Official Statement includes descriptions and summaries of certain events, matters and documents. Such descriptions and summaries do not purport to be complete and all such descriptions, summaries and references thereto are qualified in their entirety by reference to this Official Statement in its entirety and to each such document, copies of which may be obtained from the City or from the Co-Financial Advisors to the City. Any statements made in this Official Statement or the appendices hereto involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of such opinions or estimates will be realized.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

This Official Statement is delivered in connection with the sale of securities referred to herein and may not be reproduced or used, in whole or in part, for any other purposes. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2014 Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. No dealer, salesperson or other person has been authorized by the City to give any information or to make any representation other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the City, the Underwriters or any other person. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create the implication that there has been no change in the matters described herein since the date hereof.

The prices and other terms respecting the offering and sale of the Series 2014 Bonds may be changed from time to time by the Underwriters after such Bonds are released for sale, and the Series 2014 Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Series 2014 Bonds into investment accounts.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2014 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

None of the City, the Co-Financial Advisors to the City or the Underwriters makes any representation regarding the information contained in this Official Statement regarding DTC or its book-entry-only system, as such information has been furnished by DTC. This Official Statement contains "forward-looking" statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance and achievements to be different from the future results, performance and achievements expressed or implied by such forward-looking statements. Investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements. See "FORWARD-LOOKING STATEMENTS."

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**City of Houston, Texas**

**ELECTED OFFICIALS**

**Annise D. Parker, Mayor**

**Ronald C. Green, City Controller**

**CITY COUNCIL**

*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 ..... Edward Gonzalez

*Council Member,*  
District I ..... Robert Gallegos  
*Council Member,*  
District J ..... Mike Laster  
*Council Member,*  
District K ..... Larry 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

**APPOINTED OFFICIALS**

City Attorney ..... David M. Feldman  
Deputy City Controller ..... Charisse Page Mosely  
Director, Department of Finance ..... Kelly Dowe  
Director, Houston Airport System ..... Mario C. Diaz  
City Secretary ..... Anna Russell

**ADVISORS AND CONSULTANTS**

Co-Financial Advisors ..... First Southwest Company  
Kipling Jones & Co.  
Co-Bond Counsel ..... Bracewell & Giuliani LLP  
Law Offices of Francisco G. Medina  
Special Disclosure Co-Counsel ..... Haynes and Boone, LLP  
Bratton & Associates

**FINANCING WORKING GROUP**

Houston Airport System ..... Matt Townsend  
Kenneth Gregg  
Cathy Vander Plaats  
Department of Finance ..... Jennifer Olenick  
Jaime Alvarez  
Veronica Lizama  
Office of the City Attorney ..... Gary L. Wood  
Sameera Mahendru  
Office of the City Controller ..... Asha Patnaik  
Vivien Nguyen  
Kedrick Winfield

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## TABLE OF CONTENTS

INTRODUCTION.....	1	General Factors Affecting Air Traffic	
The Airport.....	1	at the Airport.....	27
Investment Considerations.....	2	Competition and Alternate Modes of	
Additional Information.....	2	Transportation.....	27
PURPOSE AND PLAN OF FINANCE.....	2	Assumptions in the Report of the	
The Series 2014 Bonds.....	2	Independent Rate Consultant.....	27
The Refunded Bonds.....	2	Environmental Regulation.....	28
SOURCES AND USES OF FUNDS.....	3	Air Emissions Controls.....	28
THE SERIES 2014 BONDS.....	3	Financial Guaranty Industry.....	28
General.....	3	Considerations under the Bankruptcy Code.....	29
Make-Whole Redemption Prior to Maturity.....	4	Limitation of Remedies.....	29
Notice of Redemption.....	5	Secondary Market.....	30
Transfers and Exchanges.....	5	VERIFICATION OF MATHEMATICAL	
Ownership.....	6	ACCURACY.....	30
SECURITY FOR THE SERIES 2014 BONDS.....	6	RATINGS.....	30
No City, Airport or Operator Liability.....	6	LEGAL INVESTMENTS AND ELIGIBILITY TO	
Pledged Revenues and Pledged Funds.....	6	SECURE PUBLIC FUNDS IN TEXAS.....	30
Schedule 1: CFC Revenues and		CONTINUING DISCLOSURE	
Transaction Days.....	8	UNDERTAKING.....	30
Schedule 2: Pledged Funds Account		Annual Reports.....	31
Balances.....	11	Notices of Certain Events.....	31
THE TRUST INDENTURE.....	11	Compliance with Prior Undertakings.....	32
Flow of Funds.....	11	Limitations, Disclaimers and	
Additional Bonds and Refunding Bonds.....	12	Amendments.....	32
Bondholders' Remedies.....	12	MATERIAL UNITED STATES FEDERAL	
Enforcement of Master Lease.....	13	INCOME TAX MATTERS.....	33
Amendments to Trust Indenture.....	13	General.....	33
DEBT SERVICE SCHEDULE.....	14	Tax Consequences to U.S. Bondholders.....	34
THE RENTAL CAR COMPANIES.....	14	LITIGATION.....	35
The Operators.....	14	Dispute with Operators Regarding Pre-Paid	
Master Lease.....	15	Fuel Charges.....	36
Concession Agreements.....	15	Other Claims and Litigation Affecting the	
Operation and Maintenance.....	15	City.....	36
REPORT OF THE INDEPENDENT RATE		UNDERWRITING.....	36
CONSULTANT.....	15	LEGAL MATTERS.....	37
THE PROJECT.....	16	CO-FINANCIAL ADVISORS.....	38
General Description.....	16	FORWARD LOOKING STATEMENTS.....	38
THE CITY.....	16	GENERAL INFORMATION.....	38
Governmental Structure.....	16		
THE HOUSTON AIRPORT SYSTEM.....	17	SCHEDULE I - REFUNDED BONDS	
General.....	17	APPENDIX A - SELECTED PROVISIONS OF THE	
Houston Airport System Facilities.....	17	MASTER LEASE	
Schedule 3: Passenger Statistics.....	20	APPENDIX B - SELECTED PROVISIONS OF THE	
Schedule 4: Total Enplaned and		INDENTURE	
Connecting Passengers for the Airport.....	21	APPENDIX C - FORM OF CO-BOND COUNSEL	
Houston Airport System Service Region.....	21	OPINION	
Management.....	23	APPENDIX D - DEPOSITORY TRUST COMPANY	
INVESTMENT CONSIDERATIONS.....	26	APPENDIX E - DESCRIPTION OF DEBT SERVICE	
General.....	26	RESERVE FUND SURETY POLICY	
Future Customer Facility Charge		PROVIDER	
Revenues.....	26	APPENDIX F - REPORT OF THE INDEPENDENT	
Airline Industry and Airport Factors.....	27	RATE CONSULTANT	

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## **OFFICIAL STATEMENT**

**Relating to**

**\$38,225,000**

**CITY OF HOUSTON, TEXAS**

### **Airport System Special Facilities Taxable Revenue Refunding Bonds (Consolidated Rental Car Facility Project), Series 2014**

#### **INTRODUCTION**

This Official Statement, including the cover page, schedules and appendices hereto, is provided to furnish information in connection with the offer and sale by the City of Houston, Texas (the “City”), of its Airport System Special Facilities Taxable Revenue Refunding Bonds (Consolidated Rental Car Facility Project), Series 2014 (the “Series 2014 Bonds”), the security for the Series 2014 Bonds, the George Bush Intercontinental Airport/Houston (the “Airport”) and the rental car facility, as further described herein (the “Project”). The Series 2014 Bonds are authorized pursuant to the general laws of the State of Texas (the “State”), particularly Chapters 1207 and 1503, Texas Government Code, as amended, and Title 3, Texas Transportation Code, as amended. The Series 2014 Bonds will be issued pursuant to a Trust Indenture dated as of March 1, 2001, and supplemented by a First Supplement to Trust Indenture dated as of May 1, 2003 (together, the “Original Trust Indenture”), as supplemented by a Second Supplemental Trust Indenture dated as of September 1, 2014 (the “Second Supplemental Indenture” and, together with the Original Trust Indenture, the “Trust Indenture”), by and between the City and The Bank of New York Mellon Trust Company, National Association, as successor trustee to The Chase Manhattan Bank (the “Trustee”), and an Ordinance adopted by the City Council of the City on May 15, 2013, as ratified and supplemented by an Ordinance adopted by the City Council of the City on July 16, 2014 (together, the “Ordinance”).

The City is a municipal corporation and home rule city, duly incorporated under the laws of the State. The City is the fourth largest city in the nation and the largest city in Texas. According to the U.S. Census Bureau, the City’s population estimate was approximately 2.6 million in 2012 and the population of the nine-county metropolitan statistical area (“Houston-The Woodlands-Sugar Land” or the “MSA”) was approximately 6.34 million in 2013, which is the fifth largest in the United States. For additional information about the City, see “THE CITY.”

The City manages and operates the Houston Airport System as an enterprise system of the City. The Houston Airport System is currently comprised of three airport facilities, each of which is owned and operated by the City: the Airport, William P. Hobby Airport (“Hobby”) and Ellington Airport (“Ellington”). The Airport is the nation’s 12<sup>th</sup> largest airport (as measured by passenger traffic in calendar year 2013) and is classified as a “large hub airport” by the Federal Aviation Administration (the “FAA”). The Project is located at the Airport. For additional information about the Houston Airport System, see “THE HOUSTON AIRPORT SYSTEM.”

#### **The Airport**

The Airport, which opened in 1969, is the largest commercial airport serving the Houston metropolitan area. The Airport’s principal facilities include five terminal buildings, five air carrier runways and 129 aircraft gates. The Airport is owned by the City and managed and operated by the Houston Airport System under the administrative control of the Mayor. For a more detailed description of the Airport, see “THE HOUSTON AIRPORT SYSTEM – Houston Airport System Facilities – *George Bush Intercontinental Airport/Houston.*”

## **Investment Considerations**

**The purchase and ownership of the Series 2014 Bonds involves certain investment considerations. Prospective purchasers of the Series 2014 Bonds are urged to read this Official Statement in its entirety. For a discussion of certain investment considerations relating to the Series 2014 Bonds, see “INVESTMENT CONSIDERATIONS.”**

## **Additional Information**

Brief descriptions and summaries of the Series 2014 Bonds, the Houston Airport System, the Project, the Airport, the Trust Indenture and the Master Special Facilities Lease Agreement dated as of January 1, 2001 (the “Master Lease”), by and between the City and each of the rental car companies (the “Operators”) using the Project, are included in this Official Statement. The descriptions and summaries do not purport to be comprehensive or definitive. References herein to the Series 2014 Bonds, the Trust Indenture and the Master Lease are qualified in their entirety by reference to the Trust Indenture, the form of the Series 2014 Bonds contained therein and the Master Lease. Unless otherwise specifically defined, capitalized terms used herein have the meanings set out in APPENDICES A and B.

During the offering period of the Series 2014 Bonds, copies of the Trust Indenture and Master Lease may be obtained from, and inquiries regarding information contained in this Official Statement may be directed to Samuel A. Ramirez & Co., Inc., the Underwriters’ representative, at 100 Congress, Suite 2000, Austin, Texas 78701, and thereafter may be obtained from the City’s Department of Aviation, at 16930 JFK Boulevard, Houston, Texas 77032.

## **PURPOSE AND PLAN OF FINANCE**

### **The Series 2014 Bonds**

The Series 2014 Bonds are being issued to (i) refund a portion of the City’s outstanding Airport System Special Facilities Taxable Revenue Bonds (Consolidated Rental Car Facility Project), Series 2001 (as more specifically described on SCHEDULE I and referred to herein as the “Refunded Bonds”), and (ii) pay costs of issuance of the Series 2014 Bonds. As of the date hereof, \$105,430,000 in principal amount of the Series 2001 Bonds was outstanding, \$37,245,000 of which will be refunded by a portion of the proceeds of the Series 2014 Bonds. See SCHEDULE I – REFUNDED BONDS.

Proceeds of the Series 2001 Bonds were used to finance the Project, as described herein. See “THE PROJECT” herein.

### **The Refunded Bonds**

A portion of the proceeds of the Series 2014 Bonds, together with other available funds of the City and/or certain funds deposited in the Debt Service Fund under the Trust Indenture will be deposited on the Date of Delivery with the Trustee to be used to pay the redemption price of the Refunded Bonds on the redemption date, which is anticipated to occur one day following the Date of Delivery or September 5, 2014. The redemption of the Refunded Bonds will be conditioned upon the deposit with the Trustee by the redemption date of sufficient funds to pay the redemption price. The sufficiency of the funds deposited with the Trustee to provide for the payment of the Refunded Bonds on their redemption date will be verified by Grant Thornton LLP, a firm of independent certified public accountants. See “VERIFICATION OF MATHEMATICAL ACCURACY.”

In the opinion of Co-Bond Counsel for the City, by making the deposits required by the ordinance authorizing the issuance of the Refunded Bonds, the City will have made firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds pursuant to the provisions of Chapter 1207, Texas Government Code, as amended.

## SOURCES AND USES OF FUNDS

The following table summarizes the estimated sources and uses of proceeds of the Series 2014 Bonds.

### Sources of Funds:

Principal Amount of the Series 2014 Bonds .....	\$38,225,000.00
Transfer from Refunded Bonds Debt Service Fund .....	460,306.09
Total Sources of Funds .....	<u>\$38,685,306.09</u>

### Uses of Funds:

Deposit to Series 2001 Redemption Account.....	\$37,712,622.53
Underwriters' Discount .....	238,375.43
Costs of Issuance <sup>(1)</sup> .....	734,308.13
Total Uses of Funds .....	<u>\$38,685,306.09</u>

<sup>(1)</sup> Includes legal fees, financial advisory fees, rating agency fees, fees of the Trustee and other costs of issuance.

## THE SERIES 2014 BONDS

**The following is a summary of certain provisions of the Series 2014 Bonds, including terms relating to redemption of the Series 2014 Bonds. Reference is hereby made to the Trust Indenture in its entirety for the detailed provisions pertaining to the Series 2014 Bonds. See APPENDIX B – SELECTED PROVISIONS OF THE INDENTURE.**

### General

The Series 2014 Bonds, together with the Airport System Special Facilities Taxable Revenue Bonds (Consolidated Rental Car Facility Project), Series 2001 remaining Outstanding after the issuance of the Series 2014 Bonds (the “Series 2001 Bonds”) and any Additional Bonds or Refunding Bonds hereafter issued pursuant to the Trust Indenture (collectively, the “Special Facilities Bonds”), are payable from and equally and ratably secured by a first lien on and pledge of the City’s right, title and interest in and to the (i) Pledged Revenues, which include revenues derived from certain daily usage fees (the “Customer Facility Charges” or “CFCs”) to be collected and remitted by the Operators using the Project (as further described herein under “SECURITY FOR THE SERIES 2014 BONDS”), and (ii) Pledged Funds, which includes the amounts on deposit in the funds and accounts established under the Trust Indenture, including the Revenue Fund, the Debt Service Fund, the Debt Service Reserve Fund, the Coverage Fund, the Facility Improvement Fund and the Project Fund.

The Series 2014 Bonds will mature in the aggregate principal amounts and on the dates indicated on the inside cover page of this Official Statement. The Series 2014 Bonds will accrue interest from the Date of Delivery, as set forth on the cover page hereof. Interest on the Series 2014 Bonds is payable each January 1 and July 1, commencing January 1, 2015, until maturity or earlier redemption. Interest on the Series 2014 Bonds will be calculated on the basis of a 360-day year composed of twelve 30-day months from the later of their issuance date or the most recent Interest Payment Date to which interest has been paid or provided for. The Series 2014 Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof (“Authorized Denominations”). The Series 2014 Bonds will be subject to redemption prior to maturity, as described herein under “THE SERIES 2014 BONDS – Make-Whole Redemption Prior to Maturity.” The Series 2014 Bonds will be issued only in book-entry form in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). See APPENDIX D – DEPOSITORY TRUST COMPANY.

Principal of the Series 2014 Bonds is payable when due upon presentation and surrender thereof at the designated payment office of the Trustee, currently located in Houston, Texas. Interest on the Series 2014 Bonds

will be payable to the Registered Owner whose name appears in the registration books for the Series 2014 Bonds (the "Register") maintained by the Trustee at the close of business on the last day of the calendar month immediately preceding the applicable interest payment date (the "Record Date") and shall be payable by the Trustee (i) by check sent by United States mail, first class postage prepaid, to the address of the Registered Owner recorded in the Register or (ii) by such customary banking arrangements reasonably acceptable to the Trustee requested by, and at the risk and expense of, the Registered Owner. Accrued interest payable at maturity of the Series 2014 Bonds will be paid upon presentation and surrender of such Bonds at the designated payment office of the Trustee.

If interest on any Series 2014 Bond is not paid on any Interest Payment Date and continues unpaid for thirty (30) days thereafter, the Trustee shall establish a new record date for the payment of such interest, to be known as a Special Record Date. The Trustee shall establish a Special Record Date when funds to make such interest payment are received from or on behalf of the City. Such Special Record Date shall be fifteen (15) days prior to the date fixed for payment of such past due interest, and notice of the date of payment and the Special Record Date shall be sent by United States mail, first class postage prepaid, not later than five (5) days prior to the Special Record Date, to each affected registered owner as of the close of business on the day prior to mailing of such notice.

### **Make-Whole Redemption Prior to Maturity**

The Series 2014 Bonds are subject to redemption prior to stated maturity at the option of the City on any date, in whole or in part, at a redemption price determined by the Designated Investment Banker (hereinafter defined) and equal to the greater of:

- (a) 100% of the principal amount of the Series 2014 Bonds to be redeemed; or
- (b) the sum of the present values of the remaining scheduled payments of principal of and interest on the Series 2014 Bonds to be redeemed (exclusive of interest accrued to the date fixed for redemption) discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 20 basis points,

plus, in each case, accrued and unpaid interest on the Series 2014 Bonds being redeemed to the date fixed for redemption.

For the purposes of determining the Treasury Rate, the following definitions shall apply:

"Comparable Treasury Issue" means, with respect to any redemption date for a particular Series 2014 Bond, the United States treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the Series 2014 Bonds to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the Series 2014 Bonds to be redeemed.

"Comparable Treasury Price" means, with respect to any redemption date for a particular Series 2014 Bond, (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (2) if the Designated Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

"Designated Investment Banker" means any one of the Reference Treasury Dealers appointed by the City.

"Reference Treasury Dealer" means any firm specified by the City from time to time that is a primary U.S. Government securities dealers in the City of New York, New York (each a "Primary Treasury Dealer"); provided, however, that if any specified firm ceases to be a Primary Treasury Dealer, the City shall substitute another Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date for a particular Series 2014 Bond, the average, as determined by the Designated Investment Banker,

of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third Business Day preceding such redemption date.

“Treasury Rate” means, with respect to any redemption date for a particular Series 2014 Bond, the rate per annum, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

### **Notice of Redemption**

In the event any of the Series 2014 Bonds are called for redemption, the Trustee shall give notice, in the name of the City, of the redemption of such Bonds, which notice shall (i) specify the Series 2014 Bonds to be redeemed, the redemption date, the redemption price and the place or places where amounts due upon such redemption will be payable (which shall be the designated payment office of the Trustee) and, if less than all of the Series 2014 Bonds are to be redeemed, the portions of the Series 2014 Bonds to be redeemed, (ii) state any condition to such redemption and (iii) state that on the redemption date, and upon the satisfaction of any such condition, the Series 2014 Bonds to be redeemed shall cease to bear interest. CUSIP number identification shall accompany all redemption notices. Such notice may set forth any additional information relating to such redemption. Such notice shall be given by first class mail, postage prepaid, at least thirty (30) days prior to the date fixed for redemption to each Registered Owner of Bonds to be redeemed at its address shown on the registration books kept by the Trustee; provided, however, that failure to give such notice to any Registered Owner or any defect in such notice shall not affect the validity of the proceedings for the redemption of any of the other Series 2014 Bonds.

Any notice given as provided herein shall be conclusively presumed to have been duly given, whether or not the Registered Owner or beneficial owner receives such notice. When the Series 2014 Bonds have been called for redemption in whole or in part and due provision for payment of the redemption price has been made by the date fixed for redemption as provided in the Series 2014 Bonds and in the Trust Indenture, the Series 2014 Bonds or portions thereof to be so redeemed shall no longer be regarded as Outstanding except for the purpose of receiving payment solely from the funds so provided for redemption and shall not bear interest from and after their redemption date.

### **Transfers and Exchanges**

Beneficial ownership of the Series 2014 Bonds registered in the name of DTC will initially be transferred as described in APPENDIX D – DEPOSITORY TRUST COMPANY.

As long as any Series 2014 Bonds remain Outstanding, the Trustee shall keep the Register or a copy thereof within the State in which, subject to such reasonable regulations as it may prescribe, the Trustee shall provide for the registration and transfer of the Series 2014 Bonds in accordance with the terms of the Trust Indenture.

Each Series 2014 Bond shall be transferable only upon the presentation and surrender thereof at the designated payment office of the Trustee, duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner or such Registered Owner’s authorized representative in form satisfactory to the Trustee. Upon due presentation of any Series 2014 Bond for transfer, the Trustee is required to authenticate and deliver in exchange therefor, a new Series 2014 Bond or Bonds, registered in the name of the transferee or transferees, in Authorized Denominations and of the same maturity and aggregate principal amount and bearing or accruing interest at the same rate as the Series 2014 Bond or Bonds so presented and surrendered.

Each Series 2014 Bond shall be exchangeable upon the presentation and surrender thereof at the designated payment office of the Trustee for a Series 2014 Bond or Bonds of the same maturity and interest rate and in any Authorized Denomination, in an aggregate principal amount equal to the unpaid principal amount of the Series 2014 Bond or Bonds presented for exchange.

Each exchanged or replaced Series 2014 Bond delivered by the Trustee in accordance with the Trust Indenture shall be entitled to the benefits and security of the Trust Indenture to the same extent as the Series 2014 Bond or Bonds in lieu of which such Series 2014 Bond is delivered.

The City or the Trustee may require the Registered Owner of any Series 2014 Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Series 2014 Bond. Any fee or charge of the Trustee for such transfer or exchange shall be paid by the City.

The Trustee shall not be required to transfer or exchange any Series 2014 Bond during the 45-day period prior to the date fixed for redemption; provided, however, that such restriction shall not apply to the transfer or exchange by the Registered Owner of the unredeemed portion of any Series 2014 Bond called for redemption in part.

### **Ownership**

The City, the Trustee and any other person may treat the person in whose name any Series 2014 Bond is registered as the absolute Registered Owner of such Series 2014 Bond for the purpose of paying the principal and premium, if any, thereof, and paying interest thereon, for the purpose of giving notice, and for all other purposes, whether or not such Series 2014 Bond is overdue, and neither the City nor the Trustee shall be bound by any notice or knowledge to the contrary. All payments made to the person deemed to be the Holder of any Series 2014 Bond in accordance with the Trust Indenture shall be valid and effectual and shall discharge the liability of the City and the Trustee upon such Series 2014 Bond to the extent of the sums paid.

## **SECURITY FOR THE SERIES 2014 BONDS**

### **No City, Airport or Operator Liability**

**THE SERIES 2014 BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE CITY PAYABLE SOLELY FROM AND SECURED BY, EQUALLY AND RATABLY WITH OTHER SPECIAL FACILITIES BONDS ISSUED UNDER THE TRUST INDENTURE, A LIEN ON AND PLEDGE OF THE PLEDGED REVENUES AND PLEDGED FUNDS. THE SERIES 2014 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE CITY WITHIN THE MEANING OF ANY PROVISION OF THE CONSTITUTION OR LAWS OF THE STATE OR THE CITY'S HOME RULE CHARTER. THE SERIES 2014 BONDS ARE NOT GENERAL OBLIGATIONS OF THE CITY. NO HOLDER OF ANY SPECIAL FACILITIES BOND SHALL HAVE THE RIGHT TO DEMAND PAYMENT THEREOF OUT OF ANY FUNDS RAISED OR TO BE RAISED BY TAXATION OR ANY OTHER REVENUES GENERALLY AVAILABLE TO THE CITY OR THE HOUSTON AIRPORT SYSTEM OTHER THAN THE PLEDGED REVENUES AND PLEDGED FUNDS. THE PROJECT IS NOT SUBJECT TO ANY MORTGAGE OR OTHER LIEN FOR THE BENEFIT OF THE OWNERS OF THE SERIES 2014 BONDS.**

**THE OPERATORS HAVE NOT GUARANTEED THE PAYMENT OF PRINCIPAL OF OR INTEREST ON THE SERIES 2014 BONDS, AND NO PROPERTIES OR REVENUES OF THE OPERATORS ARE PLEDGED AS SECURITY THEREFOR. IN ADDITION, THE OPERATORS HAVE NOT GUARANTEED THE COLLECTION OR PAYMENT OF THE CUSTOMER FACILITY CHARGE FROM PERSONS TO WHOM IT WAS CHARGED.**

### **Pledged Revenues and Pledged Funds**

The Series 2014 Bonds are being issued pursuant to the Trust Indenture and are special limited obligations of the City which, together with the other Special Facilities Bonds issued under the Trust Indenture, including the Series 2001 Bonds remaining Outstanding after the issuance of the Series 2014 Bonds, are payable solely from, and equally and ratably secured by, a lien on and pledge of the Pledged Revenues and Pledged Funds. Pursuant to Chapter 1208, Texas Government Code, as amended, the lien on Pledged Revenues and Pledged Funds created under the Trust Indenture is valid, effective and perfected. The principal source of Pledged Revenues for the Special Facilities Bonds are the revenues received or receivable from the Customer Facility Charge. Pledged Funds include

any amounts on deposit in the Revenue Fund, Debt Service Fund, Debt Service Reserve Fund, Coverage Fund, Project Fund and Facility Improvement Fund.

### ***Pledged Revenues***

Under the Trust Indenture, “Pledged Revenues” are defined as the aggregate of (i) the Special Facilities Rent received or receivable; (ii) all investment income of every kind derived from amounts credited to the Pledged Funds (other than the Project Fund); and (iii) amounts transferred to the Revenue Fund from the Coverage Fund or Facility Improvement Fund. Special Facilities Rent is rent payable by the Operators directly to the Trustee pursuant to the Master Lease. Under the Master Lease, “Special Facilities Rent” is an amount equal to the proceeds derived from or attributable to an Operator's collection of the Customer Facility Charges, all of which shall be remitted to the Trustee on the 20th day of each month for the preceding calendar month of operations.

Customer Facility Charges. Pursuant to the Master Lease, the Customer Facility Charge is defined as the charge required to be collected by the Operators from each customer that rents or otherwise enters into a similar arrangement for the use of automobiles subject to the CFC (including, but not limited to, cars, vans and pickup trucks). The CFCs collected by the Operators shall be in the amount established from time to time by the City pursuant to City ordinance. The CFCs are assessed per “Transaction Day.” For example, a vehicle rental for up to a 25-hour period or fraction thereof shall be for one Transaction Day and a vehicle rental for 25 through 49 hours shall be for two Transaction Days. Each Operator is obligated to charge and use its best efforts to collect the CFCs and remit to the Trustee monthly on behalf of the City all CFC revenues actually collected. The Operators will not be entitled to any rights of offset or other reduction in the requirements set forth in the Master Lease and are required to remit all CFC revenues to the Trustee regardless of any amounts that may be owed or due to the Operators by the City. As of the date hereof, the Customer Facility Charge is \$4.00 per Transaction Day. The Customer Facility Charge may be adjusted from time to time by the City in order to enable the City to generate Pledged Revenues sufficient to meet the funding requirements set forth in the Trust Indenture.

Rate Covenant. Under the terms of the Trust Indenture, the City is required to calculate, establish and impose the Customer Facility Charge and use diligence to cause the Operators to collect the CFC and remit such collections directly to the Trustee for deposit into the Revenue Fund. The Customer Facility Charge is reviewed and adjusted (if necessary) annually (or otherwise as described in the Trust Indenture) by the Director of Aviation of the Houston Airport System (the “Director”) based upon written rate reports and recommendations from the Independent Rate Consultant (“Rate Reports”) (or, with the consent of the LLC (as defined in APPENDIX B), by the City). The adjusted rates are estimated to generate CFC revenues along with other Pledged Revenues in each calendar year equal to not less than 125% of the debt service requirements of the Special Facilities Bonds for such calendar year and the amounts necessary to fund in such calendar year all transfers from the Revenue Fund as required by the Trust Indenture.

Under the Trust Indenture, the Director is required to cause the Rate Reports to be prepared and to be filed with the Trustee no less frequently than annually. The Rate Reports shall be based upon Transaction Days and other rental information required to be provided to the Independent Rate Consultant annually by the Operators pursuant to the Master Lease. Such Rate Reports are required to include proforma Customer Facility Charge collection data for the ensuing calendar year based upon the imposition of the CFC at the recommended rate. If at any time during such ensuing calendar year, (i) the aggregate collections of Customer Facility Charges are less than 90% of the proforma aggregate collections for the corresponding period as shown in the Rate Report, following consultation with the Operators, the Director may promptly increase the CFC without waiting for the next annual review, or (ii) for four (4) consecutive months the monthly collections of the Customer Facility Charge are less than 80% of the proforma monthly collections for the corresponding periods as shown in the Rate Report, the Director shall promptly direct the Independent Rate Consultant to review the Transaction Day and Customer Facility Charge collection history and, after consultation with the Operators and Director, to issue a new Rate Report to be filed with the Trustee, recommending appropriate action with respect to the Customer Facility Charge rate (and which may include recommending the use of amounts in the CFC Stabilization Account and Facility Improvement Fund), which recommendation shall be implemented as promptly as practicable; provided, that if such Rate Report is to be issued within the final three (3) months of a calendar year, it may also include recommendations for the ensuing calendar year, in which case no additional Rate Report for such ensuing calendar year will be required, except as may be

required by this clause (ii). See “REPORT OF THE INDEPENDENT RATE CONSULTANT” and APPENDIX F – REPORT OF THE INDEPENDENT RATE CONSULTANT.

As long as the City engages an Independent Rate Consultant to recommend a Customer Facility Charge rate that will enable the City to satisfy the terms of the Rate Covenant and the City causes the prompt imposition of such recommended rate, any failure to satisfy the Rate Covenant in any calendar year shall not constitute an event of default under the Trust Indenture, so long as no payment default has occurred.

The amount of the Customer Facility Charge is the same for each Operator and is shown as a separate line item and identified as a Customer Facility Charge in each rental agreement. The Customer Facility Charge revenues collected by each Operator prior to remittance to the Trustee are regarded as trust funds held by an Operator as bailee for the beneficial interest of the Trustee. All Customer Facility Charges collected and held by an Operator are property in which the Operator holds only a possessory interest and not an equitable interest, and the Operators acknowledge in the Master Lease that the Customer Facility Charges are pledged as security for the Special Facilities Bonds. See APPENDIX A – SELECTED PROVISIONS OF THE MASTER LEASE.

### **Schedule 1: CFC Revenues and Transaction Days**

The Operators began collecting Customer Facility Charges in April 2001. The initial CFC was \$3.00 per Transaction Day. Subsequently, the CFC was increased to \$3.50 effective July 1, 2003, reduced to \$3.25 effective April 1, 2005, reduced further to \$3.00 effective July 1, 2006, increased to \$3.75 effective November 1, 2009, increased to \$4.25 effective April 1, 2011 and reduced to \$4.00 on April 1, 2013. As of the date hereof, the rate is \$4.00. The following schedule shows CFC revenues and Transaction Days for the last ten calendar years. The amount of CFC Revenue collected in calendar year 2014 (for transactions occurring January-May 2014, but collected February-June 2014) is \$7,263,807 for approximately 1,815,950 Transaction Days.

<u>Year</u>	<u>CFC Revenue</u>	<u>% Change</u>	<u>Transaction Days</u>	<u>% Change</u>	<u>Originating Enplanements</u>	<u>% Change</u>
2004	\$10,242,230.00	15.4%	2,926,351	7.0%	9,016,869	12.3%
2005	11,016,774.50	7.6	3,332,909	13.9	9,563,920	6.1
2006	11,285,280.00	2.4	3,606,818	8.2	10,311,350	7.8
2007	11,234,675.00	(0.4)	3,744,892	3.8	10,615,032	2.9
2008	11,285,259.00	0.5	3,761,753	0.5	9,863,209	(7.1)
2009	9,592,023.75	(14.5)	3,077,144	(17.7)	9,171,970	(7.0)
2010	12,379,233.60	29.1	3,301,129	7.3	9,440,601	2.9
2011	14,835,007.35	19.8	3,589,873	8.7	9,828,037	4.1
2012	16,479,885.00	11.1	3,877,620	8.0	9,906,363	0.8
2013	17,390,869.00	5.5	4,237,538	9.3	9,423,908	(4.9)

Source: Houston Airport System

### ***Pledged Funds***

Under the Trust Indenture, “Pledged Funds” are defined as any amounts on deposit in the Revenue Fund, the Debt Service Fund, the Debt Service Reserve Fund, the Coverage Fund, the Facility Improvement Fund and the Project Fund. See “THE TRUST INDENTURE – Flow of Funds.”

Revenue Fund. Pursuant to the terms of the Trust Indenture, the City shall deposit or cause to be deposited to the credit of the Revenue Fund all Special Facilities Rent and any other amounts paid or payable by the Operators under the terms of the Master Lease.

Debt Service Fund. The Trust Indenture provides that each month there shall be transferred from the Revenue Fund an amount sufficient to accumulate, in approximately equal monthly installments, the amounts necessary to pay all interest scheduled to be payable on the next Interest Payment Date and all principal scheduled to be paid within the next twelve month period; and prior to each Interest Payment Date or other date on which principal on the Bonds is payable, any additional amounts necessary to increase the balance in the Debt Service Fund to be sufficient to make such payments. Moneys deposited to the credit of the Debt Service Fund shall be used



solely for the purpose of paying principal of (either at maturity or prior redemption) and interest on the Special Facilities Bonds or reimbursing credit providers for amounts advanced for such purpose.

The Trust Indenture also provides that, within the Debt Service Fund, there is established with the Trustee a Series 2001 Redemption Account. Amounts on deposit in such account shall be used to pay the redemption price, including accrued interest, of the Refunded Bonds.

Debt Service Reserve Fund. The Trust Indenture establishes the Debt Service Reserve Fund, which is required to be funded in an amount equal to the Maximum Annual Debt Service Requirement for the Special Facilities Bonds (the “Debt Service Reserve Fund Requirement”). The City may satisfy the Debt Service Fund Requirement by depositing to the credit of the Debt Service Reserve Fund from time to time any combination of cash, Authorized Investments and/or one or more Debt Service Reserve Fund Surety Policies. In connection with the issuance of the Series 2001 Bonds, the City acquired a Surety Policy in the maximum stated amount of \$12,677,000 with a portion of the Series 2001 Bond proceeds. See “– *Surety Policy*” below. As of the Date of Delivery of the Series 2014 Bonds, the Debt Service Reserve Fund Requirement for the Special Facilities Bonds will remain \$12,676,572. Accordingly, the Debt Service Reserve Fund Requirement will be fully satisfied on the date of issuance of the Series 2014 Bonds by the Surety Policy currently on deposit in the Debt Service Reserve Fund.

At any time that there are insufficient funds available in the Debt Service Fund to make any required payment of interest on or principal of the Special Facilities Bonds, or to reimburse the credit providers for amounts advanced for such purpose, there shall be transferred from the Debt Service Reserve Fund to the Debt Service Fund such amounts as may be necessary for such purpose. In the event the Debt Service Reserve Fund in the future contains one or more Debt Service Reserve Fund Surety Policy or Policies, the Trustee shall not draw on a Debt Service Reserve Fund Surety Policy unless no other cash or investments are otherwise available in the Debt Service Reserve Fund. If more than one Debt Service Reserve Fund Surety Policy is held in the Debt Service Reserve Fund, the Trustee shall draw on such policies on a proportionate basis. Whenever amounts have been drawn on one or more Debt Service Reserve Fund Surety Policies, amounts subsequently transferred to the Debt Service Reserve Fund shall be used to reimburse the provider (or if more than one, to the providers on a proportionate basis) of such Debt Service Reserve Fund Surety Policies in accordance with the terms thereof, for the amounts advanced, interest thereon and any associated fees. The issuer(s) of such Debt Service Reserve Fund Surety Policy or Policies shall be secured with respect to such reimbursement obligations by a lien on the Pledged Revenues, subject and subordinate to the lien securing the Special Facilities Bonds and the required deposits to the Debt Service Fund, and shall further be secured by a lien on amounts from time to time on deposit in and required to be deposited to the Debt Service Reserve Fund.

Amounts in the Debt Service Reserve Fund may be applied in any manner authorized under Texas law including, but not limited to, making the final payment of principal of and interest on the Special Facilities Bonds. Further, amounts in the Debt Service Reserve Fund, to the extent they are in excess of the Debt Service Reserve Fund Requirement, may be transferred at any time to the Debt Service Fund.

In the event that the balance in the Debt Service Reserve Fund is less than the Debt Service Reserve Fund Requirement, then (i) on or before the last day of each month, after making all prior required transfers from the Revenue Fund, there shall be transferred to the Debt Service Reserve Fund from the Revenue Fund amounts sufficient to reestablish the Debt Service Reserve Fund Requirement within a period of no more than twelve (12) months and (ii) to the extent necessary, the Customer Facility Charge shall be increased by the City as required in order to produce amounts in the Debt Service Reserve Fund that are sufficient to make such transfers.

Surety Policy. As described above, the City acquired a Debt Service Reserve Fund Surety Policy from Financial Guaranty Insurance Company (“FGIC”) in connection with the issuance of the Series 2001 Bonds. Pursuant to a Reinsurance Agreement between FGIC and MBIA Insurance Corporation (“MBIA”) effective September 30, 2008, MBIA agreed to reinsure certain FGIC policies, including the policy relating to Series 2001 Bonds. MBIA subsequently assigned its rights and obligations under such Reinsurance Agreement to National Public Finance Guarantee Corporation (f/k/a MBIA Insurance Corporation of Illinois and referred to herein as “National”). The Debt Service Reserve Fund Surety Policy unconditionally guarantees the payment of principal and interest to be paid from the Debt Service Reserve Fund for the Special Facilities Bonds, provided that the aggregate amount paid under the Surety Policy may not exceed the maximum stated amount set forth in the Surety Policy,

which is \$12,677,000. See APPENDIX E – DESCRIPTION OF DEBT SERVICE RESERVE FUND SURETY POLICY PROVIDER.

The Surety Policy is non-cancelable and the premium was fully paid at the time of delivery of the Series 2001 Bonds. The Surety Policy covers transfers (in an amount not to exceed the maximum stated amount of the Surety Policy) from the Debt Service Reserve Fund to the Debt Service Fund for failure to pay: (i) principal of the Special Facilities Bonds on their respective stated maturity dates, or dates on which the same shall have been called for mandatory sinking fund redemption, and not on any other date on which the Special Facilities Bonds may have been accelerated; and (ii) an installment of interest on the stated date for its payment. The Surety Policy terminates on January 1, 2028. See “INVESTMENT CONSIDERATIONS – Financial Guaranty Industry.” The City cannot provide any assurance as to National’s financial ability to honor any requests for advances under the Debt Service Reserve Fund Surety Policy. See APPENDIX E – DESCRIPTION OF DEBT SERVICE RESERVE FUND SURETY POLICY PROVIDER.

Coverage Fund. The Trust Indenture establishes a Coverage Fund, which initially was funded with Series 2001 Bond proceeds. As of June 30, 2014, there is a balance in the amount of \$3,169,143 in the Coverage Fund, which amount is equal to 25% of the Maximum Annual Debt Service Requirement for the outstanding Special Facilities Bonds (the “Coverage Fund Requirement”). The amount in the Coverage Fund is required to be maintained in an amount not less than the Coverage Fund Requirement. The Trust Indenture also requires that after the Trustee has made all prior transfers from the Revenue Fund, on or before the last Business Day of each month there shall be transferred from the Revenue Fund to the Coverage Fund (i) in the first month of each calendar year, to the extent available in the Revenue Fund, an amount equal to the Coverage Fund Requirement and (ii) if required, in each succeeding month, an amount equal to one-twelfth (1/12) of the Coverage Fund Requirement until the Coverage Fund Requirement has been reestablished in the Coverage Fund. Amounts in the Coverage Fund shall be transferred to the Debt Service Fund to the extent required to pay principal of and interest on Special Facilities Bonds as they become due and payable. See “THE TRUST INDENTURE – Flow of Funds” below.

Administrative Costs Fund. The Trust Indenture establishes an Administrative Costs Fund. On or before the last Business Day of each month, after making all prior transfers from the Revenue Fund, an amount equal to one-twelfth (1/12) of the Administrative Costs Requirement for the ensuing calendar year shall be transferred from the Revenue Fund to the Administrative Costs Fund. Amounts on deposit in the Administrative Costs Fund are applied to pay, upon requisition by the Trustee, its fees and any other administrative fees required or contemplated by the Trust Indenture, and, upon written requisition to the Trustee by the Independent Rate Consultant, auditor, bookkeeper or any other Person whose costs constitute an Administrative Cost Requirement, the fees of such Independent Rate Consultant, auditor, bookkeeper or other Person.

Facility Improvement Fund. The Trust Indenture also establishes a Facility Improvement Fund. On or before the last Business Day of each month, after making all prior transfers from the Revenue Fund, any remaining amounts in the Revenue Fund shall be transferred to the Facility Improvement Fund. Amounts in the Facility Improvement Fund, if any, may be used for any of the following purposes, including the establishment of reserves for such purposes: (i) upon written direction of the City to the Trustee (upon which the Trustee may rely without investigation or inquiry) and after City consultation with the Operators, to pay for the cost of any capital expenditures arising in connection with improvements, expansions, replacements or capital repairs of the Special Facilities as provided in the Master Lease; (ii) upon direction of the City and after consultation with the Operators, to pay relocation or reallocation costs as a result of space reallocations required by the Master Lease, including costs and expenses of signage and new roadway connections and ramps resulting from such reallocation; (iii) upon direction of the City, to make transfers to the Revenue Fund in order to satisfy the Rate Covenant; (iv) to make transfers to the Debt Service Fund to prevent a default in the payment of principal of or interest on the Special Facilities Bonds; and (v) upon direction of the City and after consultation with the Operators, to establish a CFC Stabilization Account, which may be funded only with amounts accumulated in the Facility Improvement Fund as a result of Customer Facility Charge collections over and above the amounts necessary to pay 100% of current annual debt service requirements on the Series 2014 Bonds, to pay current Administrative Costs or to replenish any other fund. Amounts in the CFC Stabilization Account may, at the direction of the City, be transferred to the Revenue Fund in order to avoid or delay changes in the Customer Facility Charge, and thereby stabilize the CFC.

## Schedule 2: Pledged Funds Account Balances

As of June 30, 2014, amounts on deposit in the Pledged Funds accounts are as follows:

<u>Fund</u>	<u>Fund Balance</u>
Revenue Fund.....	\$ 1,707,369.75
Debt Service Fund.....	4,694,354.69
Debt Service Reserve Fund .....	12,677,000.00*
Coverage Fund .....	3,169,143.00
Administrative Costs Fund .....	41,950.00
Facility Improvement Fund .....	28,478,843.47
CFC Stabilization Account.....	300,000.00
TOTAL.....	<u>\$51,068,660.91</u>

\*The Debt Service Reserve Fund Requirement is satisfied by the Surety Policy.

Source: Houston Airport System.

## THE TRUST INDENTURE

### Flow of Funds

All revenues and funds under the Trust Indenture are required to be deposited as follows:

1. All Special Facilities Rent remitted by the Operators to the Trustee is to be deposited upon receipt to the Revenue Fund.
2. Except as otherwise provided in the Trust Indenture, on or before the last Business Day of each month, the Trustee is required to transfer moneys then credited to the Revenue Fund in the following order of priority:
  - a. First, to the Debt Service Fund, an amount sufficient to accumulate, in approximately equal monthly installments, the amounts necessary to pay all interest scheduled to be payable on the next Interest Payment Date and all principal scheduled to be paid within the next twelve month period; and prior to each Interest Payment Date or other date on which principal on Special Facilities Bonds is payable, any additional amounts necessary to increase the balance in the Debt Service Fund to be sufficient to make such payments;
  - b. Second, in the event that the balance in the Debt Service Reserve Fund is less than the Reserve Fund Requirement, (i) to the Debt Service Reserve Fund to reimburse the provider of the Surety Policy for any amounts advanced under the Surety Policy or sufficient to reestablish the Debt Service Reserve Fund Requirement within a period of no more than twelve (12) months;
  - c. Third, to the Coverage Fund (i) in the first month of each calendar year to the extent available in the Revenue Fund, an amount equal to the Coverage Fund Requirement and (ii) if required, in each succeeding month, an amount equal to one-twelfth (1/12) of the Coverage Fund Requirement until the Coverage Fund Requirement has been reestablished in the Coverage Fund;
  - d. Fourth, to the Administrative Costs Fund an amount equal to one-twelfth (1/12) of the Administrative Costs Fund Requirement for the ensuing calendar year; and
  - e. Fifth, after making all prior transfers from the Revenue Fund, the Trustee shall transfer all remaining moneys to the Facility Improvement Fund.

For a more detailed description of the application of the monies in the Debt Service Fund, Debt Service Reserve Fund, Coverage Fund, Administrative Costs Fund and Facility Improvement Fund, see “SECURITY FOR THE SERIES 2014 BONDS – Pledged Revenues and Pledged Funds – *Pledged Funds*.”

### **Additional Bonds and Refunding Bonds**

The City may issue one or more series of Additional Bonds with respect to the Project secured under the Trust Indenture on a parity with the Series 2001 Bonds, the Series 2014 Bonds and any other series of Additional Bonds and Refunding Bonds; provided, however, that no such bonds may be issued unless certain requirements are satisfied, including the following:

1. Execution by the City and the Trustee of a supplement to the Trust Indenture providing for the issuance of such bonds;
2. Execution by the Director of a certificate concerning the valid issuance of such bonds, and the LLC’s obligations to make payments under, the Master Lease to secure such Additional Bonds;
3. Either:
  - (i) Certification by the City Controller that the Pledged Revenues for the prior calendar year or for any twelve (12) consecutive months out of the prior eighteen (18) months were equal to at least 125% of the Maximum Annual Debt Service Requirements on the Special Facilities Bonds outstanding after the issuance of such series of Additional Bonds; or
  - (ii) Certification by the Feasibility Consultant that the Pledged Revenues estimated to be received in the three (3) consecutive calendar years following the exhaustion of capitalized interest in any series of such Additional Bonds will in each year be not less than 125% of the debt service in such calendar year on all Special Facilities Bonds outstanding after issuance of such Additional Bonds; or
  - (iii) In the event such Additional Bonds are being issued for the purpose of completing the Project or any subsequent Special Facilities for which Additional Bonds are issued, such series of completion bonds are issued in amounts not to exceed 15% of the series of bonds that were originally issued for such Project or Special Facilities; or
  - (iv) In the event Refunding Bonds are issued, certification by the City that either (A) debt service will not increase in any calendar year following such issuance, (B) net present value savings will be realized or (C) such issuance is in the City’s best interests and has been approved by the bond insurer for the Series 2001 Bonds (the “Series 2001 Bond Insurer”); and

No Refunding Bonds may be issued that create a lien on Pledged Revenues prior and superior to any Special Facilities Bonds outstanding after such issuance.

The City has also reserved the right under the Trust Indenture to issue, for any lawful purpose, bonds, notes or other obligations secured in whole or in part by liens on Pledged Revenues that are junior and subordinate to the lien on the Pledged Revenues securing the Special Facilities Bonds.

### **Bondholders’ Remedies**

The Trust Indenture provides that an Event of Default shall have occurred under the Trust Indenture if (i) the City defaults in the payment of principal of or interest on any Special Facilities Bonds, including the Series 2014 Bonds, or (ii) the City fails, refuses or neglects to enforce payment of the Special Facilities Rent under the Master Lease, the imposition, collection or remittance to the Trustee of the Customer Facility Charges, or otherwise

fails, refuses or neglects to enforce any other provisions of the Master Lease in a manner that materially adversely affects the holders of the Special Facilities Bonds, and with a continuation thereof for a period of thirty (30) days after notice of such failure has been given to the City and the Operators by the Trustee, or (iii) the City defaults in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Special Facilities Bonds or in the Trust Indenture, and such default continues for thirty (30) days after notice of such failure has been given to the City and the Operators by the Trustee.

Upon the happening and continuation of any Event of Default as provided in the Trust Indenture, the Trustee may, and upon the written request of the Holders of not less than 50% of the aggregate principal amount of the Special Facilities Bonds then Outstanding and upon indemnification as provided in the Original Trust Indenture, but subject to the provisions of the Original Trust Indenture relating to the bond insurance policy for the Series 2001 Bonds, proceed against the City and/or the Operators for the purpose of protecting and enforcing the rights of the Holders of Bonds under the Trust Indenture, by mandamus or other suit, action or special proceeding in equity or at law, in any court of competent jurisdiction, for any relief permitted by law, including the specific performance of any covenant or agreement contained in the Trust Indenture, or thereby to enjoin any act or thing which may be unlawful or in violation of any right of the Holders of the Special Facilities Bonds or any combination of such remedies as the Trustee shall deem most effectual to protect and enforce any of its rights or the rights of the Holders of the Series 2014 Bonds. The Trust Indenture does not expressly provide any right for the Trustee or the Holders to accelerate payment of the Special Facilities Bonds.

### **Enforcement of Master Lease**

In the Trust Indenture, the City covenants to take all actions required on its part to keep the Master Lease in effect in accordance with its terms and to use its best efforts to require the Operators to perform and discharge each and all of its duties and obligations thereunder.

### **Amendments to Trust Indenture**

***Supplemental Indentures Not Requiring Consent of Holders.*** Subject to the specific provisions of the Trust Indenture relating to the Series 2001 Bond Insurer, the City and the Trustee may, without the consent of, or notice to, the Holders of the Special Facilities Bonds, enter into a supplemental trust indenture for any of the following purposes: (i) to cure any ambiguity, defect, omission or inconsistent provision; (ii) to grant upon the Trustee for the benefit of the Holders any additional rights, remedies, powers or authority; (iii) to add to the covenants and agreements of the City or the conditions or restrictions on the City, or to surrender or eliminate any right or power of the City under the Trust Indenture; (iv) to subject additional revenues, properties or collateral to the lien and pledge of the Trust Indenture; (v) to provide for the issuance of Additional Bonds or Refunding Bonds; (vi) to provide for the issuance of subordinate lien bonds; (vii) to make any other change unless in the judgment of the Trustee and based upon an opinion of counsel, would materially adversely affect the interests of the Trustee or the Holders of Special Facilities Bonds; and (viii) to comply with state or federal securities law.

***Supplemental Indentures Requiring Consent of Holders.*** Subject to the specific provisions of the Trust Indenture relating to the Series 2001 Bond Insurer, the City and the Trustee may enter into a supplemental trust indenture for purposes not described in the preceding paragraph only with the written consent of the Series 2001 Bond Insurer and the Holders of not less than 50% of the outstanding principal amount of Special Facilities Bonds; provided, however, that no supplemental indenture may (i) extend the maturity of any Special Facilities Bonds; (ii) reduce the principal amount of any Special Facilities Bonds, the rate of interest thereon or the redemption premium payable thereon; (iii) except in connection with the issuance of Additional Bonds and Refunding Bonds, create a lien upon or pledge of any Pledged Revenues superior to or on parity with the lien and pledge of the Special Facilities Bonds; (iv) reduce the principal amount of Special Facilities Bonds required for consent to amendments to the Trust Indenture; or (v) establish priorities among Special Facilities Bonds; or (vi) without the consent of all Holders of Special Facilities Bonds affected thereby, reduce the aggregate principal amount of Special Facilities Bonds required for consent to other changes in the Trust Indenture.

## DEBT SERVICE SCHEDULE

The following table sets forth, for each calendar year ending December 31, the debt service amounts for the Special Facilities Bonds after the issuance of the Series 2014 Bonds and the refunding of the Refunded Bonds.

Period Ending	Series 2001 Debt Service	Less Refunded Series 2001 Debt Service	THE SERIES 2014 BONDS			Aggregate Special Facilities Bonds Debt Service
			Principal	Interest	Total	
12/31/2015	\$ 11,138,433	\$ 6,447,305	\$ 4,355,000	\$ 575,752	\$ 4,930,752	\$ 9,621,880
12/31/2016	11,250,697	6,559,569	5,160,000	671,927	5,831,927	10,523,055
12/31/2017	11,360,747	6,669,619	5,305,000	618,458	5,923,458	10,614,586
12/31/2018	11,473,534	6,782,406	5,490,000	531,488	6,021,488	10,712,616
12/31/2019	11,591,384	6,900,256	5,715,000	412,714	6,127,714	10,818,842
12/31/2020	11,706,624	7,015,496	5,960,000	266,461	6,226,461	10,917,589
12/31/2021	11,821,578	7,130,450	6,240,000	93,194	6,333,194	11,024,322
12/31/2022	11,937,956					11,937,956
12/31/2023	12,058,908					12,058,908
12/31/2024	12,177,904					12,177,904
12/31/2025	12,301,504					12,301,504
12/31/2026	12,425,924					12,425,924
12/31/2027	12,547,380					12,547,380
12/31/2028	12,676,572					12,676,572
	<u>\$166,469,146</u>	<u>\$47,505,102</u>	<u>\$38,225,000</u>	<u>\$3,169,994</u>	<u>\$41,394,994</u>	<u>\$160,359,038</u>

## THE RENTAL CAR COMPANIES

### The Operators

The Operators are parties to separate Automobile Rental Concession Agreements (the “Concession Agreements”) with the City and the Master Lease with the City. The Operators that use and occupy the Project and collect and remit Customer Facility Charges are: Simply Wheelz, LLC, d/b/a Advantage Rent-A-Car (“Advantage”); EAN Holdings, LLC, d/b/a Alamo Rent-A-Car (“Alamo”), Enterprise Rent-a-Car Leasing Company of Houston (“Enterprise”) and National Car Rental (“National”); Avis Rent A Car System, Inc. (“Avis”); Budget Rent a Car Systems, Inc. (“Budget”); DTG Operations, Inc., d/b/a Dollar Rent A Car Systems, Inc. (“Dollar”) and Thrifty Car Rental (“Thrifty”); and The Hertz Corporation (“Hertz”).

No single Operator has had a market share of greater than 25% based on the last five years’ worth of Transaction Day data.

On August 26, 2012, Hertz Global Holdings and Dollar Thrifty Automotive Group (DTAG) announced that they had agreed to the purchase of DTAG by Hertz. This transaction closed on November 20, 2012. Separately, as part of obtaining approval from the Federal Trade Commission for the purchase of DTAG, Hertz announced that it had agreed to sell Advantage Rent-a-Car to Franchise Services of North America, Inc. and Macquarie Capital. Franchise Services owns and primarily licenses the U-Save car rental brand. This transaction closed in December 2012.

Advantage filed for bankruptcy protection on November 5, 2013. The bankruptcy court has allowed Advantage to pay all of its pre-petition airport fees, including concession fees and CFCs. Advantage is in the process of selling the company to an investment group and expects to conclude the sale in 2014. Through May 2014, Advantage has continued to submit CFC collection deposits. During calendar year 2013, Advantage accounted for 2.6% of total CFC revenues generated at the Airport.

## **Master Lease**

Under the Master Lease, each Operator is required to collect from customers renting a motor vehicle at the Project the Customer Facility Charge and remit Customer Facility Charge revenues to the Trustee no later than the 20th day of the month following the month of collection. In addition, under the Master Lease, each Operator was granted the right to lease and rent from the City its respective allocated portion of the Special Facilities, the ground upon which such Special Facilities are located and the Special Facilities' common areas and is obligated to pay to the City ground rental payments and restricted use fees. Such ground rental payments and restricted use fees are not pledged as security for the Special Facilities Bonds. The Operators are required to cause the LLC to carry out all obligations to operate, maintain and repair the Project, other than the Maintenance/Storage Facilities, the Exclusive Space and the Exclusive Use Ground Lease Area. See APPENDIX A – SELECTED PROVISIONS OF THE MASTER LEASE.

**The Operators have not guaranteed payment of principal of or interest on the Special Facilities Bonds and no Operator property or revenues are pledged as security therefor. In addition, the Operators have not guaranteed the collection or payment of the Customer Facility Charge from persons to whom it is charged; they are only obligated to remit the Customer Facility Charges actually collected.**

## **Concession Agreements**

Under each Concession Agreement, each Operator has been granted the right to operate a concession for the rental of motor vehicles to the public at the Airport and is required to pay to the Airport concession privilege fees. The term of each Concession Agreement is equal to the later of the term of any Special Facilities Bond or June 30, 2027. **No part of such concession fees are pledged as security for the Special Facilities Bonds. See “LITIGATION – Dispute with Operators Regarding Pre-Paid Fuel Charges.”**

The Airport may in the future grant to additional rental car companies the right to operate at the Airport and use and occupy the Project on terms substantially identical to the Concession Agreements and Master Lease, requiring such companies to collect and remit Customer Facility Charges from their rental car customers.

## **Operation and Maintenance**

The Operators formed and are all members of the LLC. The LLC contracts with third parties to operate and maintain the Customer Service Building, the Parking Structure, the Shuttle Buses, the Shuttle Bus Maintenance Facility and certain grounds on which the Project is located. Each of the Operators is required to pay its share of the operation and maintenance costs pursuant to the allocation formulas established in the Master Lease and the Operating Agreement of the LLC.

## **REPORT OF THE INDEPENDENT RATE CONSULTANT**

Roger H. Bates, Airport Consultant (the “Independent Rate Consultant”), prepared the report, “2014 Annual Rate Report – Consolidated Rental Car Facility (the “2014 Rate Report”) for the Project, dated December 31, 2013, for Calendar Year 2013. In accordance with the Trust Indenture, the 2014 Rate Report includes, among other required information, the recommended CFC for Calendar Year 2014, which is \$4.00. See APPENDIX F – REPORT OF THE INDEPENDENT RATE CONSULTANT. The 2014 Rate Report should be read in its entirety for an understanding of the scope of the work performed and the assumptions underlying the CFC rate analysis.

According to the 2014 Rate Report, Houston Airport System records show that passenger originations at the Airport for the period January-October 2013 decreased 0.8%, as compared to the same period in 2012; however the Houston Airport System has determined that there were errors in the reporting of United's passenger originations in the immediate aftermath of its merger with Continental, in which all of United's passengers (originating and connecting) were reported as originating passengers. CFC revenues for the period January-October 2013 increased 6.2% (\$859,226), as compared to the same period in 2012, and 9.4% (\$1.258 million) against the December 2012 projection, in spite of the CFC rate reduction from \$4.25 per transaction day to \$4.00 put in place on April 1, 2013. Rental car Transaction Days for the period January-October 2013 increased 7.9% (255,036 days), as compared to

the same period in 2012, reflecting the combined effect of the increase in passenger originations and an increase in the propensity of originating passengers to rent cars.

The Houston Airport System reduced the CFC rate from \$4.25 to \$4.00, effective April 1, 2013. However, certain of the Operators did not adjust the CFC rate and continued to charge and collect the \$4.25 rate throughout the year. The 2014 Rate Report projects total CFC revenues of \$17,136,000 and CFC collections of \$17,100,000 in 2013, a 1% decrease from 2013 projections. These projections also assume a 2% increase in monthly transaction days per originating passenger, a 1% increase in passenger enplanements, and that originating passengers will account for 47.5% of passenger enplanements. The 2014 Rate Report states that the \$4.00 CFC rate is (i) projected to generate Pledged Revenues of 1.80x annual debt service requirements on the Special Facilities Bonds in 2014 and (ii) sufficient to allow for continued monthly transfers to the Facility Improvement Fund to accumulate additional reserves for future capital needs. Therefore, the Independent Rate Consultant concurred with the Airport System's decision to keep the current \$4.00 CFC rate in effect for 2014.

The Houston Airport System and the Operators have identified several capital improvement projects for the Project during 2014 and 2015. The total cost of capital projects for the Project is expected to be \$1,431,000 in 2014 and \$5,771,000 in 2015. The Houston Airport System will be replacing all of the existing shuttle buses (25), as well as adding three additional buses. The buses have been ordered and are expected to be delivered in late 2014 at an estimated total cost of \$10,846,752. The projected transfer to the Facility Improvement Fund in 2014 is \$5,798,000 and the projected balance at the end of 2014 is \$20.5 million (when approximately two-thirds of the current capital program will have been completed).

## **THE PROJECT**

### **General Description**

The Project is located on an approximately 250-acre site on the Airport property, immediately east of JFK Boulevard approximately one mile south of the terminals. The Project consolidates all customer service, fleet maintenance and shuttle bus operations into a single location. Specifically, the Project includes (i) an approximately 70,000 square foot customer service building (the "Customer Service Building") featuring mini-mall store fronts/counter areas, common areas and office areas for the Operators; (ii) an approximately 1.6 million square foot two-level parking structure (the "Parking Structure"), the upper level of which is covered by a roof, which is sized for approximately 4,650 ready/return parking spaces for rental cars and which surrounds the Customer Service Building; (iii) individual exclusive use service areas ("Maintenance/Storage Use Facilities") for each of the Operators, featuring wash racks, indoor vehicle maintenance facilities, fuel dispensing facilities, fuel storage facilities, overflow parking areas and administrative offices, which facilities are located apart from the Customer Service Building and Parking Structure; (iv) a fleet of 25 40-foot long buses (the "Shuttle Buses") for transporting rental car customers between the Airport's terminals and the Customer Service Building, supported by a bus maintenance facility ("Shuttle Bus Maintenance Facility") consisting of three buildings containing approximately 20,000 square feet in total area, with maintenance bays and administrative offices, and located on an approximately 4.2-acre site to the northeast of the Customer Service Building; and (v) certain infrastructure improvements, including landscaping, roadways, parking structure ramps, utilities, fencing, signage, drainage and a dedicated bus fly-over ramp (collectively, the "Infrastructure"). As of the date of this Official Statement, eight Operators have executed Concession Agreements and the Master Lease, giving them the right to conduct rental car operations and occupy and use the Project.

## **THE CITY**

### **Governmental Structure**

The City has a mayor-council form of government in which the Mayor and the sixteen-member City Council serve as the legislative body. Eleven council members are elected by district and five council members are elected at-large. The Mayor, all members of the City Council and the City Controller are elected for two-year terms.



The present term of office for all elected officials expires in January 2016. The City Charter limits the terms of office for all elected City officials to three, two-year terms.

The Mayor is the City's chief executive officer. The Mayor exercises administrative control over the City's government; presides over City Council meetings; establishes the City Council agenda; and appoints the heads of the various departments of the City, subject to confirmation by the City Council. The Mayor also is responsible for preparing and submitting the City's annual budget proposals to the City Council for adoption.

The City Controller is the City's chief financial officer. The Office of the City Controller superintends, supervises, manages and conducts the fiscal affairs of the City; maintains the books of accounts; prepares financial statements; conducts the sales of City obligations; certifies the availability of funds before the City incurs any financial obligation; and, along with the Mayor, countersigns all warrants, contracts or orders for payment of any money by the City.

The City assumes no responsibility for and makes no representations or warranties as to the matters contained in this Official Statement under the captions "THE RENTAL CAR COMPANIES," "REPORT OF THE INDEPENDENT RATE CONSULTANT," "MATERIAL UNITED STATES FEDERAL INCOME TAX MATTERS," APPENDIX C – FORM OF CO-BOND COUNSEL OPINION, APPENDIX D – DEPOSITORY TRUST COMPANY, APPENDIX E – DESCRIPTION OF DEBT SERVICE RESERVE FUND SURETY POLICY PROVIDER and APPENDIX F – REPORT OF THE INDEPENDENT RATE CONSULTANT and, with respect to any person or entity under the caption "LITIGATION," other than that information set forth therein concerning the City.

## **THE HOUSTON AIRPORT SYSTEM**

The information included under this section has been provided by the City and has not been independently verified by the Operators, the Underwriters or the Co-Financial Advisors, and none of the Operators, the Underwriters or the Co-Financial Advisors makes any representation or warranty, express or implied, as to the accuracy or completeness of such information.

### **General**

The Houston Airport System is a department of the City of Houston. It currently operates three airports: the Airport, Hobby and Ellington. The Airport is the nation's 12<sup>th</sup> largest airport (as measured by passenger traffic in calendar year 2013) and is classified as a "large hub airport" by the FAA. It serves as a primary connecting point in the national air transportation system and is the largest operating hub for United Airlines ("United"). Hobby is the nation's 32<sup>nd</sup> largest airport (as measured by passenger traffic in calendar year 2013) and is currently used by many lower cost airlines. Southwest Airlines ("Southwest") is Hobby's largest scheduled passenger airline. Ellington ceased commercial passenger service in September 2004 and is currently used for general aviation, military, Coast Guard and NASA activities.

The Houston Airport System has a five-year capital improvement program, which was approved by the City Council of the City on July 9, 2014 and calls for \$1.211 billion of spending through fiscal year 2019. The spending primarily consists of taxiway reconstruction in the airfield, terminal improvement/renovation projects and a parking garage. The majority of the spending will be concentrated at George Bush Intercontinental Airport, although the parking garage will be located at Hobby. An updated CIP is approved annually by the Houston City Council as part of each new fiscal year.

### **Houston Airport System Facilities**

#### ***George Bush Intercontinental Airport/Houston***

The Airport is situated on 10,000 acres of land approximately 22 miles north of downtown Houston. The airport opened in 1969 and is the Houston area's largest commercial airport. The Airport's facilities consist of five terminal buildings (i.e., Terminals A, B, C, D and E) with a total of 129 aircraft gates, 21 hardstand aircraft parking

positions and space for additional aircraft operations. The Airport has public parking for more than 23,000 automobiles in multi-story garages and surface lots, an automated underground train system connecting the five terminals and the Marriott Hotel located at the Airport, an above-ground level automated people mover system (“APM”) connecting all five terminals and a central federal customs and immigration inspection services building (the “Central FIS Facility”).

Terminal A contains 19 aircraft gates and seven hardstand aircraft parking positions and is used by various airlines primarily for domestic aircraft operations. Terminal B, containing 46 aircraft gates and 14 hardstand aircraft parking positions, is used principally by United as the base of its regional jet operations at the Airport. Terminal C, containing 29 aircraft gates, primarily serves United’s domestic mainline operations. Various airlines (including, to some extent, United) operate primarily international operations out of Terminal D, which contains 12 aircraft gates. Terminal E, containing 23 gates, is used primarily by United and accommodates most of United’s international flight operations, as well as many of United’s domestic flight operations. The Central FIS Facility is located adjacent to Terminal D and Terminal E and has the capacity to process 4,500 arriving international passengers per hour.

United and the City are currently in discussions regarding United’s potential construction of a new two-story concourse building to be located on the north side of Terminal B, anticipated to support 11 aircraft gates with jet bridge loading (“Terminal B Phase II”). The Terminal B Phase II redevelopment is, among other things, anticipated to replace the 14 existing hardstand aircraft parking positions in the existing Terminal B North and is expected to take two years, from the commencement of construction, to complete.

In June 2014, the City approved a funding and phasing plan that lays out the path for a new international terminal building at the Airport. The new facility would replace the existing Mickey Leland International Terminal Building (Terminal D) and would be constructed in the same location as the existing structure. The Terminal D redevelopment is expected to take multiple years to complete, and will include, among other things, an increase in the number of wide-body aircraft gates at Terminal D and will be designed to enhance international service to and from the City.

The Airport has five runways interconnected by a system of taxiways. One of the runways is 12,000 feet, two are 10,000 feet and the remaining two are at least 9,000 feet each. The runways are equipped with instrument landing systems, lighting systems and other navigational aids and are configured to permit the simultaneous use of three runways for aircraft landings in poor visibility.

The Airport complex also includes multiple air cargo buildings, fuel farms and a consolidated rental car facility. Two fixed base operators provide airline, corporate and general aviation aircraft operations support. The Marriott Hotel is located between Terminal B and Terminal C. United and ExpressJet Airlines maintain hangar and maintenance facilities at the Airport.

The Marriott Hotel at the Airport opened in 1972 and was expanded to 565 guest-rooms in 1982. It is owned by the City, subject to a lease that was recently extended to 2043 and includes a commitment from Marriott to invest nearly \$41 million in renovations over the next ten years. Other City-owned facilities at the Airport include three cargo buildings and an office building occupied by the Houston Airport System. Two air carriers, two fixed base operators and a number of private corporations maintain hangar and maintenance facilities and air cargo office and warehouse facilities at the Airport.

According to the Airports Council International, an airport industry group, the Airport ranked 12<sup>th</sup> among U.S. airports, based on total U.S. passenger traffic for calendar year 2013. During calendar year 2013, total passengers decreased by 0.2% at the Airport, with international passenger growth up 2.5%, both versus calendar year 2012.

United is the Airport’s primary air carrier. United and its regional partners, collectively, accounted for approximately 84% of total passengers at the Airport in calendar year 2013, a slight decline from 85.4% in 2012.



*George Bush Intercontinental Airport/Houston*

**Airlines Utilizing the Airport.** The table below shows the passenger airlines that provide scheduled service as of May 2014 from the Airport.

<b>Mainline Carriers</b>	<b>Regional Carriers</b>	<b>Cargo Carriers</b>
AeroMexico	Envoy (formerly American Eagle)	Air France Cargo
Air Canada	Atlantic Southeast	BAX Global (Air Transport International)
Air China	Compass	British Airways Cargo
Air France	ExpressJet	CargoLux
Alaska Airlines	Endeavor (formerly Pinnacle)	Cathay Pacific Cargo
American Airlines	Republic	China Airlines Cargo
British Airways	Shuttle America	Federal Express
Delta Air Lines	SkyWest	Lufthansa Cargo
Emirates Airlines	Sun Air	Qatar Airways Cargo
Frontier Airlines	Chautaugua	Saudi Arabian Cargo
KLM Royal Dutch Airlines	Comair	UPS
Korean Air	Mesa	ABX Air
Lufthansa	Trans States	Emirates SkyCargo
Qatar Airways		Martinaire Aviation, LLC
Singapore Airlines		
Spirit Airlines		
Avianca (formerly TACA)		
Turkish Airlines		
United Airlines		
US Airways		
Viva Aerobus		

Source: Houston Airport System

### Schedule 3: Passenger Statistics

Schedule 3 shows total passengers at the Airport over the most recent five fiscal years and the first eleven months of FY 2014. The Airport has experienced significant growth in international passengers, but a decline in the number of domestic passengers during this period.

	Intercontinental Airport Total Passengers (in thousands)					
	Jul-May FY 2014	FY 2013	FY 2012	FY 2011	FY 2010	FY 2009
<b>Domestic Passengers</b>						
Enplanements and Deplanements	28,099	30,830	31,778	31,666	32,093	31,995
Year-over-Year Change	N/A	-3.0%	0.4%	-1.3%	0.3%	-9.1%
<b>International Passengers</b>						
Enplanements and Deplanements	8,542	8,795	8,686	8,732	8,138	7,642
Year-over-Year Change	N/A	1.3%	-0.5%	7.3%	6.5%	-4.2%
<b>Total Passengers*</b>						
Enplanements and Deplanements	36,641	39,625	40,464	40,399	40,231	39,637
Year-over-Year Change	N/A	-2.1	0.2%	0.4%	1.5%	-8.2%

\*Numbers may not total exactly due to rounding.

Source: Houston Airport System

#### Schedule 4: Total Enplaned and Connecting Passengers for the Airport

Schedule 4 shows the originating and connecting enplanements for the Airport over the most recent five fiscal years and the first eleven months of FY 2014. The percentage of originating enplanements has generally stayed within a relatively narrow range for the Airport.

	(in thousands)					
	Jul-May FY 2014	FY 2013	FY 2012	FY 2011	FY 2010	FY 2009
Originating Enplanements	8,707	9,235	9,926	9,697	9,279	9,191
Connecting Enplanements	7,550	10,249	10,249	10,509	10,855	10,681
Total Enplanements*	18,257	19,756	20,175	20,206	20,134	19,872
Originating Enplanement Percentage	47.7%	46.7%	49.2%	48.0%	46.1%	46.3%

\*Numbers may not total exactly due to rounding.

Source: Houston Airport System

#### ***Hobby Airport***

Hobby is located on 1,500 acres approximately seven miles southeast of downtown Houston. It has one terminal building with a single concourse comprised of 25 gates and over 527,000 square feet of space. Hobby has four runways in total: two runways are over 7,600 feet, one runway is 6,000 feet and the remaining runway is almost 5,150 feet. These runways can support aircraft operations up to an Airbus A320 or Boeing B757-200.

Additional facilities include 3,750 public parking spaces, rental car facilities, an underground fuel distribution system, a cargo building, several aircraft maintenance facilities and some corporate hangars. Five fixed-base operators support Hobby's significant corporate and general aviation operations. Southwest Airlines maintains a hangar at the airport.

In September 2013, the City and Southwest Airlines broke ground on a new international terminal at Hobby. The terminal project, fully funded by Southwest Airlines, includes a new five-gate international terminal, expansion of the existing security checkpoint, and upgrades to the Southwest Airlines ticketing counter area. The terminal is anticipated to open in late 2015.

#### ***Ellington Airport***

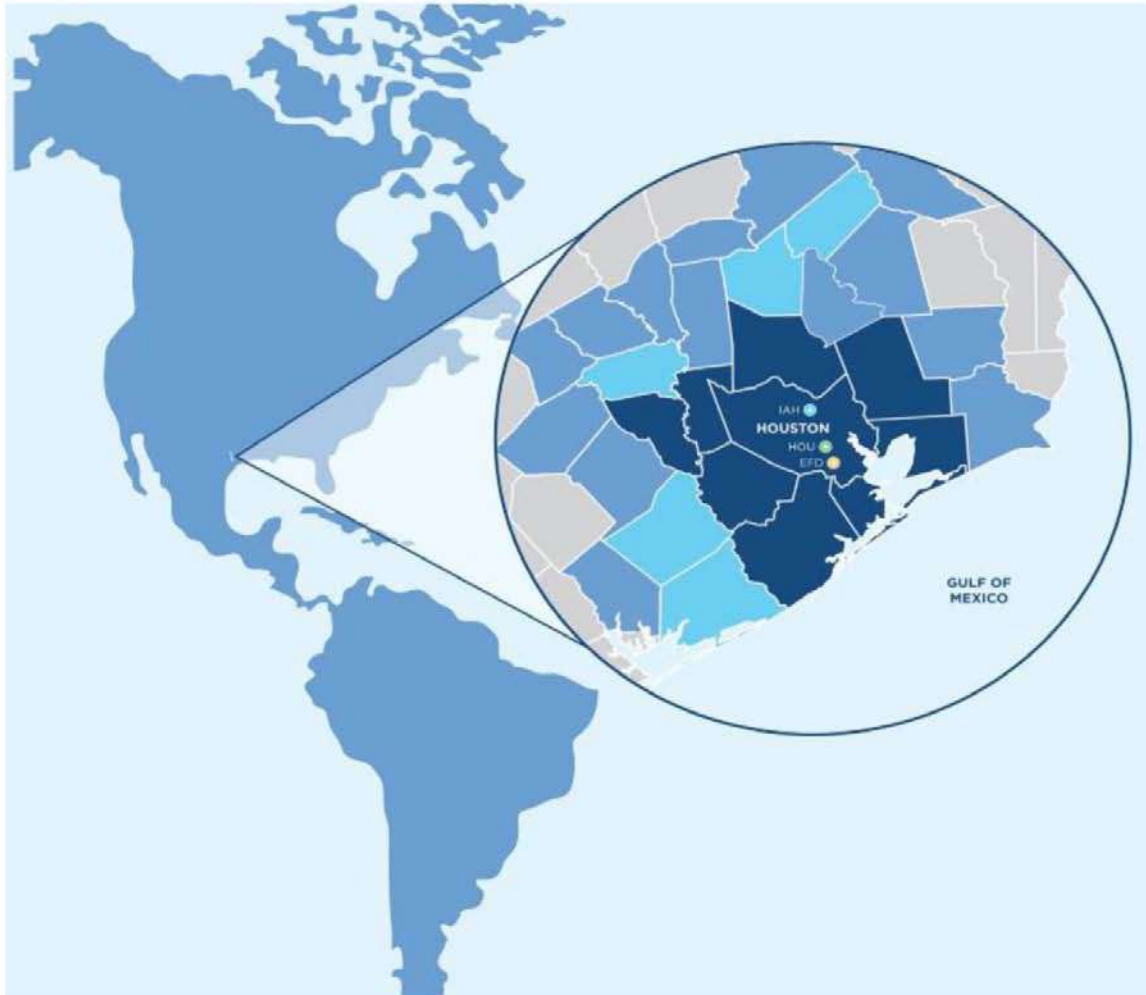
Ellington is located approximately 15 miles southeast of downtown Houston on approximately 2,000 acres. The joint use agreement with the federal government under which it operates expired in September 2007, but is currently being held over on a month-to-month basis. It has no scheduled commercial flights and its non-governmental operations are for general aviation. NASA and the Coast Guard also currently use the airport. Ellington has three runways: one is 9,000 feet, another is 8,000 feet and the third is just over 4,600 feet.



Ellington has one fixed-base operator leasing two fixed-base operating facilities, approximately 90 T-hangars and three corporate-based operators that allow it to relieve Hobby of general aviation traffic. Part of the Ellington complex is being marketed by the Houston Airport System in an effort to develop surplus land there. The Lone Star Flight Museum intends to relocate to Ellington from Galveston, Texas.

#### **Houston Airport System Service Region**

The primary service region for the Houston Airport System is the nine-county MSA of Houston-The Woodlands-Sugar Land (formerly called the Houston-Sugar Land-Baytown Metropolitan Statistical Area) and the 12-county Combined Statistical Area ("CSA") of Houston-Baytown-Huntsville. The 2012 U.S. Census population estimate for the MSA was approximately 6.2 million. The MSA and CSA contain the City of Houston, which is the nation's fourth most populous city. Harris County (the county in which the City is located) accounted for 68.9% of the MSA's population. The Houston Airport System's air service region also encompasses smaller but essential markets such as Beaumont/Port Arthur, Victoria, Brownsville and Del Rio in Texas, Lake Charles, Louisiana and many more.

# HOUSTON AIRPORT SYSTEM



	Metropolitan Statistical Area (MSA) of Houston-The Woodlands-Sugar Land, TX includes 9 counties.
	Consolidated Statistical Area (CSA) of Houston-Woodlands, TX adds Matagorda, Trinity, Walker, Washington, and Wharton counties.



As illustrated by the following chart, the MSA's population has grown consistently over the past five years:

<b>Historical Houston-The Woodlands-Sugar Land MSA<sup>(1)</sup></b>		
<b>Population Estimates*</b>		
<b>Calendar Year</b>	<b>Population Estimates (in thousands)</b>	<b>Annual % Change</b>
2013 <sup>(2)</sup>	6,313.1	2.23%
2012 <sup>(2)</sup>	6,177.0	2.07
2011 <sup>(2)</sup>	6,051.9	1.74
2010 <sup>(3)</sup>	5,948.3	1.38
2009 <sup>(3)</sup>	5,867.5	2.46

(1) As of February 28, 2011, the Office of Management and Budget (OMB) changed the name of the MSA from "Houston-Sugar Land-Baytown Metropolitan Statistical Area" to "Houston-The Woodlands-Sugar Land Metropolitan Statistical Area." This designation by the OMB delineated the Houston metropolitan area to consist of 9 counties instead of 10, dropping San Jacinto County.

(2) Source: U.S. Census Bureau.

(3) Source: City of Houston.

The development and diversity of the economic base of an airport's service region is important to airline traffic growth at the airports. This is particularly true for an economy in which the industries in the region may rely on the airports for passenger and cargo airline service. Because the region is located on the coastal plain in Southeast Texas, approximately 50 miles from the Gulf of Mexico, it is an ideal gateway to Latin America. The Airport is currently the third busiest U.S. international gateway to Latin America, behind only Miami International and New York's John F. Kennedy airports. The region also is a center for the energy, financial, medical, transportation, retail and manufacturing industries. The City has 26 Fortune 500 companies located in its metropolitan area, behind only New York City in its number of Fortune 500 companies. It is estimated that during Fiscal Year 2013 City facilities, including the George R. Brown Convention Center with its 1.2 million square feet of meeting space, hosted approximately 300 events resulting in a local economic impact of approximately \$250 million.

## Management

The Houston Airport System is categorized as an enterprise fund of the City, under the administrative control of the Mayor. The management of the Houston Airport System is the responsibility of the Director, who is appointed by the Mayor, subject to confirmation by City Council. The Director has a staff of approximately 1,500 employees. The City Controller, as the Chief Financial Officer of the City, maintains the books of accounts, prepares financial statements and co-signs, with the Mayor, all warrants, contracts and orders for payment of any public funds or money relating to the Houston Airport System.

Following is selected biographical information for certain principal administrative officers and staff of the Houston Airport System:

**Mario C. Diaz** was appointed Director of the City of Houston Department of Aviation on May 28, 2010. He is responsible for the overall management of the Houston Airport System's three aviation facilities. Prior to his appointment as Director, beginning in 1999, Mr. Diaz served as the deputy general manager for Hartsfield-Jackson Atlanta International Airport where he was responsible for the daily operational activities of the world's busiest airport, including operations, business, finance and capital development. He has been one of the industry's leading authorities in aviation technology as well as the study of future developments in commercial aviation. Prior to 1999, Diaz was the manager of business, properties and commercial development for New Jersey Airports, a post he held for four years. In this role, he managed the division responsible for all business and lease negotiations at Newark International Airport as well as the day-to-day oversight management of Teterboro Airport, one of the nation's premier general aviation airports and a major reliever airport for Newark International. Before that, Mr. Diaz served for 17 years with the Port Authority of New York and New Jersey. Beginning in 1981, Mr. Diaz held key management positions in leasing, finance, marketing, operations and properties. During this period, Mr. Diaz also



served 18 months as the assistant director of the redevelopment program at John F. Kennedy Airport. A native of Barranquitas, Puerto Rico, and a licensed private pilot with instrument certification, Mr. Diaz earned his Bachelor of Arts degree from Rutgers University in Newark, New Jersey. He also earned a Master of Business Administration in finance from Rutgers Graduate School of Business Administration in New Jersey.

**Lance Lyttle**, Chief Operating Officer, is responsible for the daily management and operation of the Houston Airport System's three aviation facilities, advising the Director on business strategy, driving operational and performance excellence (including identifying revenue and cost reduction initiatives), ensuring achievement of long-term corporate objectives, monitoring and developing team performance, and planning by prioritizing customer, employee and organizational requirements. Mr. Lyttle reports to the Director. Prior to his current position, Mr. Lyttle was the Houston Airport System's Chief Development Officer. Mr. Lyttle holds a Bachelor of Science degree in Computer Science and Physics and a Master of Science degree in Management Information Systems. Overall, he has more than 17 years' experience as an aviation executive specializing in strategic planning, business plan development and execution, information technology, and driving operational excellence.

**Jeffrey K. A. Brown** is the Chief Infrastructure Officer for the Houston Airport System. Mr. Brown is responsible for overseeing the administration of design and construction contracts, managing long-term and short-term airport projects, analyzing operations and implementing best practice policies and procedures at the Houston Airport System. He also continues his responsibilities as Assistant Director of the Project Management Office responsible for managing and reporting project progress with emphasis on scope, budget and schedule. Prior to joining the Houston Airport System, Mr. Brown served as an Engineering Design Manager for the 451<sup>st</sup> Air Expeditionary Wing (USAF) in Kandahar, Afghanistan and was the Director of Engineering for KBR in Anbar Province, Iraq. He has more than 20 years of experience in aviation planning, design and construction project management both in the civilian and military sectors. Mr. Brown received a Bachelor's degree in civil engineering from the University of West Indies, a Master's degree from Columbia University (New York) and an MBA from the City University of New York (Baruch College), and is a licensed professional engineer in the States of New York and Georgia.

**Ian N. Wadsworth** is Chief Commercial Officer of the Houston Airport System and Deputy Director of Commercial Development. He oversees the commercial activities at the Houston Airport System's three airports, including air service development, airline affairs, concessions, parking, real estate and business development. He joined the Houston Airport System in November 2008 as Deputy Director, Finance and Administration. In that position, Mr. Wadsworth was responsible for finance, properties, human resources and procurement functions. Prior to joining the Houston Airport System, Mr. Wadsworth served in various finance, planning and marketing roles over the past 15 years at American Airlines, Capital One Financial and Global Aero Logistics, the parent company of ATA Airlines, World Airways and North American Airlines. Mr. Wadsworth received a Bachelor's degree in International Affairs from George Washington University and an MBA degree in Finance from the University of Michigan Business School.

**Matt Townsend** is the Chief Financial Officer and is responsible for capital investment funding, debt management, budgeting, accounting, financial analysis, procurement and corporate services. He helps the HAS leadership team establish budgetary priorities and maintain fiscal discipline. Mr. Townsend joined the Houston Airport System after serving more than eight years as an Associate Director for Leigh Fisher, a global management consulting firm with specific expertise in advising airport-related operations. In that role, he carried out financial, economic and operational analyses for a number of airport clients, including the Houston Airport System. Mr. Townsend also produced long-range financial models and projections for four of the five busiest airports operating within the United States. He is a graduate of Texas Christian University with Bachelor of Arts degrees in English and Economics and a Master's degree in Public Policy from the University of Maryland.

**Lisa Kent** is the Chief Information Officer for the Houston Airport System. In this capacity, Ms. Kent oversees the strategic planning, development and support activities for a variety of technology systems and applications, and ensures alignment with overall Houston Airport System strategic priorities. In general, Ms. Kent seeks to enable or enhance communications and optimize business processes for all Houston Airport System business units, tenants and the 49 million passengers who utilize Houston's airports each year. Ms. Kent has 22 years of technology program and project management experience and 15 years in the aviation industry. She earned a Bachelor of Science degree in Electrical Engineering from the University of Tennessee.



**Saba Abashawl**, Chief External Affairs Officer and Deputy Director, is responsible for inter-governmental relations, industry and community affairs, international business development, communications, public and media relations, and special projects. Ms. Abashawl has been an executive for the City for more than 10 years. Prior to her current position, she was the Managing Director of Development, responsible for global commercial relations and development programs that ranged from air service expansion to aviation real estate marketing and promoting the City for corporate expansion and/or relocation. Ms. Abashawl is the City's lead liaison to the Department of Homeland Security, U.S. Customs and Border Protection, the U.S. Department of State and the U.S. Department of Commerce. Under her leadership, Houston became a Model Port of Entry and was the location for testing new procedures. From 1999 to 2004, Ms. Abashawl also served as Executive Officer for the Mayor of Houston and was responsible for international business development. She directed the City's international business development strategy along with 26 institutions, establishing Houston as the permanent Secretariat of the World Energy Cities Partnership. She previously held key positions at Houston's University of St. Thomas and Rice University. She received a Master's degree in International Finance and Business and a Bachelor's degree in Marketing from the University of St. Thomas.

**Harleen Hines Smith** is the Chief Human Resource Officer for the Houston Airport System. She is responsible for developing a culture that enables employees to perform in accordance with HAS strategic and tactical human capital objectives. She also directs the development and implementation of organizational development programs; employee orientation and training programs; talent management programs; learning management systems; benefits plans, policies, and guidelines; equal opportunity employment programs and employee records and documentation policies. Ms. Hines Smith has over twenty years of human resources management experience in the private sector. She holds a Bachelor of Science degree in Business Administration and is an experienced manager focused on strategic management and goals.

**Marie Anderson** is the Deputy Director of Corporate Strategy and Performance. Ms. Anderson is a Strategic Planning and Management professional with 13 years of public administration experience leading multiple projects and cross-functional teams through organizational assessments, strategic goals and business and support unit alignment. She joined the Houston Airport System in April 2013. Ms. Anderson was previously at NASA's Johnson Space Center as a Management and Program Analyst and has extensive experience in business planning, team-building and leadership, project scheduling and management for the Chief Financial Officer of NASA's Johnson Space Center and NASA's Strategic Opportunities and Partnership Development Office. She is certified in Lean Six Sigma Process Improvement and has helped organizations streamline their Strategic Review Process and Procurement processes. Ms. Anderson is a Certified Balanced Scorecard Professional and a member of the Association of Internal Management Consultants. She graduated from Embry-Riddle Aeronautical University with a Bachelor of Science degree in Aviation Business Administration and a Master's degree in Aeronautical Science specializing in Operations and Management.

**Carl Newman** is the General Manager for the Airport. His duties and responsibilities include the daily operations of the Airport and the development and implementation of policies and procedures. In addition, Mr. Newman coordinates the preparation, implementation and monitoring of the budget and expenditures for the Airport, among other duties. Prior to his position at the Airport, Mr. Newman served as Assistant Aviation Director at Phoenix Sky Harbor International Airport. Mr. Newman brings more than 30 years of aviation experience to Houston. He has held various leadership positions, including Deputy Aviation Director, Facilities Superintendent and Airside Operations Manager. Mr. Newman is a board member for American Association of Airport Executives (AAAE), the Chair of the Operations, Planning and Safety Subcommittee for AAAE and served as the Second Vice President of the Southwest Chapter of AAAE. He also served on the board for the Central Arizona Chapter of the National Forum for Black Public Administrators. He earned a Bachelor of Science degree in Public Administration from the University of Arizona and a Master of Aeronautical Science degree from Embry-Riddle Aeronautical University.

**Perry J. Miller**, A.A.E., General Manager for Hobby Airport, is responsible for directing the day-to-day management of Hobby, as well as for establishing policies, procedures, guidelines and project schedules for Hobby. In addition, he coordinates the preparation, implementation and monitoring of the budget and expenditures for Hobby, among other duties. Prior to his current position, Mr. Miller was briefly the Acting General Manager for the Airport. He has held a wide range of positions, including Assistant Director of Maintenance, Airport Manager for Ellington, senior superintendent, airport properties representative, airport supervisor and management analyst.

During his 20-year aviation career he has become an accredited executive of the American Association of Airport Executives. Mr. Miller obtained his Bachelor of Science degree in Airway Science-Management from Texas Southern University in 1990. He also holds a Master of Science degree in Transportation Planning and Management. Mr. Miller is a graduate of the Airport Management Professional Accreditation Program and is designated as an International Airport Professional.

**Chuck Farina**, Acting General Manager for Ellington Airport, is responsible for the day-to-day operations of the facility and the development and implementation of its policies and procedures. In addition, he coordinates the preparation, implementation, and monitoring of Ellington's budget and expenditures. Mr. Farina has been with the Houston Airport System for 20 years. He has held various positions at Ellington and Bush Intercontinental airports in the Operations, Maintenance, Emergency Planning, and Management capacities. Mr. Farina has a Bachelor of Science degree in Aviation Management. He earned his accreditation from the American Association of Airport Executives (AAAE), as well as the International Airport Professional designation from Airports Council International. Mr. Farina has also completed the ACE-Operations program from AAAE, and the Federal Emergency Management Agency's Professional Continuity Practitioner curriculum. He recently served 4 years on AAAE's Board of Examiners, the group which provides oversight and guidance of the association's accreditation program.

**Kenneth Gregg** is a Division Manager in the Finance Department for the Houston Airport System. Mr. Gregg oversees the annual development of airline rates and charges and the reconciliation of prior year's rates and charges; conducts financial planning, performs airline statistical analysis and forecasting as well as ad hoc financial analysis. He also manages the debt and treasury programs at the Houston Airport System. For over 22 years, prior to joining the Houston Airport System in March 2011, Mr. Gregg served in various operational, financial and corporate real estate roles with Continental Airlines. Mr. Gregg received a Bachelor of Science degree in Finance from the University of Houston – Clear Lake and a Master of Science degree in Finance from the Mays Business School at Texas A&M University, both while working at Continental Airlines.

## **INVESTMENT CONSIDERATIONS**

### **General**

Prospective investors should carefully review all investment considerations set forth throughout this Official Statement and should specifically consider certain investment considerations associated with the Series 2014 Bonds. There follows a discussion of some, but not necessarily all, of the possible investment considerations that should be carefully evaluated by prospective purchasers prior to purchasing any Series 2014 Bonds. The Series 2014 Bonds may not be suitable investments for all persons, and prospective purchasers should be able to evaluate the investment considerations and merits of an investment in the Series 2014 Bonds, and confer with their own legal and financial advisors before considering a purchase of the Series 2014 Bonds.

### **Future Customer Facility Charge Revenues**

The collection and remittance of Customer Facility Charges in amounts sufficient to pay debt service on the Special Facilities Bonds when due is affected by and subject to conditions that may change in the future to an extent and with effects that cannot be determined at this time. No absolute representation or assurance is given or can be made that Customer Facility Charges will be realized in amounts sufficient to pay debt service when due on any Special Facilities Bonds, including the Series 2014 Bonds.

The receipt of Customer Facility Charges is subject to, among other factors, origination and destination passenger activity levels at the Airport, the level of future rental car activity at the Airport, future economic conditions and other conditions that are impossible to predict. The future collection and remittance of Customer Facility Charges will have a direct impact upon the payment of principal of and interest on the Special Facilities Bonds.

## **Airline Industry and Airport Factors**

The factors affecting aviation activity with respect to the Airport and the resulting impact on the rental of motor vehicles at the Project include the following: United and other airlines' service and route networks; the overall financial health and viability of the airline industry; levels of disposable income; national and international economic and political conditions; the availability and price of aviation fuel; levels of air fares; the capacity of the national air traffic control system; and the capacity of the Airport and the Project.

The financial results of the airline industry have been subject to substantial volatility since deregulation of the airline industry in 1978. If United or any other airline with a lease and use agreement with the Airport were to file for protection in the future under the bankruptcy law, it (or a trustee on its behalf) would have the right to seek rejection of its lease and use agreement, which could have a negative impact on passenger activity at the Airport, the number of persons renting motor vehicles at the Project and the collection of Customer Facility Charges.

Prior bankruptcies by airlines using the Airport have resulted in reductions of service levels by particular airlines, even in cases where such airlines continued to operate in bankruptcy. Additional bankruptcies, liquidations or major restructurings of other airlines could occur. The bankruptcy of an airline with significant operations at the Airport, such as United, could have a material adverse effect on operations at the Airport, revenues and the cost to the other airlines operating at the Airport. It is uncertain how airline bankruptcies, liquidations or restructurings would affect activity at the Airport.

The financial strength and stability of United and any other airline using the Airport are key determinants of future passenger traffic and the number of available rental car customers. See "THE HOUSTON AIRPORT SYSTEM." No assurance can be given that United or any other airline will continue its operations at the Airport during the term of the Series 2014 Bonds. In the event United or any other airline discontinues or reduces its operations at the Airport, its level of activity may not be replaced by other carriers. Accordingly, although rental car activity at the Airport is not strictly a function of United's, or any other airline's, passenger activity, in particular, connecting passenger activity, no assurance can be given as to the levels of passenger activity and the rental car activity as a result thereof.

## **General Factors Affecting Air Traffic at the Airport**

There are numerous factors that affect air traffic generally and, more specifically, air traffic at the Airport. Demand for air travel is influenced by factors such as population, levels of disposable income, the nature, level and concentration of industrial and commercial activity in the service area and the price of air travel. The price of air travel is, in turn, affected by the number of airlines serving a particular airport and a particular destination, the financial condition, cost structure and hubbing strategies of the airlines serving an airport, the willingness of competing airlines to enter into an airport market, the cost of operating at an airport, the price of fuel and any operating constraints (due to capacity, environmental concerns or other related factors) limiting the frequency or timing of airport traffic within the national system or at a particular airport.

## **Competition and Alternate Modes of Transportation**

There are alternative forms of ground transportation available at the Airport (and at competing smaller airports within the Airport's vicinity), which could reduce the demand for renting motor vehicles at the Project. These alternate forms of transportation that compete with rental cars include taxis, buses, shuttle services and limousines. In addition, other airports compete with the Airport and provide commercial air passenger service to the Houston area. For a further discussion of such airports see "THE HOUSTON AIRPORT SYSTEM."

## **Assumptions in the Report of the Independent Rate Consultant**

As noted in the 2014 Rate Report, any forecast is subject to uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized, and unanticipated events and circumstances may and are likely to occur. Therefore, the actual results achieved during the forecast period will vary, and the

variations may be material. See “REPORT OF THE INDEPENDENT RATE CONSULTANT” above and APPENDIX F – REPORT OF THE INDEPENDENT RATE CONSULTANT.

### **Environmental Regulation**

The City is subject to the environmental regulations of the State and the United States. These laws and regulations are subject to change, and the City may be required to expend substantial funds to meet the requirements of such regulatory authorities. Failure to comply with these laws and regulations may result in the imposition of administrative, civil and criminal penalties.

### **Air Emissions Controls**

Air quality control measures required by the Environmental Protection Agency (“EPA”) and the Texas Commission on Environmental Quality (“TCEQ”) may adversely affect new industrial, commercial and residential development in Houston and adjacent areas. Under the Clean Air Act Amendments of 1990, the eight county Houston-Galveston-Brazoria Area (“HGB Area”) has been designated by the EPA as a non-attainment area under the EPA’s ozone standards. Such areas are required to demonstrate progress in reducing ozone concentrations each year until compliance with the EPA’s standards is achieved. To provide for annual reductions in ozone concentrations, the EPA and the TCEQ have imposed increasingly stringent limitations on emissions of volatile organic compounds and nitrogen oxides (chemical precursors of ground level ozone) from existing stationary sources of air emissions. In addition, any significant new source of those types of emissions, such as a new industrial plant, must provide for a net reduction of those air emissions by arranging or paying for reductions of emissions by 1.3 times the amount of pollutants proposed to be emitted by the new source. Even though existing air emissions controls are quite stringent, studies have indicated that even more stringent air emissions controls may be necessary in order for the HGB Area to achieve compliance with ozone standards. Due to the magnitude of air emissions reductions required as well as shortage of economically reasonable control options, the development of a successful air quality compliance plan has been and continues to be extremely challenging and will inevitably impact a wide cross-section of the business and residential community. More stringent controls on sources of air emissions in the HGB Area could make the Houston area a less attractive location to businesses in comparison to other areas of the country that are not subject to similarly stringent air emissions controls. Although air quality data indicates steady improvement in the HGB area, if it fails to meet the EPA’s standards, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects. The EPA may also impose even more stringent emissions offset requirements on new major sources of emissions for which construction has not already commenced.

Other constraints on economic growth and development include lawsuits filed under the Clean Air Act by plaintiffs seeking to require emission reduction measures that are even more stringent than those adopted by TCEQ and approved by EPA. From time to time, various plaintiff environmental organizations have filed lawsuits against TCEQ and EPA seeking to compel the early adoption of additional emission reduction measures, many of which could make it more difficult for businesses to construct or expand industrial facilities or which could result in new restrictions on the actions of businesses, governmental entities and private citizens. Any successful court challenge to the currently effective air emissions control plan could result in the imposition of even more stringent air emission controls that could threaten continued growth and development in the HGB Area.

### **Financial Guaranty Industry**

Fitch Ratings, Inc. (“Fitch”), Moody’s Investors Service, Inc. (“Moody’s”) and Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P” and, collectively with Fitch and Moody’s, the “Rating Agencies”), have each released statements on the health of the financial guaranty industry that cite financial guarantors’ exposure to subprime mortgage risk as an area of stress for the financial guaranty industry. In various releases, the Rating Agencies have each outlined the processes that they intend to follow in evaluating the effect of this risk on their respective ratings of financial guarantors. For some financial guarantors, the result of such evaluations has been or could be a rating affirmation, a change in rating outlook, a review for downgrade or a downgrade. Potential investors are directed to the Rating Agencies for additional information on their respective evaluations of the financial guaranty industry and individual financial guarantors. See APPENDIX E – DESCRIPTION OF DEBT SERVICE RESERVE FUND SURETY POLICY PROVIDER.

## **Considerations under the Bankruptcy Code**

In the event a bankruptcy case is filed with respect to an Operator, a bankruptcy court could reject the Master Lease related to such Operator, in which event such Operator would not be required to collect and remit Customer Facility Charges for a period of time. In such event, such Operator would also be in default under its Concession Agreement, permitting the Airport to cancel such agreement and remove such Operator from possession and occupancy of the Project.

## **Limitation of Remedies**

Under the terms of the Trust Indenture and the Master Lease, Events of Default are limited to such actions that may be taken at law or in equity. See APPENDIX A – SELECTED PROVISIONS OF THE MASTER LEASE – “Section 10.02 Remedies on Default,” and APPENDIX B – SELECTED PROVISIONS OF THE INDENTURE – “Section 8.2 Remedies.” No mortgage or security interest, however, has been granted or lien created to secure the remittance of Customer Facility Charges or payment of the Special Facilities Bonds. No lien has been placed on any of the physical properties comprising the Houston Airport System to secure the payment of or interest on the Special Facilities Bonds. In the event of default, the Owners of the Series 2014 Bonds have no right or claim under the laws of the State against the Houston Airport System or any property of the City other than their right to receive payment from the Pledged Revenues and Pledged Funds maintained pursuant to the Trust Indenture. Owners of the Series 2014 Bonds have no right to demand payment of principal of or interest or premium, if any, on the Series 2014 Bonds from any funds raised or to be raised by taxation or from any funds on deposit in any of the Pledged Revenues and Pledged Funds. Further, unless sovereign immunity is expressly waived by the State Legislature, local governmental immunity would be available as a defense against suits for money damages against the City or the Houston Airport System in connection with the Series 2014 Bonds. Sovereign immunity will not be waived in connection with the issuance of the Series 2014 Bonds. Accordingly, the only practical remedy in the event of a default may be a mandamus proceeding to compel the City to increase rates and charges reasonably required for the use and service of the Houston Airport System or perform its other obligations under the Trust Indenture. Such remedy may need to be enforced on a periodic basis because maturity of the Series 2014 Bonds is not subject to acceleration. In addition, the City’s ability to comply with the Rate Covenant is limited by contractual and competitive supply and demand constraints. See “SECURITY FOR THE SERIES 2014 BONDS – Pledged Revenues and Pledged Funds – *Pledged Revenues*.”

The City is also eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code (“Chapter 9”); however, Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, such as that of the Pledged Revenues. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity that has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce any other remedies available to the registered owners, other than for the pledge of Pledged Revenues securing the Series 2014 Bonds, would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it.

The enforcement of a claim for payment of principal of or interest on the Series 2014 Bonds and the City’s other obligations with respect to the Series 2014 Bonds are subject to the applicable provisions of the federal bankruptcy laws and to any other similar laws affecting the rights of creditors of political subdivisions generally.

Various State laws, constitutional provisions, and federal laws and regulations apply to the obligations created by the issuance of the Series 2014 Bonds. There can be no assurance that there will not be any change in, interpretation of or addition to the applicable laws and provisions in a manner that would have a material adverse effect, directly or indirectly, on the affairs of the City, the Airport or the Operators.

In the event of a default in the payment of principal of or interest on the Special Facilities Bonds, the remedies available to the owners of the Series 2014 Bonds upon a default are in many respects dependent upon judicial action, which is often subject to discretion and delay under existing constitutional law, statutory law and judicial decisions, including the federal Bankruptcy Code. Co-Bond Counsel’s opinion to be delivered concurrently

with delivery of the Series 2014 Bonds will be qualified as to enforceability of the various legal instruments by certain limitations, including limitations imposed by bankruptcy, reorganization, insolvency and equity principles. See APPENDIX C – FORM OF CO-BOND COUNSEL OPINION.

### **Secondary Market**

No assurance can be given concerning the existence of any secondary market in the Series 2014 Bonds or its creation or maintenance by the Underwriters. Thus, purchasers of Series 2014 Bonds should be prepared, if necessary, to hold their Bonds until their respective maturity dates.

### **VERIFICATION OF MATHEMATICAL ACCURACY**

Sufficiency of the deposit to be made on the Date of Delivery by the City with the Trustee to pay the redemption price of the Refunded Bonds on their redemption date will be verified by Grant Thornton LLP, a firm of independent certified public accountants. These computations will be based upon information and assumptions supplied by the Underwriters on behalf of the City. Grant Thornton LLP has restricted its procedures to recalculating the computations provided by the Underwriters and has not evaluated or examined the assumptions or information used in the computations.

### **RATINGS**

Moody's and Fitch have assigned the Series 2014 Bonds ratings of "A3" and "A-", respectively. A rating reflects only the views of the rating agency assigning such rating, and an explanation of the significance of such rating may be obtained from such rating agency. The City, the Houston Airport System and the Underwriters have furnished to the rating agencies certain information and materials relating to the Series 2014 Bonds and the Project, including certain information and materials that have not been included in this Official Statement. There is no assurance that any of the ratings will continue for any given period of time or that any of the ratings will not be revised downward or withdrawn entirely by any such rating agency if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of any such rating may have an adverse effect on the market price of the Series 2014 Bonds. A rating is not a recommendation to buy, sell or hold the Series 2014 Bonds.

### **LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS**

Pursuant to Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code, as amended), the Series 2014 Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries and trustees and for the sinking funds of municipalities and other political subdivisions or public agencies of the State. The Series 2014 Bonds also are generally eligible to secure deposits of any public funds of State municipalities, counties, school districts and State agencies.

The City has made no investigation of any other laws, rules, regulations or investment criteria that might affect the suitability of the Series 2014 Bonds for any of the above purposes or limit the authority of any of the above persons or entities to purchase or invest in the Series 2014 Bonds.

### **CONTINUING DISCLOSURE UNDERTAKING**

In the Trust Indenture, the City has made the following agreement for the benefit of the respective holders and beneficial owners of the Series 2014 Bonds. The City is required to observe the agreement for as long as it remains obligated to advance funds to pay the Series 2014 Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board ("MSRB") who will make such information available to the general public, without charge, through its Electronic Municipal Market Access ("EMMA") system at [www.emma.msrb.org](http://www.emma.msrb.org).

## **Annual Reports**

The City shall provide (or cause the Trustee, as its reporting agent, to provide) annually to the MSRB, within six (6) months after the end of each fiscal year of the City, beginning with the fiscal year ending June 30, 2014 (except with respect to the information described in the next paragraph, which shall be provided as described therein) financial information and operating data with respect to the City and the Airport of the general type included in this final Official Statement in Schedules 3 and 4 and the financial statements of the City. Any financial statements so to be provided shall be (1) prepared in accordance with the accounting principles described in this Official Statement or in the financial statements included herein and (2) audited, if the City commissions an audit of such statements and the audit is completed within the period during which they must be provided. If audited financial statements are not so provided, then the City shall provide audited financial statements for the applicable fiscal year to the MSRB, when and if audited financial statements become available, but if such audited financial statements are unavailable, the City will provide such financial statements on an unaudited basis within the above-described six-month period.

The City shall provide (or cause the Trustee, as its reporting agent, to provide) annually to the MSRB, within six (6) months after the end of each calendar year beginning with the calendar year ending December 31, 2014, (i) the financial information and operating data with respect to the Airport and the Project of the general type included in this final Official Statement in Schedules 1 and 2; and (ii) the Independent Rate Consultant's report for such calendar year.

If the City changes its fiscal year, it will notify the MSRB of the change (and of the date of the new fiscal year end) prior to the next day by which the City otherwise would be required to provide financial information and operating data pursuant to the Trust Indenture.

If the City and the Independent Rate Consultant change the Independent Rate Consultant's Report to be dated other than December 31 of each year, the City will notify the MSRB of the change (and of the new date) prior to the next date by which the City otherwise would be required to provide such report pursuant to the Trust Indenture.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's internet website or filed with the Securities and Exchange Commission (the "SEC") as permitted by Rule 15c2-12 (the "Rule"), promulgated by the SEC.

## **Notices of Certain Events**

The City shall provide (or cause the Trustee, as its reporting agent, to provide) notice to the MSRB of any of the following events with respect to the Series 2014 Bonds in a timely manner and not more than ten (10) Business Days after occurrence of the event: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2014 Bonds, or other material events affecting the tax status of the Series 2014 Bonds; (7) modifications to rights of holders of the Series 2014 Bonds, if material; (8) Series 2014 Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2014 Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of the trustee, if material. In addition, the Trustee will provide timely notice of any failure to provide information, data or financial statements in accordance with its agreement described above under "Annual Reports." Neither the Trust Indenture nor the Series 2014 Bonds provide for property securing repayment of the Series 2014 Bonds (other than the subordinate lien on Pledged Revenues) or appointment of a trustee.

For the purposes of the event numbered (12) in the preceding paragraph, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

The City shall notify (or shall cause the Trustee, as its reporting agent, to notify) the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner, of any failure by the City to provide financial information or notice of the events listed above in accordance with its agreement under the Trust Indenture. All documents provided to the MSRB shall be accompanied by identifying information as prescribed by the MSRB.

### **Compliance with Prior Undertakings**

Pursuant to the City's continuing disclosure agreement with respect to the Series 2001 Bonds, the Trustee is required to file certain information relating to the CFCs, balances and investment earnings in each Fund under the Trust Indenture and the Independent Rate Consultant's Report in compliance with the Rule. (The City retained the responsibility for filing the Airport System's audited financial statements.) The Trustee made late filings for calendar years 2010, 2011 and 2013. The 2010 filing (due on July 1, 2011) was submitted on July 14, 2011; the 2011 filing (due on July 1, 2012) was submitted on September 6, 2012; and the 2013 filing (due on July 1, 2014) was submitted on July 2, 2014. In addition, with respect to calendar years 2008 through 2013, the Trustee provided data purporting to reflect the annual number of transaction days and the annual total revenues generated by the CFCs, but which were inaccurate. Consequently, the transaction days and total revenue were misreported for those years. The City has filed a notice containing the correct data for calendar years 2008 through 2013. The City and the Trustee have communicated with respect to procedures to ensure compliance with its undertakings in the future.

For more information, please see the City's filing under the heading "Non-payment Related Default" at [www.emma.msrb.org](http://www.emma.msrb.org). Also see the City's voluntary filings under the heading "Other Event-based Disclosures" at [www.emma.msrb.org](http://www.emma.msrb.org).

### **Limitations, Disclaimers and Amendments**

As used in this section, the term "obligated person" means any person, including the City, who is either generally or through an enterprise, fund or account of such person committed by contract or other arrangement to support payment of all, or part of the obligations on the Series 2014 Bonds (other than providers of municipal bond insurance, letters of credit or other liquidity facilities).

The City shall be obligated to observe and perform the covenants specified in the Trust Indenture for as long as, but only for as long as, the City remains an "obligated person" with respect to the Series 2014 Bonds within the meaning of the Rule, except that in any event the City shall provide notice (or cause the Trustee, as its reporting agent, to provide notice) to the MSRB of any Bond calls and defeasance that cause the City to be no longer such an "obligated person."

The notices and information required to be provided by the City pursuant to the Trust Indenture will be provided in an electronic format or in such other format as required by the MSRB or the SEC and shall be accompanied by such identifying information as required by the MSRB or the SEC.

The provisions of the Trust Indenture are for the sole benefit of the Registered Owners and beneficial owners of the Series 2014 Bonds, and nothing in the Trust Indenture, express or implied, shall give any benefit or any legal or equitable right, remedy or claim hereunder to any other person. The City undertakes to provide only the financial information, operating data, financial statements and notices that it has expressly agreed to provide pursuant to the Trust Indenture and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the City's financial results, condition or prospects or hereby undertake to



update any information provided in accordance with the Trust Indenture or otherwise, except as expressly provided herein. The City makes no representation or warranty concerning such information or its usefulness to a decision to invest in or sell Series 2014 Bonds at any future date.

UNDER NO CIRCUMSTANCES SHALL THE CITY OR THE TRUSTEE BE LIABLE TO THE REGISTERED OWNER OR BENEFICIAL OWNER OF ANY BOND OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING, IN WHOLE OR IN PART, FROM ANY BREACH BY THE CITY OR THE TRUSTEE, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THE TRUST INDENTURE, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH, SHALL BE LIMITED TO AN ACTION FOR MANDAMUS OR SPECIFIC PERFORMANCE.

No default by the City or the Trustee in observing or performing its obligations under the Trust Indenture shall constitute a breach of or default (or an event of default) under the Trust Indenture.

Nothing in the Trust Indenture is intended or shall act to disclaim, waive or otherwise limit the duties of the City under federal and state securities laws.

The provisions of the Trust Indenture may be amended by the City and the Trustee from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status or type of operations of the City, but only if (1) the provisions of the Trust Indenture, as so amended, would have permitted an underwriter to purchase or sell Series 2014 Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (a) the Registered Owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Trust Indenture that authorizes such an amendment) of the outstanding Series 2014 Bonds consent to such amendment or (b) a person or entity that is unaffiliated with the City (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the Registered Owners and beneficial owners of the Series 2014 Bonds. If the provisions of the Trust Indenture are so amended, the City shall include with any amended financial information or operating data next provided in accordance with its Continuing Disclosure Undertaking an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided. The provisions of the Trust Indenture may also be amended or repealed if: (i) the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, or (ii) in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Series 2014 Bonds in the offering described herein.

## **MATERIAL UNITED STATES FEDERAL INCOME TAX MATTERS**

### **General**

The following discussion summarizes certain U.S. federal income tax considerations that may be relevant to the acquisition, ownership and disposition of the Series 2014 Bonds by an initial U.S. bondholder (as defined below). This discussion is based upon the provisions of the Code, applicable U.S. Treasury Regulations promulgated thereunder, judicial authority and administrative interpretations, as of the date of this document, all of which are subject to change, possibly with retroactive effect, or are subject to different interpretations. Neither the City nor Co-Bond Counsel offers any assurance that the Internal Revenue Service, or IRS, will not challenge one or more of the tax consequences described in this discussion, and neither the City nor Co-Bond Counsel has obtained, nor do the City or Co-Bond Counsel intend to obtain, a ruling from the IRS or an opinion of counsel with respect to the U.S. federal tax consequences of acquiring, holding or disposing of the Series 2014 Bonds.

This discussion is limited to U.S. bondholders who purchase the Series 2014 Bonds in this initial offering for a price equal to the issue price of the Series 2014 Bonds (i.e., the first price at which a substantial amount of the Series 2014 Bonds is sold for cash other than to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) and who hold the Series 2014 Bonds as capital assets (generally, property held for investment). This discussion does not address the tax considerations arising under the

laws of any foreign, state, local or other jurisdiction or income tax treaties or any U.S. federal estate or gift tax considerations. In addition, this discussion does not address all tax considerations that may be important to a particular holder in light of the holder's circumstances, such as the unearned income Medicare contribution tax or potential reporting obligations arising under the Hiring Incentives to Restore Employment Act of 2010 or to certain categories of investors that may be subject to special rules, such as:

- dealers in securities or currencies;
- traders in securities that have elected the mark-to-market method of accounting for their securities;
- U.S. bondholders (as defined below) whose functional currency is not the U.S. dollar;
- persons holding the Series 2014 Bonds as part of a hedge, straddle, conversion or other "synthetic security" or integrated transaction;
- certain U.S. expatriates;
- financial institutions;
- insurance companies;
- regulated investment companies;
- real estate investment trusts;
- persons subject to the alternative minimum tax;
- entities that are tax-exempt for U.S. federal income tax purposes; and
- partnerships and other pass-through entities and holders of interests therein.

If a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holds the Series 2014 Bonds, the tax treatment of a partner of the partnership generally will depend upon the status of the partner and the activities of the partnership. A partner of a partnership acquiring the Series 2014 Bonds should consult his/her own tax advisor about the U.S. federal income tax consequences of acquiring, holding and disposing of the Series 2014 Bonds.

**INVESTORS CONSIDERING THE PURCHASE OF THE SERIES 2014 BONDS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS REGARDING THE APPLICATION OF THE U.S. FEDERAL INCOME TAX LAWS TO THEIR PARTICULAR SITUATIONS AS WELL AS ANY TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP OR DISPOSITION OF THE SERIES 2014 BONDS UNDER THE LAWS OF ANY STATE, LOCAL OR FOREIGN JURISDICTION OR UNDER ANY APPLICABLE TAX TREATY.**

The City does not intend to treat the possibility of the payment of additional amounts described in "THE SERIES 2014 BONDS – Make-Whole Redemption Prior to Maturity" as (i) affecting the determination of the yield to maturity of the Series 2014 Bonds, (ii) giving rise to original issue discount or recognition of ordinary income on the sale, exchange or redemption of the Series 2014 Bonds or (iii) resulting in the Series 2014 Bonds being treated as contingent payment debt instruments under the applicable U.S. Treasury Regulations.

#### **Tax Consequences to U.S. Bondholders**

As used herein "U.S. bondholder" means a beneficial owner of a Series 2014 Bond and who or that is, for U.S. federal income tax purposes:

- an individual who is a U.S. citizen or U.S. resident alien;
- a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, that was created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or

- a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or that has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a United States person.

***Interest on the Series 2014 Bonds.*** A U.S. bondholder will be required to include any stated interest payments in income in accordance with its method of accounting for U.S. federal income tax purposes. If a U.S. bondholder is a cash method taxpayer, such holder must report interest.

***Disposition of the Series 2014 Bonds.*** A U.S. bondholder will generally recognize capital gain or loss on the sale, redemption, exchange, retirement or other taxable disposition of a Series 2014 Bond. This gain or loss will equal the difference between the U.S. bondholder's adjusted tax basis in the Series 2014 Bond and the amount realized (excluding any proceeds attributable to accrued but unpaid stated interest that will be recognized as ordinary interest income to the extent any such bondholder has not previously included such amounts in income) by the bondholder. A U.S. bondholder's adjusted tax basis in the Series 2014 Bond will generally equal the amount the bondholder paid for the Series 2014 Bond. The gain or loss will be long-term capital gain or loss if the U.S. bondholder held the Series 2014 Bond for more than one year at the time of the sale, redemption, exchange, retirement or other disposition. Long-term capital gains of individuals, estates and trusts currently are subject to a reduced rate of U.S. federal income tax. The deductibility of capital losses is subject to certain limitations.

***Information Reporting and Backup Withholding.*** Information reporting will apply to payments of principal and interest made by us on, or the proceeds of the sale or other disposition of, the Series 2014 Bonds with respect to U.S. bondholders (unless such holder is an exempt recipient such as a corporation), and backup withholding, currently at a rate of 28%, may apply unless the recipient of such payment provides the appropriate intermediary with a taxpayer identification number, certified under penalties of perjury, as well as certain other information or otherwise establishes an exemption from backup withholding. Any amount withheld under the backup withholding rules is allowable as a credit against the U.S. bondholder's U.S. federal income tax liability, provided the required information is timely provided to the IRS.

**THE PRECEDING DISCUSSION OF CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS IS FOR GENERAL INFORMATION ONLY AND IS NOT TAX ADVICE. WE URGE EACH PROSPECTIVE INVESTOR TO CONSULT ITS OWN TAX ADVISOR REGARDING THE PARTICULAR U.S. FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF PURCHASING, HOLDING AND DISPOSING OF THE SERIES 2014 BONDS, INCLUDING THE CONSEQUENCES OF ANY PROPOSED CHANGE IN APPLICABLE LAWS.**

## **LITIGATION**

There is no litigation pending against the City, the Houston Airport System or the Operators or, to the knowledge of their respective officers or counsel, threatened, questioning the transactions and proceedings relating to the authorization, issuance, sale or delivery of the Series 2014 Bonds, the existence of the City or the rights of their respective officers to their offices, or the authority of the City to perform its respective obligations under the Trust Indenture, the Master Lease or the other documents or instruments pertaining to the issuance and delivery of the Series 2014 Bonds.

The City is aware of various pending claims and lawsuits associated with the operation of the Houston Airport System. These include, but are not limited to, certain personal injury claims, claims involving rents and charges and property disputes. The City intends to defend itself vigorously against these claims and lawsuits; however, no prediction of the City's liability with respect to the claims or the final outcome of the lawsuits can be made at this time. In the opinion of management of the Houston Airport System, it is improbable that the lawsuits now outstanding against the City that are associated with the operation of the Houston Airport System could become final in a time and manner so as to have a material adverse financial impact upon the operations of the City or the Houston Airport System.

## **Dispute with Operators Regarding Pre-Paid Fuel Charges**

On June 5, 2013, the City provided notice to each Operator declaring a default under its Concession Agreement relating to the Project. The City contends that the Operators have incorrectly omitted pre-paid fuel charges collected by the Operators from the calculation of concession fees owed to the City. The City estimates that, by omitting pre-paid fuel charges from the calculation of concession fees, the Operators have underpaid the City an aggregate of approximately \$4,000,000 over 11 years. The City has demanded that each Operator pay its respective amount alleged to be owed for past underpaid concession fees and include pre-paid fuel charges in the calculation of concession fees in the future.

The concession fees are not used to pay Special Facilities Bonds, and there has been no reduction in the imposition, assessment or collection of the CFCs since the City provided the default notices to the Operators. Although each Concession Agreement provides that, after the expiration of a cure period, a default under a Concession Agreement is deemed a default under the Master Lease, at this time the City intends to solely seek recovery of monetary damages arising from the Operators' default under the Concession Agreements and does not intend to pursue any of its other rights or remedies under the Master Lease.

## **Other Claims and Litigation Affecting the City**

The City is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its municipal and enterprise activities, certain of which seek substantial damages. That litigation includes lawsuits claiming damages that allege that the City caused personal injuries and wrongful deaths; class actions and other lawsuits and claims alleging discriminatory hiring and promotion practices and certain civil rights violations arising under the Federal Voting Rights Act; various claims from contractors for additional amounts under construction contracts; claims involving property tax assessments; suits over the validity of City ordinances and over their enforcement; suits alleging non-compliance with certain federal and state environmental statutes; and various other liability claims. The status of such litigation ranges from an early discovery stage to various levels of appeal of judgments both for and against the City. The amount of damages is limited in certain cases under the Texas Tort Claims Act and is subject to appeal. The City intends to defend itself vigorously against the suits; however, no prediction can be made, as of the date hereof, with respect to the liability of the City for such claims or the final outcome of such suits.

In the opinion of the City's administration, it is improbable that the lawsuits now outstanding against the City could become final in a time and manner so as to have a material adverse financial impact upon the City.

## **UNDERWRITING**

Samuel A. Ramirez & Co., Inc., as representative and on behalf of all of the Underwriters set forth on the cover page hereof, has agreed to purchase the Series 2014 Bonds, subject to certain conditions, and has agreed to pay therefor a price of \$37,986,624.57 (reflecting the par amount of the Series 2014 Bonds, less the underwriter's discount of \$238,375.43).

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the City, for which they received or will receive customary fees and expenses. In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the City. The Underwriters and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Fidelity Capital Markets, one of the Underwriters of the Bonds, is a division of National Financial Services LLC.

## **LEGAL MATTERS**

The delivery of the Series 2014 Bonds is subject to the approving opinion of the Attorney General of the State and the opinion of Bracewell & Giuliani LLP and the Law Offices of Francisco G. Medina, Co-Bond Counsel for the City, as to the validity of the issuance of the Series 2014 Bonds under the Constitution and laws of the State. The opinion of Co-Bond Counsel will be based upon an examination of a transcript of certain certified proceedings of the City incident to the issuance and authorization of the Series 2014 Bonds. A copy of the proposed opinion of Bracewell & Giuliani LLP and the Law Offices of Francisco G. Medina, to be delivered in connection with the Series 2014 Bonds, is attached to this Official Statement as APPENDIX C – FORM OF CO-BOND COUNSEL OPINION.

In their capacity as Co-Bond Counsel, Bracewell & Giuliani LLP, Houston, Texas, and the Law Offices of Francisco G. Medina, Houston, Texas, have reviewed the statements and information contained in the Official Statement under the captions and sub-captions “PURPOSE AND PLAN OF FINANCE – The Series 2014 Bonds” (first sentence only), “THE SERIES 2014 BONDS,” “SECURITY FOR THE SERIES 2014 BONDS” (except for the information under the headings “Schedule 1: CFC Revenues and Transaction Days” and “Schedule 2: Pledged Funds Account Balances”), “THE TRUST INDENTURE,” “CONTINUING DISCLOSURE UNDERTAKING” (except for the information under the sub-caption “Compliance With Prior Undertakings,” as to which no opinion is expressed), and Co-Bond Counsel is of the opinion that the statements and information contained therein, insofar as such statements and information summarize certain provisions of the Trust Indenture and the Series 2014 Bonds, in all material respects fairly and accurately reflect the provisions of the Trust Indenture and the Series 2014 Bonds; further, Co-Bond Counsel has reviewed the statements and information contained in the Official Statement under the captions “MATERIAL UNITED STATES FEDERAL INCOME TAX MATTERS” and “LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS,” and Co-Bond Counsel is of the opinion that the statements and information contained therein are correct as to matters of law.

Such firms have not, however, independently verified any of the factual information contained in this Official Statement nor have they conducted an investigation of the affairs of the City or the Houston Airport System for the purpose of passing upon the fairness, accuracy or completeness of this Official Statement. No person is entitled to rely upon such firms’ limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the fairness, accuracy or completeness of any of the information contained herein. The fees of Bracewell & Giuliani LLP and the Law Offices of Francisco G. Medina, for their services with respect to the Series 2014 Bonds, are contingent upon the sale and delivery of the Series 2014 Bonds.

Certain matters will be passed upon for the City by its Special Disclosure Co-Counsel, Haynes and Boone, LLP, Houston, Texas, and Bratton & Associates, Houston, Texas. The fees of Haynes and Boone, LLP, and Bratton & Associates for their services with respect to the Series 2014 Bonds are contingent upon the sale and delivery of the Series 2014 Bonds. Certain other legal matters will be passed on for the Underwriters by their counsel, Greenberg Traurig, LLP, Houston, Texas.

Bracewell & Giuliani LLP, Haynes and Boone, LLP, Bratton & Associates and the Law Offices of Francisco G. Medina represent the Underwriters from time to time in matters unrelated to the issuance of the Series 2014 Bonds. Greenberg Traurig, LLP, represents the City from time to time in matters unrelated to the Series 2014 Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Series 2014 Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

## **CO-FINANCIAL ADVISORS**

First Southwest Company and Kipling Jones & Co. (the “Co-Financial Advisors”) have been retained by the City as its independent Co-Financial Advisors in connection with the issuance of the Series 2014 Bonds and, in such capacity, have assisted the City in the preparation of documents. The Co-Financial Advisors’ fees for services rendered with respect to the Series 2014 Bonds are not contingent upon the sale and delivery of the Series 2014 Bonds.

Although the Co-Financial Advisors have read and participated in the drafting of this Official Statement, such firms have not independently verified any of the information set forth herein. The information contained in this Official Statement has been obtained primarily from the City’s records and from other sources that are believed to be reliable, including financial records of the City and other entities, and which may be subject to interpretation. No guarantee is made by the Co-Financial Advisors as to the accuracy or completeness of any information herein. No person, therefore, is permitted to rely upon the participation of the Co-Financial Advisors as an implicit or explicit expression of opinion as to the completeness and accuracy of the information contained in this Official Statement.

## **FORWARD LOOKING STATEMENTS**

The statements contained in this Official Statement and in any other information provided by the City that are not purely historical are forward-looking statements, including statements regarding the City’s expectations, hopes, intentions or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. It is important to note that the City’s actual results could differ materially from those in such forward-looking statements.

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

## **GENERAL INFORMATION**

All of the summaries of the statutes, ordinances and other related reports set forth herein are made subject to all of the provisions of such documents. The descriptions of the Series 2014 Bonds and the Trust Indenture herein do not purport to be complete and all such descriptions or references thereto contained in this Official Statement are qualified in their entirety by reference to the complete forms of the Series 2014 Bonds and of the Trust Indenture. Statements made herein involving estimates or projections, whether or not expressly identified as such, should not be construed to be statements of fact or as representations that such estimates or projections will ever be attained or will even approximate actual results.

THE SERIES 2014 BONDS ARE PAYABLE SOLELY FROM CERTAIN PLEDGED REVENUES AND PLEDGED FUNDS OF THE HOUSTON AIRPORT SYSTEM, AND NO IMPLICATION IS MADE THAT ANY OTHER REVENUES OR MONEY OF THE CITY ARE TO BE AVAILABLE FOR THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2014 BONDS. Copies of the Trust Indenture are available to each of the prospective purchasers of the Series 2014 Bonds upon written request to the Office of the City Attorney, 900 Bagby, 4th Floor, Houston, Texas 77002.

This document was approved by the City Council of the City.

## SCHEDULE I

### REFUNDED BONDS

City of Houston, Texas  
Airport System Special Facilities Taxable Revenue Bonds  
(Consolidated Rental Car Facility Project), Series 2001

<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Par Amount</u>	<u>Call Date</u>	<u>Call Price</u>
01/01/2015	6.490%	\$ 3,945,000	09/05/2014	100%
***	***	***	***	***
01/01/2021	7.130	33,300,000	09/05/2014	100
		<u>\$ 37,245,000</u>		

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## APPENDIX A

### SELECTED PROVISIONS OF THE MASTER LEASE

*The following are excerpts of certain provisions of, and certain defined terms contained in, the Master Lease, in addition to the Master Lease provisions summarized elsewhere in the Official Statement. These excerpts do not purport to be comprehensive or definitive and are qualified in their entirety by the reference to the full terms of the Master Lease. Capitalized terms not otherwise defined have the meaning specified in the respective document.*

THIS MASTER SPECIAL FACILITIES LEASE AGREEMENT (hereinafter called "Agreement") is adopted, made and entered into between the CITY OF HOUSTON, TEXAS, a municipal corporation and Home Rule City, situated principally in Harris County, Texas (hereinafter called "City"), and, by separate Operator Agreement (as herein below defined), each of the SIGNATORY RENTAL CAR COMPANIES executing the aforesaid Operator Agreements (hereinafter individually a "Operator" and collectively, the "Operators").

\* \* \*

#### ARTICLE I

##### DEFINITIONS AND INTERPRETATIONS

Section 1.01: Definitions. In this Agreement, the following terms shall have the following meanings, respectively, unless the context clearly indicates otherwise:

\* \* \*

"**Automobile**" has the meaning set forth in the Concession Agreement.

"**Automobile Rental Business**" has the meaning set forth in the Concession Agreement.

"**Block**" shall mean an area approximately 63 feet by 63 feet in the Parking Structure that is intended for ready/return spaces.

\* \* \*

"**Common Use Ground Lease Area**" means the portions of the Project Site so designated in Exhibit B to the Agreement, as the same may be amended in accordance with the Agreement.

"**Concession Agreement**" means, for any Operator, the Automobile Rental Concession Agreement that authorizes such Operator to carry out its vehicle rental activities at the Airport.

"**Contract Year**" means a period of twelve (12) consecutive months beginning on the Date of Beneficial Occupancy and each anniversary thereof.

\* \* \*

"**Customer Service Building**" shall mean the consolidated rental car customer service building more fully described in Exhibit A-1 to the Agreement.

"**Date of Beneficial Occupancy**" or "**DBO**" shall mean the date (which must be the first day of a month) as of which the counter and office space at the Customer Service Building and the ready/return stalls and the staging areas in the

Parking Structure are functionally operational which shall be stipulated in a written notice from the Director to the Operators and the Trustee to the effect that (i) all necessary occupancy permits have been obtained and (ii) a reasonable period of time has been provided to the Operators for operational testing of such facilities as well as the Shuttle Buses.

**“Deferred Exclusive Use Ground Lease Area”** means the portions of the Project Site so designated in Exhibit B to the Agreement, as the same may be amended in accordance with the Agreement.

**“Deferred Common Use Ground Lease Area”** means the portions of the Project Site so designated in Exhibit B to the Agreement, as the same may be amended in accordance with the Agreement.

\* \* \*

**“Event of Default”** under the Agreement, shall mean those events so defined in Section 11.01 of the Agreement.

**“Exclusive Space”** means the exclusive use areas of the Customer Service Building and Parking Structure.”

**“Exclusive Use Ground Lease Area”** means the portions of the Project Site so designated in Exhibit B to the Agreement and as further delineated in Exhibit F to the Agreement, as the same shall be supplemented and amended in accordance with the Agreement.

\* \* \*

**“Gross Sales”** shall have the meaning assigned in the Concession Agreement.

**“Ground Rentals”** shall mean the rentals to be paid by Operators directly to the City pursuant to Section 6.01(a), (b) and (c) of the Agreement as consideration for the use of the Project Site.

\* \* \*

**“Infrastructure”** shall mean the infrastructure construction and improvements more fully described in Exhibit A-1 to the Agreement.

\* \* \*

**“MAG”** shall mean the Minimum Annual Guarantee as established from time to time in the Concession Agreement.

**“Maintenance/Storage Facilities”** shall mean the individual exclusive use maintenance/ storage facilities more fully described in Exhibit A-1 to the Agreement.

**“Market Share”** shall mean, for any Operator, the proportion that its Gross Sales bear to the aggregate Gross Sales of all Operators for any twelve-month period of time. The aggregate of all Operators’ Market Shares must equal 100% for any period.

**“New Entrant”** shall have the meaning ascribed to it in Section 3.06(b) of the Agreement.

**“New Entrant Block”** shall have the meaning ascribed to it in Section 3.06(b) of the Agreement.

\* \* \*

**“Operator Agreement”** shall mean the individual Operator acceptances of the Agreement, in substantially the form set forth in Attachment 1 to the Agreement, entered into between the City and each Operator, incorporating the terms of the Agreement.

**“Operators’ Authorized Representative”** shall mean the chairperson of the managing committee (or other governing body) of the LLC.

\* \* \*

**“Parking Structure”** shall mean the parking facility more fully described in Exhibit A to the Agreement.

**“Project”** shall mean the Customer Service Building, the Parking Structure, the Shuttle Buses, the Shuttle Bus Maintenance Facility, the Maintenance/Storage Facilities and the Infrastructure, all as more fully described in Exhibit A to the Agreement and by this reference made a part hereof, together with any modifications or additions thereto as provided in the Agreement. The Project shall constitute the Special Facilities.

**“Project Site”** means the area described in Exhibit B to the Agreement.

**“Rate Covenant”** shall have the meaning assigned to it in the Trust Indenture.

\* \* \*

**“Restricted Use Areas”** shall mean the Restricted Use Roadway Areas and the Restricted Use Setback Areas.

**“Restricted Use Fees”** shall mean the fees to be paid by Operators pursuant to Section 6.01(c) and (d) to the Agreement.

**“Restricted Use Roadway Areas”** shall mean the portions of the Project Site so designated in Exhibit B to the Agreement, as the same may be supplemented and amended in accordance with the Agreement.

**“Restricted Use Setback Areas”** shall mean the portions of the Project Site so designated in Exhibit B to the Agreement, as the same may be supplemented and amended in accordance with the Agreement.

\* \* \*

**“Shuttle Bus Maintenance Facility”** shall mean the maintenance facility for the shuttle buses described in Exhibit A to the Agreement.

**“Shuttle Buses”** shall mean the shared busing rolling stock described in Exhibit A-1 to the Agreement.

\* \* \*

**“Trust Indenture”** shall mean the Trust Indenture, together with all supplements and amendments thereto, entered into by and between the City and the Trustee to provide for the issuance of and security for the Bonds, as the same may be supplemented and amended from time to time in accordance with its terms and provisions.

Section 1.02: Interpretations. All terms defined herein and all pronouns used in this Agreement shall be deemed to apply equally to singular and plural and to all genders. The table of contents, titles and headings of the articles and sections of this Agreement have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof. This Agreement and all the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein and, to provide for the full and timely payment of all Bonds from time to time hereafter issued by the City, which Bonds shall be secured by a pledge of the Special Facilities Rent payable under this Agreement. In the event of any ambiguity contained herein, it shall not be construed for or against any party hereto on the basis that such party did or did not author same.

\* \* \*

### ARTICLE III

#### LEASE AND TERM; RESTRICTIVE USE AREAS

Section 3.01: Term of Lease of Special Facilities and Project Site. The term of this Agreement shall commence on the date of issuance of the Series 2001 Bonds, and shall continue, unless sooner terminated in accordance with this Agreement, until the later of the 30th day of June, 2027 or the final payment of the Bonds, including Additional Bonds and Refunding Bonds.

Section 3.02 Lease of Special Facilities. Subject to the terms and conditions of this Agreement, the City hereby leases, lets and demises unto Operators, and Operators hereby lease and rent from the City, the Special Facilities, which shall consist initially of the Project. Each Operator shall have exclusive use of those Special Facilities in the Customer Service Building and in the Parking Structure allocated to such Operator as indicated in Exhibits D and E, as amended from time to time to reflect the reallocations provided for herein. Each Operator shall also have exclusive use of those Special Facilities located on Exclusive Use Ground Lease Area assigned to such Operator as indicated in Exhibit F, as amended from time to time as herein provided.

Section 3.03: Lease of the Project Site. (a) Common Ground Lease Area and Deferred Use Ground Lease Area. Subject to the terms and conditions contained herein, the City hereby leases and demises to Operators collectively the Common Ground Lease Area and the Deferred Common Use Ground Lease Area.

(b) Lease of Exclusive Use Ground Lease Area and Deferred Exclusive Use Ground Lease Area. Subject to the terms and conditions contained herein, the City hereby leases and demises to the Operators individually, as their respective interests appear herein, the Exclusive Use Ground Lease Area and the Deferred Exclusive Use Ground Lease Area.

(c) Restricted Use Areas. Subject to the terms and conditions contained herein, the City agrees that it will neither (i) allow the Restricted Use Roadway Areas to be used for any other purpose other than roadways and utilities nor (ii) allow the Restricted Use Setback Areas to be used for any purpose other than as a setback for the Customer Service Building and Parking Structure; provided, however, with respect to the Restricted Use Setback Areas, the City may lease all or any portion thereof to a third party for another purpose not materially adverse to the Special Facilities if (x) the City first gives 90 days prior written notice to the Operators of such proposed lease for another use and the proposed rental rates under such proposed lease, (y) it affords the Operators the right of first refusal to use or lease such Restricted Use Setback Areas for the same rental rate as set forth in the notice, and (z) the Operators fail to exercise their right of first refusal within such 90-day period, and provided further that the City may lease any portion of the Restricted Use Setback Area for a remote check-in facility to serve any one or more airlines operating at the Airport.

(d) Subject to the terms hereof, Operators shall have the right of reasonable ingress to and egress from the Project Site and the Special Facilities over the portions of the Airport necessary for the operation and maintenance of the Special Facilities in accordance with the terms hereof but subject to reasonable regulations promulgated by the Director.

(e) In the event the City and Operators determine it is necessary or desirable to amend, correct, further define or delineate, delete from or add to any descriptions of the Project Site or any of its components (including as a result of leases or conveyances to third parties as herein permitted), they may do so by a supplement or addendum hereto duly executed by the respective parties. Any such supplement or addendum executed by the Operators' Authorized Representative shall contain a certification that such supplement or addendum has been approved by Operators in accordance with the LLC's members agreement.

Section 3.04: Design of Project; Location of Project Site. The Operators have approved the suitability of the design of the Project and the location of the Project Site for their intended use.

Section 3.05: City Right of Entry. The City may enter upon the Project Site and Special Facilities (i) at any reasonable time for any purpose necessary, incidental to or connected with the performance of Operators' obligations hereunder, or in the exercise of the City's governmental functions, and (ii) upon the termination or cancellation of this Agreement in accordance with the provisions hereof, and such entry or reentry shall not constitute a trespass nor give

Operators a cause of action for damages against the City; provided, however, the City shall use all reasonable efforts to minimize any interference or interruption with Operators' business operations.

Section 3.06: Allocations and Future Reallocations; Accommodation of New Entrants, Consolidations, Expansions, Contractions, Etc.

(a) Customer Service Building

(i) Initial Assignment

Each Operator shall initially be leased a module of the Customer Service Building as depicted in Exhibit D and shall occupy such space until any reallocation occurs.

(ii) Future Reallocation

Effective as of the commencement of the eleventh (11th) Contract Year and as of the commencement of each tenth (10th) Contract Year thereafter, and based on six-months prior written notice to the Operators, the City will, in consultation with the Operators, reassign the premises in the Customer Service Building. Such reassignment will be based on Operator Market Shares for the most recent twelve-month period for which such information is available. City will use its best efforts to obtain the concurrence of each of the Operators with respect to such reassignment. However, if a consensus cannot be reached in a timely manner (at least 60 days prior to the expiration of such notice period), the City shall issue a directive with respect to such reassignment, which will be final and binding on the parties. The costs of any reconfiguration of space required by such reallocation (including but not limited to the moving of interior partitions and the refurbishment of modified Operator spaces) will be funded from the Facility Improvement Fund or, if funds in the Facility Improvement Fund are not sufficient for such purpose, from individual Operator corporate resources based upon the Customer Service Building Reallocation Formula in Exhibit C as of the day after reallocation.

(b) Ready/Return Spaces in Parking Structure

(i) Initial Allocation of Leased Spaces

(A) The ready/return parking spaces in the Parking Structure shall be leased initially to each Operator from the City as identified in Exhibit E.

(B) In order to allow ready/return spaces to be reassigned upon any future reallocation, and in order to afford each Operator relatively comparable customer visibility from the Parking Structure escalator and elevator entrances and exits, as well as frontage and contiguous spaces, the Operators may not construct or erect permanent immovable objects or structures in their ready/return spaces and associated circulating area.

(C) Each Operator acknowledges that four Blocks of ready/return spaces in the Parking Structure have been set aside for New Entrants (defined below), which blocks are identified as such on Exhibit E, attached hereto and made a part hereof (the "New Entrant Blocks"). A "New Entrant" is defined as a rental car company which shall enter into a Concession Agreement with the City and become a signatory to this Agreement after the date of this Agreement, and shall be given the right to operate from and lease New Entrant space in the Project. The City agrees that all New Entrants may be allocated ready/return spaces in the Parking Structure only in the New Entrant Blocks, until such time as there are more than three New Entrants or any New Entrant has a Market Share of more than one percent (1%), whichever occurs first, at which time any New Entrant with a Market Share greater than 1% may be allocated ready/return spaces in another Parking Structure location, coincident with a reallocation as provided in subsection (b)(ii) below.

(ii) Reallocation of Spaces

(A) On the commencement of the fifth Contract Year for Level Two and on the commencement of each Contract Year thereafter and on the commencement of the sixth Contract Year for Level One and on the commencement of each Contract Year thereafter (each, a “Reallocation Date”), the City shall reallocate the number and location of the Operators’ ready/return parking spaces in the Parking Structure based on Market Share for the most recent twelve month period for which such information is available. In determining the new number and location of the Operators’ ready/return spaces, the City shall (i) provide each Operator with frontage spaces that are contiguous to an escalator/elevator space location in the Parking structure and as close as possible to such Operator’s counter location, (ii) provide each initial Operator with a minimum of eight Blocks only during the first five Contract Years (except for New Entrants in the New Entrant Blocks), (iii) first reallocate blocks that are the furthest in distance from the counter area and on the perimeter of the Parking Structure, (iv) reallocate spaces in whole blocks and as near in locations and contiguous to Operators’ current blocks of spaces (subject to New Entrants’ reallocations or a change of an Operators’ floor location as described below), and (v) afford each Operator relatively comparable customer visibility from the Parking Structure elevator and escalator entrances and exits.

(B) The reallocation process shall begin with the City giving written notice (“Reallocation Notice”) of the reallocation (if any) to Operator not less than sixty (60) days prior to each Reallocation Date, which notice shall contain (i) a new Exhibit E to this Agreement to be substituted for the existing Exhibit E depicting the Operators’ new ready/return spaces as a result of such reallocation, and (ii) a rental and fee information sheet (as provided below) which will set forth the Operators’ revised allocable shares of ground rent and other rental obligations to be effective on the Reallocation Date. The new Exhibit E shall become a part of this Agreement by reference until superseded by future notice and exhibits of reallocation hereunder.

(C) Notwithstanding any reallocation determinations made by the City, at any time after the City has given the Reallocation Notice and before the Reallocation Date, any two or more Operators may provide written notice to the City that they have agreed to a reallocation of spaces different from the City’s, as set forth in the Reallocation Notice. Such notice from such Operators shall contain a proposed revised Exhibit E depicting the requested allocation of spaces and the signatures of authorized representatives from such Operator(s) affected by the proposed revised Exhibit. Before the Reallocation Date, if the City determines that the proposed revised Exhibit does not create an undue hardship on any affected Operator in the Parking Structure and does not interfere with the reasonable operation (including traffic flow) of the Parking Structure, the City shall accept the proposed revised Exhibit, and such exhibit shall be a part of this Agreement until superseded by a future notice and Exhibits.

(D) Each Operator, at its own cost and expense, shall be responsible for making appropriate alterations to its individual exclusive ready/return spaces as necessary to reallocate parking and circulating areas within thirty (30) days prior to the Reallocation Date. However, the costs and expenses of signage, new roadway connections and ramps resulting from such reallocation shall be payable from the Facilities Improvement Fund (to the extent funds are available for such purpose).

(E) Whether or not the reallocation alterations referenced herein are complete, all new ground rent and other rent obligations, including Operators’ rental obligations pertaining to the Parking Structure, will be effective on the Reallocation Date, and shall be based on the revised Exhibit.

(iii) Future Expansion Area in Parking Structure

(A) If the Parking Structure is enlarged and expanded in the future, then each Operator shall be entitled to have more ready/return parking spaces, determined on a pro rata Market Share basis for Market Share measured for the most recent twelve-month period immediately preceding the completion of the new parking spaces for which Market Share information is available.

(B) In the event the Operators, after a reasonable time of not less than sixty (60) days after completion of construction of such additional space, are unable to voluntarily reallocate the newly constructed space among themselves, then all Operators shall rely on the City to make a reallocation decision which shall be final. Thereafter, the expansion space shall be included in and reallocated according to b(ii) above.

(iv) Reallocation of Floors

(A) Notwithstanding anything to the contrary herein, prior to the commencement of the sixth Contract Year, no reallocations of ready/return spaces on Level One of the Parking Structure shall occur, unless the Market Shares of the initial occupants of Level One, when combined, have reduced to below 50%. In the event such a change in combined Market Share occurs prior to the commencement of the sixth Contract Year, or at any time thereafter, then one or more Operators located on Level Two shall be required to relocate to Level One and the reallocation formula for all Operators shall thereafter apply to all Operators on both levels of the structure. In order to determine a change of floors, consideration shall be given to Operators whose combined Market Share would most closely approximate 50% for each floor while the reallocation criteria set forth above are complied with. Any such major changes, including floor changes for any Operator shall be accomplished so as to meet the requirements of section (b)(ii) above and this paragraph.

(B) The Operators affected by any change of floors shall have the opportunity to work with each other and develop an alternate plan for floor changes which, to the greatest extent possible shall accomplish the identical goals of changing floors. In the event the Operators cannot agree on an acceptable plan, they shall submit it to the Director, who shall, using the priorities and the criteria listed in the foregoing paragraphs, relocate the ready/return space of an Operator from one floor to another so as to accomplish the floor changes with the least amount of operational disruption.

(c) Maintenance/Storage Facilities

Each Operator shall lease (or sublease) a Maintenance/Storage Facilities upon which it will develop its maintenance/storage facilities. Each Operator shall also be assigned Deferred Exclusive Use Ground Lease Areas for expansion purposes. The initial designations of such areas are as depicted in Exhibit F. New Entrants shall be responsible for obtaining from the City or by sublease from other Operators sufficient Maintenance/Storage Facilities to support their operations. Upon any exercise of rights to use any Deferred Exclusive Use Ground Lease Areas or any lease of a Maintenance/Storage Facility to a New Entrant, Exhibit F shall be supplemented to reflect the foregoing. The Maintenance/Storage Facilities are not subject to reallocation except by agreement among the affected parties.

(d) Accommodation of New Entrants

(i) Each Operator acknowledges the policy of the City to allow additional qualified, financially-responsible rental car operators to become New Entrants entitled (i) to operate on the Airport if they enter into a Concession Agreement with the City and (ii) to operate in the Project subject to the terms hereof upon becoming a signatory to this Agreement. The City reserves the right to advertise for such New Entrants every five years following DBO or on such other intervals as may be recommended by the City Attorney in a written opinion stating the legal basis for such recommendation.

(ii) The Project has been designed to include New Entrant space in the Customer Service Building (the "New Entrant Space") and New Entrant Blocks for ready/return parking for one or more New Entrants. If, at any time following the DBO of the Project, one or more New Entrants shall qualify as Operators, then each such New Entrant will be permitted to occupy all or a portion of the New Entrant Space in the Customer Service Building and all or a portion of the New Entrant Blocks in the Parking Structure. Except as provided in paragraph 3.06(b)(i)(C) above and paragraph (d)(iii) below, all new entrant Operators shall be entitled to only occupy the New Entrant Space and New Entrant Blocks and each new entrant Operator's right to lease and occupy all or a portion of the New Entrant Space and New Entrant Blocks shall be subject to reallocation(s) to accommodate future New Entrants. In order that the New Entrant Space and New Entrant Blocks can accommodate all New

Entrants, there shall be no minimum amount of space in the Customer Service Building or Parking Structure for New Entrants.

(iii) At least six months prior to the commencement of the sixth Contact Year, and each five-year period thereafter, the City, in consultation with the Operators, will undertake to develop a plan for accommodation of, outside of the New Entrant Space, any Operator occupying the New Entrant Space that has acquired a Market Share of 2.5% or more based upon the most recent twelve-month period for which such information is available. Such plan must take into account the City's and the Operators' mutual objectives of cost effectiveness, minimum disruption to existing Operators and also all legal and financial developments that have occurred subsequent to the date of this agreement. The City and the Operators will cooperate to allow the implementation of such plan. In the absence of the development of such a plan, the City shall reallocate space in the Customer Service Building among the existing Operators in order to accommodate such Operator outside the New Entrant Space. All costs of such space reallocation shall be paid from the Facility Improvement Fund or, if funds in the Facility Improvement Fund are not sufficient for such purpose, from individual Operator corporate resources based on the Customer Service Building Reallocation Formula in Exhibit C.

(iv) On or before the commencement of the sixth Contract Year, and annually thereafter, the City will undertake to develop a plan for accommodation outside of New Entrant Blocks of certain New Entrants as more fully provided in subsection (b) above.

(v) All Operators, including New Entrants, will be required to have use of an exclusive use Maintenance/Storage Facility at the Project Site. Therefore, unless a New Entrant can acquire or sublease space in an existing Maintenance/Storage Facility, it will need to be assigned one by the City and pay all related Ground Rentals. Up to \$850,000 (being the minimum amount provided in Exhibit A-3 and allocated between design and construction on the same basis as for Advantage and Enterprise) of the costs of designing and constructing a new Maintenance/Storage Facility for a new entrant Operator who has reached a 1% Market Share will be advanced from the Facility Improvement Fund (to the extent funds are available for such purpose) and/or reimbursed from the proceeds of Customer Facility Charge over a five-year period following completion and occupancy of the new maintenance/storage facility.

(vi) In order to facilitate the accommodation of New Entrants within the Customer Service Building, the City may release Operators from portions of their MAG in excess of their minimum MAG (as provided in the Concession Agreement) in consideration of the assignment or sublease to such New Entrants by such Operators of portions of their allocated or leased space hereunder.

(e) Use of Deferred Exclusive Use Ground Lease Areas

Certain Deferred Exclusive Use Ground Lease Areas have been designated for future Maintenance/Storage Facilities expansions by designated Operators. Upon 30 days written notice to the City, any Operator may convert Deferred Exclusive Use Ground Lease Areas to Exclusive Use Ground Lease Areas for the purpose of accommodating future expansions of its Maintenance/Storage Facilities. If any Operator commences to use its Deferred Exclusive Use Area prior to its conversion to Exclusive Use Ground Lease Area, then upon 30 days' notice, the City may reclassify such area to Exclusive Use Ground Lease Area retroactive to the initial date of such use. Deferred Exclusive Use Ground Lease Areas may be assigned or subleased by Operators to other Operators.

(f) Use of Deferred Common Use Ground Lease Areas

Upon any expansion of the Project or Special Facilities that shall require the use of any part of the Deferred Common Use Ground Lease Areas, such areas shall be reclassified as Common Ground Lease Areas upon the date of beneficial occupancy of such expansion.

Section 3.07: Operator Agreements with Other Car Rental Companies. The City reserves the right to grant to other companies the right to engage in the rental of motor vehicles to the public and operate car rental concessions at the



Project, and each Operator understands and agrees that its right to engage in the rental of motor vehicles to the public is not exclusive.

The City agrees that during the term of this Agreement it will not enter into an Operator Agreement with another car rental company operating at the Project which provides for payment by such company to the City under such Operator Agreement of a per square foot per year rental amount for ground which is less than the per square foot per year rental amount as set forth in this Agreement, unless, the same terms are offered to the Operator. The City further agrees that during the term of this Agreement it will not enter into an Operator Agreement with another car rental company operating at the Project for a term expiring prior or subsequent to the term set forth in this Agreement. Nor will the City enter into an Operator Agreement with another car rental company operating at the Project which provides for the charge, collection and remittance by such company under such agreement of usage fees, in an amount less than that required to be charged, collected and remitted pursuant to this Agreement and the Indenture. During the term of this Project, the City will not enter into an Operator Agreement with another car rental company operating at the Project which provides terms and conditions more favorable than as set forth herein.

Section 3.08: Early Termination, Surrender or Abandonment. Upon the early termination, surrender, or abandonment of any Operator Agreement entered into by an Operator in connection with the Bonds, the City agrees it will issue a request for proposals for reletting the abandoned premises, and receive proposals from qualified car rental companies, including the Operator and the other Operators not in default under their Operator Agreements. Any replacement Operator Agreement offered in the Request for Proposals shall comply with Section 3.07 hereof, "Operator Agreements with Other Car Rental Companies" and shall require compliance with the payment of all applicable amounts due under Section 6.01 hereof, "Ground Rentals and Restricted Use Fees," and any replacement Concession Agreement shall comply with Section 7.20 of the Concession Agreement, "Favored Nations," but otherwise the City may determine in its discretion which responsive proposal to accept. If the City receives one or more responsive proposals to its Request for Proposals, it shall be required to relet the abandoned premises.

If there are no responsive proposals from rental car companies, the City may use the abandoned premises for any governmental purpose in the best interests of the City, or may lease the premises to any governmental agency or public utility, or to any private third party other than a commercial ground transportation company conducting shuttle or limousine services in competition with the car rental industry. If there are no responsive proposals from rental car companies for the entire use of the premises, the City may accept proposals for partial use or lease of a portion of the abandoned premises.

Section 3.09: Special Rule for Consolidations. In the event two or more Operators merge into a single company, they shall not be allowed to perform customer sales and service operations out of two separate exclusive use areas in the Customer Service Building. If their exclusive use areas are adjacent to each other, they may at their own expense, remodel them into a single area. If their exclusive use areas are not adjacent, they shall have 30 days to negotiate with the other Operators to achieve contiguous space and thereafter remodel it, at their own expense, into a single area. If no agreement is reached, they must terminate customer sales and service operations in one of the exclusive areas, though the newly merged company remains responsible for all costs and expenses associated with that area. Though this provision does not apply to ready/return spaces, nothing in it prevents the Operators from exchanging spaces.

#### ARTICLE IV

##### ISSUANCE OF BONDS; PAYMENT OF COSTS OF THE PROJECTS

\* \* \*

Section 4.04: Refunding Bonds. The City reserves the right to determine to issue Refunding Bonds to achieve debt service savings or to achieve other beneficial financing terms. All Refunding Bonds, if any, shall be secured and payable as provided in the Trust Indenture.

\* \* \*

## ARTICLE VI

### FEES AND PAYMENTS

Section 6.01: Ground Rentals and Restricted Use Fees. Each Operator shall pay to the City monthly ground rent and restricted use fees, which will be considered part of the Airport System Gross Revenues and shall not be pledged to the payment of the Bonds. The Operator shall pay, in advance on the first business day of each month beginning on the Date of Beneficial Occupancy, the following:

- (a) Ground rentals for (i) Operator's Exclusive Use Ground Lease Area (shown in Exhibit B) and (ii) Operator's allocable share (as determined in Exhibit C) of the Common Use Ground Lease Area, both based upon a ground rental rate of \$0.23 per square foot per year for the period through the end of the fifth Contract Year, and thereafter escalating through the term of this Agreement by 15% at every 60-month interval.
- (b) Ground rentals for (i) Operator's Deferred Exclusive Use Ground Lease Area and (ii) Operator's allocable share (as determined in Exhibit C) of the Deferred Common Use Ground Lease Area, both based upon a ground rental of \$0.05 per square foot per year for the period through the end of the fifth Contract Year, and thereafter escalating through the term of this Agreement by 15% at every 60-month interval.
- (c) Restricted use fees for Operator's allocable share (as determined in Exhibit C) of the Restricted Use Roadway Areas based upon a fee of \$0.05 per square foot per year for the period through the end of the fifth Contract Year, and thereafter escalating through the term of this Agreement by 15% at every 60-month interval in consideration of the City's agreement to restrict the use thereof as provided in this Agreement.
- (d) Restricted use fees for the Restricted Use Setback Areas shall consist of the Operators' obligations to pay for costs of maintenance of and utilities for such areas pursuant to Sections 8.01 and 8.02 in consideration of the City's agreement to restrict the use thereof as provided in this Agreement.

In order to facilitate the administration of such rentals, the City is authorized to charge rental during the first month on a partial calendar month basis and to establish "rental years" with the initial rental year being less or more than a full twelve-month period so that subsequent rental years will always be twelve-month periods ending the last day of a calendar month.

Section 6.02: Special Facilities Rent.

(a) In addition to the ground rent and fees paid pursuant to Section 6.01 and other amounts payable pursuant to their concession agreements, each Operator shall also pay an additional special facilities rent ("Special Facilities Rent") for the use and availability of the Special Facilities in an amount equal to the proceeds derived from or attributable to such Operator's collection of the CFC in accordance with the terms hereof, all of which shall be promptly remitted to the Trustee, as the assignee of the City, in order to pay when due the principal of, premium, if any, and interest on the Bonds and make other deposits and payments provided in the Trust Indenture. Beginning with the second month following the closing of the Bonds, all CFC proceeds collected shall be remitted by the Operator to the Trustee on the 20th of each month for the preceding calendar month of operations. All CFC proceeds collected by the Operator are due and remittable and deemed remitted to the Trustee immediately upon the collection thereof by the Operator, and pending the actual remittance thereof to the Trustee, such amounts are and shall be, to the greatest extent permitted by law, deemed the property of the Trustee in which the Operator holds only a possessory interest and not an equitable interest. All CFC proceeds collected by the Operator, whether prior to or after remittance to the Trustee under this Section are pledged pursuant to the Trust Indenture for the payment of the Bonds, and the Operator hereby consents to such pledge. The Operator acknowledges the Trustee's security interest in the CFC proceeds as the Trustee's bailee under Section 9.305 of the Texas Business and Commerce Code. The CFC, which is described in further detail below, shall be identified on a separate line on the rental car customer contract, after taxes, and described as the "Customer Facility Charge." Prior to remittance to the Trustee, CFC proceeds collected by the Operator shall be held by the Operator, as bailee, for the benefit of the Trustee. All CFC proceeds collected and held by the Operator shall be considered the property of the Trustee and shall be separately accounted for by each Operator.

(b) Beginning on the first day of the month following the date of issuance of the Series 2001 Bonds, each Operator shall collect the CFC from each customer that rents or otherwise enters into a similar arrangement for the use of an Automobile subject to the CFC in connection with each Operator's Automobile Rental Business (inclusive of transactions made at the Airport terminals and service centers prior to DBO). The CFC collected by the Operator shall be the amount established from time to time by the City pursuant to the authority of a City ordinance. The CFC shall be assessed per "transaction day" (for example, a vehicle rental for up to a 25 hour period or fraction thereof shall be for one transaction day and a vehicle rental for 25 through 49 hours shall be for two transaction days). Each Operator is obligated to charge and use its best efforts to collect the CFC at the rate determined by the City in accordance with the Trust Indenture. Each Operator is obligated and agrees to remit to the Trustee on behalf of the City all CFC proceeds actually collected. The Operator covenants and agrees that it will not be entitled to any rights to offset or other reduction in the requirements herein and to remit all CFC proceeds to the Trustee regardless of any amounts that may be owed or due to the Operator by the City.

(c) The Operator shall maintain records and controls which are sufficient to demonstrate the correctness of the CFC proceeds collected by the Operator and the amount of CFC proceeds paid to the Trustee. The records shall be available for inspection and examination at all times by the Trustee or City, or their duly authorized representatives.

(d) The initial CFC shall be the amount established in the Indenture per vehicle for each transaction day.

(e) The City shall cause a review to be conducted of the CFC periodically as provided in the Trust Indenture by the Independent Rate Consultant (or the City if agreed to by the LLC and permitted by the Trust Indenture). Each Operator agrees to provide, in writing, to the Independent Rate Consultant (or the City if permitted by the Trust Indenture), by not later than three (3) months prior to the expiration of each Contract Year (and at such other intervals required by the Trust Indenture), the following information in conjunction with the reports required to be prepared under the Trust Indenture, which information shall be considered privileged and confidential for the use intended only and subject only to disclosure under the Texas Open Records Act, Chapter 552, Texas Government Code, as amended:

(i) the Operator's rental car transaction days per month for the preceding twelve-month period ending six (6) months prior to the expiration of such Contract Year (or for such other periods or at such other intervals as may be required by the Trust Indenture) ("Operator Reporting Period"); and

(ii) the amount of the CFC proceeds per month remitted by the Operator to the Trustee during the Operator Reporting Period.

Such information shall be provided by each Operator to the Independent Rate Consultant (or the City if agreed to by the LLC and permitted by the Trust Indenture) with the following certification by an authorized Operator representative:

"The information contained herein provided by the Operator is complete and accurate."

The Operator further agrees to otherwise provide its full cooperation and assistance to the Independent Rate Consultant (or City if agreed to by the LLC and permitted by the Trust Indenture) in connection with the preparation of the report on the CFC required to be prepared pursuant to the Trust Indenture. The CFC shall be established and amended from time to time in the manner set forth in the Trust Indenture.

(f) Each Operator recognizes that in the Indenture the City will covenant that if all or any part of the CFC fee fails to survive a challenge in a court of competent jurisdiction, then the City will undertake to replace the stricken portion(s) of the fee with one or more other customer fees or charges (to the greatest extent practicable, on a "transaction day" basis) that will be imposed for the use and occupancy of the Special Facilities sufficient to provide funds in an amount at least equal to the amount that would otherwise have been provided by the CFC (the "Supplemental Special Facilities Rent"). The Supplemental Special Facilities Rent shall continue until such time as a mutual agreement or an alternate to the CFC is agreed upon between the City, the Operators and the Trustee.

(g) Notwithstanding anything else to the contrary stated herein, the Operators do not individually or collectively guarantee the payment of principal of or interest on the Bonds and, (except for their obligation to collect and remit to the Trustee the CFC or substitute customer fees or charges as herein provided), no properties, revenues, or moneys

of the Operators individually or collectively shall be used to pay any Special Facilities Rent or Supplemental Special Facilities Rent.

Section 6.03: Operation and Maintenance Expenses; Other Fees and Charges. The ground rentals and restricted use fees under Section 6.01 and the Special Facilities Rent payable under Section 6.02 (which is pledged to the payment of the Bonds and other amounts due under and secured by the Trust Indenture) are intended to be net returns. Accordingly, in addition to such payments, and as more fully provided in Sections 8.01 and 8.02 below, the Operators agree to pay all operation, repair and maintenance expenses applicable to the Special Facilities and the Project Site, including, without limitation, utility costs, insurance premiums, any and all ad valorem or other property taxes lawfully levied and assessed against the Special Facilities and Project Site, or the Operators' leasehold estates therein, any and all lawful excise, sales, gross sales or other types of taxes imposed on or in respect of such properties, the expenses of upkeep thereof of every kind and character, including the repair or necessary restoration thereof, and every other item of expense imposed on the Operators pursuant to this Agreement, and if the Special Facilities or any portion of them are ever operated, repaired or maintained by the City as herein provided, all direct and allocable indirect Airport System expenses of operating, repairing and maintaining such Special Facilities or Project Site (while so operated, repaired or maintained by the Airport System) in a manner consistent with other such allocations equitably applied on an Airport-wide basis.

Section 6.04: Late Payment Charge. All late payments will bear interest at the rate of fifteen percent (15%) per annum until paid on the amount outstanding for more than thirty (30) days from the payment due date, with a minimum penalty of fifty dollars (\$50.00).

Section 6.05: Books, Records, Audits. Each Operator shall maintain books and records relating to its operations in the Special Facilities and be subject to audit with respect to such operations all as provided in Section 5.2 of the Concession Agreement.

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## ARTICLE VIII

### OPERATOR'S OBLIGATIONS AND CONDITIONS TO

#### OPERATOR'S USE OF SPECIAL FACILITIES

Section 8.01: Maintenance of Special Facilities at Operator's Expense. Subject to the other terms of this Agreement, Operators shall throughout the term of this Agreement collectively assume the entire responsibility, cost and expense, for the operation and all repair and maintenance whatsoever of the Project Site and the Special Facilities, whether such repair or maintenance be ordinary or extraordinary. Additionally, without limiting the generality of the foregoing, Operators shall:

(a) Maintain at all times the Special Facilities in as good a state of repair and preservation as the public terminal areas at the Airport, excepting ordinary wear and tear and obsolescence in spite of repair.

(b) Keep at all times, in a clean and orderly condition and appearance, the Project Site and Special Facilities which are open to or visible by the general public.

(c) Provide and maintain all obstruction lights and similar devices, fire protection and safety equipment and all other equipment of every kind and nature required by laws, rule, order, ordinance, resolution or regulation of any competent authority, including the City and Director.

(d) Repair any damage caused by Operators to paving or other surfaces of the Special Facilities or Project Site caused by any oil, gasoline, grease, lubricants or other flammable liquids and substances having a corrosive or detrimental effect thereon.

(e) Take reasonable measures to prevent erosion, including but not limited to, the planting and replanting of grass or other appropriate landscape material with respect to all portions of the Project Site not paved or built upon, and in

particular, plant, maintain and replant any landscaped areas; and in designing and constructing improvements, preserve as many trees as possible consistent with Operator's construction and operations on the Project Site.

(f) Be responsible for the maintenance and repair of all utility services lines placed on the Exclusive Use Ground Lease Area and used by Operators exclusively, including, but not limited to, water lines, gas lines, electrical power and telephone conduits and lines, sanitary sewers and storm sewers.

(g) Take all reasonable measures (i) to reduce to a minimum vibrations tending to damage any equipment, structure, building or portion of building which is located elsewhere on the Airport; (ii) to keep the sound level of its operations as low as possible; and (iii) not to produce on the Airport through the operation of machinery or equipment any electrical, electronic or other disturbance that interferes with the operation by the City, the Federal Aviation Administration or the scheduled airlines, of air navigational, communication or flight equipment on the Airport or on aircraft using the Airport, or with ground transportation communications.

(h) Within reason, control the conduct, demeanor and appearance of its officers, agents, employees, invitees and of those doing business with it; and, upon reasonable objection from Director concerning the conduct, demeanor or appearance of any such person, immediately take all reasonable steps necessary to remove the cause of the objection.

(i) Commit no nuisances, waste or injury, and not do, or permit to be done, anything which may result in the creation, commission or maintenance of such nuisance, waste or injury on the Project Site or the Special Facilities.

(j) Not cause nor create, nor permit to be caused or created, upon the Project Site, any noxious odor, smoke, noxious gas or vapor. Odors emitted in the operation of Operators' authorized activities pursuant to Section 8.01 shall comply with the requirements of all generally applicable air pollution and nuisance statutes and ordinances.

(k) Subject to the Operators' rights to use City services on the same basis as other customers of the City, not do, nor permit to be done, anything which may interfere with the effectiveness or accessibility of the drainage system, sewerage system, fire protection system, sprinkler system, alarm system and fire hydrants and hoses, if any, installed or located on the Project Site or the Special Facilities.

(l) Collect all garbage, debris and waste material (whether solid or liquid) arising out of its occupancy of the Project Site, store same pending disposal in covered metal or other rigidly and sturdily constructed receptacles and dispose of same off the Airport at regular intervals, except for sewage which may be disposed of in the City's sewer system, all at Operators' expense, in the manner reasonably required by the Director.

(m) Provide luggage carts (or comparable devices), without cost to their customers, which shall be available for pick up or drop off at the Shuttle Bus drop off points at the Customer Service Building and at multiple locations convenient to customers on each floor of the Parking Structure.

(n) Provide Shuttle Bus access or services to any persons traveling between the Airport terminal area and the Project Site, even though such persons may be customers of rental car companies not located in the Special Facilities.

(o) Refrain from picking up or dropping off customers in the terminal area of the Airport with any vehicles other than Shuttle Buses, except pursuant to the standards set forth in Exhibit J attached hereto and made a part hereof, as the same may be amended, revised or suspended from time to time by the Director.

Section 8.02: LLC: Operations and Maintenance. (a) The Operators have created and must maintain in existence throughout the term of this Agreement the LLC. Each Operator must (i) participate in such LLC and (ii) promptly pay all charges and assessments imposed by such LLC for the cost of carrying out its obligations under this Agreement and the LLC operating agreement. The Operators will cause the LLC to carry out all of the Operators' obligations to operate, repair and maintain the Project Site and Special Facilities (other than the Exclusive Ground Use Leases, the Maintenance/Storage Facilities, and the Exclusive Space which will be the obligation of the individual Operators which hold exclusive rights to them). The LLC shall be required to provide the City with a budget and a detailed historical report of operating and maintenance costs by component: Customer Service Building, Parking Structure, Infrastructure, Shuttle Buses and Shuttle Bus Maintenance Facility, Common Ground Lease Area and Restricted Use Area.

All costs of operating and maintaining such properties will be allocated among the Operators as provided in the Cost Allocation Formulas in Exhibit C. No portion of any such costs or expenses shall be paid by the City or with proceeds of the CFC.

(b) To provide the necessary working capital to begin the aforementioned activities and the busing operation, the Operators will collectively provide the LLC through their corporate resources with funds and credit reasonably necessary for the Company to conduct such operations.

(c) The frequency of service of the busing operation will be determined by the Operators subject to the review and approval of the Director.

\* \* \*

Section 8.06: City's Right To Maintain or Repair Special Facilities. In the event the LLC or any Operators fail (i) to commence within thirty (30) days after written notice from the Director to do any maintenance or repair work to the Special Facilities required to be done under the provisions of this Agreement, other than preventive maintenance; (ii) to commence such work within a period of ninety (90) days if such notice specifies that the work to be accomplished involves preventive maintenance only; or (iii) to diligently continue to completion any such work as required under this Agreement; then, the Director or the City may, at its option, and in addition to any other remedies which may be available to it, enter the Special Facilities, without such entering causing or constituting a cancellation of this Agreement or an interference with the possession of the Special Facilities, and repair, maintain, replace, rebuild or paint all or any part of the Special Facilities and do all things reasonably necessary to accomplish the work required, and the reasonable cost and expense thereof plus an administration fee of 15% of such cost shall be payable to the City by Operators on written demand in accordance with the most recent Allocation Formula applicable to such work; provided, however, if in the reasonable opinion of the Director or the City, the failure to perform any such repair or maintenance endangers the safety of the public, the employees or other tenants at the Airport, and the Director or the City so states same in its notice to Operators, the Director or the City may perform such maintenance at any time after the giving of such notice, and Operators agree to pay to City the reasonable cost and expense of such performance on demand in accordance with the most recent Allocation Formula applicable to such work, plus an administrative fee of 15% of such cost and expense. Furthermore, should the Director, the City, its officers, employees, agents, or contractors undertake any work hereunder, Operators hereby waive any claim for damages, consequential or otherwise, as a result thereof. The foregoing shall in no way affect or alter the primary obligations of Operators as set forth in this Agreement, and shall not impose or be construed to impose upon the Director or the City any obligation to maintain the Project Site or the Special Facilities, unless specifically stated otherwise herein. In the event of the exercise by City of any repair work on the Special Facilities, City shall use all reasonable efforts to minimize any interference or interruption with Operators' business operations.

Section 8.07: Termination Procedures. Upon the expiration or termination of this Agreement pursuant to any terms hereof, Operators shall surrender the Special Facilities (or their interests therein) to the City in a good state of repair and preservation, excepting ordinary wear and tear and obsolescence in spite of repair.

\* \* \*

## ARTICLE IX

### LIABILITY, INSURANCE AND CONDEMNATION

Section 9.01: Release.

A. OPERATOR AGREES TO AND SHALL RELEASE THE CITY, ITS AGENTS, EMPLOYEES, OFFICERS, AND LEGAL REPRESENTATIVES (COLLECTIVELY THE "CITY") FROM ALL LIABILITY FOR INJURY, DEATH, DAMAGE, OR LOSS TO PERSONS OR PROPERTY SUSTAINED IN CONNECTION WITH OR INCIDENTAL TO PERFORMANCE UNDER THIS AGREEMENT, EVEN IF THE INJURY, DEATH, DAMAGE, OR LOSS IS CAUSED BY THE CITY'S SOLE OR CONCURRENT NEGLIGENCE AND/OR THE CITY'S STRICT PRODUCTS LIABILITY OR STRICT STATUTORY LIABILITY; NOR SHALL THE CITY IN ANY EVENT BE LIABLE FOR ANY LOSS OF OR DAMAGE TO ANY PERSONAL PROPERTY, FIXTURES OR EQUIPMENT

INSTALLED OR STORED AT THE CONSOLIDATED RENTAL CAR FACILITY, THE LOADING AREAS, OR ELSEWHERE AT THE AIRPORT.

Section 9.02: Indemnification.

A. OPERATOR AGREES TO AND SHALL DEFEND, INDEMNIFY, AND HOLD THE CITY, ITS AGENTS, EMPLOYEES, OFFICERS, AND LEGAL REPRESENTATIVES (COLLECTIVELY THE “CITY”) HARMLESS FOR ALL CLAIMS, CAUSES OF ACTION, LIABILITIES, FINES, AND EXPENSES (INCLUDING, WITHOUT LIMITATION, ATTORNEYS’ FEES, COURT COSTS, AND ALL OTHER DEFENSE COSTS AND INTEREST) FOR INJURY, DEATH, DAMAGE, OR LOSS TO PERSONS OR PROPERTY SUSTAINED IN CONNECTION WITH OR INCIDENTAL TO PERFORMANCE UNDER THIS AGREEMENT INCLUDING, WITHOUT LIMITATION, THOSE CAUSED BY:

1. OPERATOR’S AND/OR ITS AGENTS’, EMPLOYEES’, OFFICERS’, DIRECTORS’, OPERATORS’, OR SUBCONTRACTORS’, (COLLECTIVELY IN NUMBERED PARAGRAPHS 1-3, “OPERATOR”) ACTUAL OR ALLEGED NEGLIGENCE OR INTENTIONAL ACTS OR OMISSIONS;
2. THE CITY’S ACTUAL OR ALLEGED JOINT OR CONCURRENT NEGLIGENCE, WHETHER OPERATOR IS IMMUNE FROM LIABILITY OR NOT; AND
3. THE CITY’S AND OPERATOR’S ACTUAL OR ALLEGED STRICT PRODUCTS LIABILITY OR STRICT STATUTORY LIABILITY, WHETHER OPERATOR IS IMMUNE FROM LIABILITY OR NOT.

B. OPERATOR SHALL DEFEND, INDEMNIFY, AND HOLD THE CITY HARMLESS IN ACCORDANCE WITH THE FOREGOING DURING THE TERM OF THIS AGREEMENT AND FOR FOUR YEARS AFTER THE AGREEMENT TERMINATES BUT ONLY FOR ACTS OR OMISSIONS THAT OCCUR DURING THE TERM.

C. THE FOREGOING INDEMNIFICATION SHALL NOT BE INTERPRETED AS REQUIRING OPERATOR TO INDEMNIFY THE CITY FROM ANY LIABILITY ARISING OUT OF ITS INTENTIONAL ACTS OR OMISSIONS UNDER THIS AGREEMENT.

\* \* \*

Section 9.03: Insurance. With no intent to limit Operator’s liability or the indemnification provisions set forth herein, Operator shall provide and maintain, or cause the LLC to provide and maintain, the insurance described in this section in full force and effect at all times during the Term of this Agreement and any extensions thereto. Such insurance is described as follows:

A. Risks and Limits of Liability. The insurance, at a minimum, must include the following coverages and limits of liability:

(Coverage)	(Limit of Liability)
Workers’ Compensation	Statutory for Worker’s Compensation.
Employer’s Liability	Bodily Injury by accident \$500,000 (each accident) Bodily Injury by Disease \$500,000 (policy limit) Bodily Injury by Disease \$500,000 (each employee)
Commercial General Liability: Including Broad Form Coverage, Contractual Liability, Bodily and Personal Injury, and Completed Operations	Bodily Injury and Property Damage, Combined Limits of \$1,000,000 each Occurrence and \$2,000,000 aggregate

(Coverage)	(Limit of Liability)
ALL RISK covering Operator	80% of the value of Operator
Improvements, Fixtures, Removable Fixtures, and Equipment (including fire, lighting, vandalism, and extended coverage perils)	Constructed Improvements
Automobile Liability Insurance (for automobiles used by the Operator in the course of its performance under this Agreement, including Employer's Non Ownership and Hired Auto Coverage)	\$2,000,000 combined single limit per occurrence

Defense costs are excluded from the face amount of the policy.  
Aggregate Limits are per 12-month policy period  
unless otherwise indicated.

In connection with the design, construction, procurement and installation of the Special Facilities conducted by the Operators, each Operator shall contractually require its principal construction contractors and architects/engineers to carry the following additional coverages and limits of liability, unless Operator carries policies of insurance covering such risk; provided, however, if reasonable under the circumstances, Operator may, with the concurrence of the Director, require lower limits of liability:

Professional Liability (in the case of architects and engineers)	\$2,000,000 per occurrence/aggregate
Builders Risk: (in the case of contractors)	Replacement value of the Special Facilities, but not less than the principal amount of Bonds Outstanding

(Aggregate limits are per 12-month period unless otherwise indicated.)

B. Form of Policies. The Director may approve the form of the insurance policies, but nothing the Director does or fails to do relieves Operator from its duties to provide the required coverage under this Agreement. The Director's actions or inactions do not waive the City's rights under this Agreement.

C. Issuers of Policies. The issuer of any policy shall have a Certificate of Authority to transact insurance business in Texas or have a Best's rating of at least B+ and a Best's Financial Size Category of Class VI or better, according to the most current edition Best's Key Rating Guide, Property-Casualty United States.

D. Insured Parties. Each policy, except those for Workers Compensation, Employer's Liability, and Professional Liability, must name the City (and its officers, agents, and employees) as Additional Insured parties on the original policy and all renewals or replacements.

E. Deductibles. Operator shall be responsible for and bear any claims or losses to the extent of any deductible amounts and waives any claim it may have for the same against the City, its officers, agents, or employees.

F. Cancellation. Each policy must state that it may not be canceled, materially modified, or nonrenewed unless the insurance company gives the Director 30 days' advance written notice. Operator shall give written notice to the Director within five days of the date on which total claims by any party against Operator reduce the aggregate amount of coverage below the amounts required by this Agreement. In the alternative, the policy may contain an endorsement establishing a policy aggregate for the particular project or location subject to this Agreement.



G. Subrogation. Each policy must contain an endorsement to the effect that the issuer waives any claim or right of subrogation to recover against the City, its officers, agents, or employees.

H. Endorsement of Primary Insurance. Each policy (excluding rental car customer's policies), except Worker's Compensation and Professional Liability (if any), must contain an endorsement that the policy is primary to any other insurance available to the Additional Insured with respect to claims arising under this Agreement.

I. Liability for Premium. Operator shall pay all insurance premiums, and the City shall not be obligated to pay any premiums.

J. Subcontractors. Operator shall require all subcontractors who impact Airport operations to carry insurance naming the City as an additional insured and meeting all of the above requirements except amount. The amount must be commensurate with the amount of the subcontract, but in no case less than \$500,000 per occurrence. Operator shall provide copies of insurance certificates to the Director.

K. Self-Insurance. Operator shall have the right to self-insure Workers' Compensation coverage and Auto Liability coverage only. If self-insurance is chosen, Operator must obtain a certificate of authority to self-insure Workers' Compensation from the Texas Workers' Compensation Commission and provide a certified copy of same to the Director. Operator must also obtain a certificate of authority to self-insure Auto Liability coverage from the Department of Public Safety and provide a certified copy of same to the Director. If Operator is not authorized to self-insure the amount of coverage as required in Section 9.03A above or if such authorization is subsequently revoked during the Term of this Agreement, then the balance or full amount, as the case may be, of the insurance coverage must be acquired through third party insurer(s) and the proof of such third-party coverage shall be provided to the Director as required in Section 9.04A below. At no time during the Term of this Agreement shall Operator allow a lapse in insurance coverage to occur, whether self-insurance or third-party insurance.

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## ARTICLE X

### EVENTS OF DEFAULT AND REMEDIES

Section 10.01. Events of Default. The following shall be Events of Default as to each Operator under this Agreement:

(a) Failure by an Operator to collect and remit promptly to the Trustee the CFC required to be paid monthly under Article VI hereof.

(b) Failure by an Operator to pay any Ground Rentals or Restricted Use Fees due within fifteen (15) Business Days after being notified in writing by the City of such failure.

(c) An event of default by Operator under its Concession Agreement with HAS at the Airport, including covenants, conditions or agreements under the LLC members agreement and operating agreement, and the failure to cure the same within any applicable grace period or written notification by the LLC to the City that an event of default by Operator has occurred under its agreement with the LLC and the Operator has failed to cure the same within any applicable grace period.

(d) Failure by an Operator to observe and perform any covenant, condition or agreement on its part to be observed or performed under this Agreement other than as referred to in subsection (a), (b) or (c) next above, for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, is given to such Operator by the City (except (i) if any insurance required to be maintained by such Operator is to be canceled or not renewed, such notice and the period for remedy by Operator shall be limited to the period ending on the date on which such cancellation or nonrenewal is scheduled to occur and (ii) where fulfillment of another obligation requires activity over a period of time, and the Operator shall commence to perform whatever may be required for fulfillment within thirty (30) days after the receipt of notice and shall diligently continue such performance without interruption, except for causes beyond its control).

(e) Any material lien shall be filed against the Operators' interest in the Special Facilities or the Project Site or any part thereof in violation of this Agreement by a party other than the City and shall remain unreleased for a period of sixty (60) days from the date of such filing unless within said period the Operators is contesting in good faith the validity of such lien in accordance with Section 8.03(d) hereof.

(f) Whenever an involuntary petition shall be filed against the Operator under any bankruptcy or insolvency law or under the reorganization provisions of any law of like import or a receiver of such Operator for all or substantially all of the property of Operator shall be appointed without acquiescence and such petition or appointment is not discharged within ninety (90) days after its filing.

(g) The dissolution or liquidation of an Operator or the filing by such Operator of a voluntary petition in bankruptcy, or failure by such Operator within ninety (90) days to lift any execution, garnishment or attachment of such consequence as will impair its ability to carry on its operations at the Special Facilities, or general assignment by the Operator for the benefit of its creditors, or the entry by the Operator into an agreement of composition with its creditors, or the approval by a court of competent jurisdiction of a petition applicable to the Operator in any proceeding for its reorganization or liquidation instituted under the provisions of the federal bankruptcy laws, or under any similar laws which may hereafter be enacted. The term "dissolution or liquidation of an Operator," as used in this subsection, shall not be construed to include the cessation of the corporate existence of the Operator resulting either from a merger or consolidation of the Operator into or with another corporation or a dissolution or liquidation of the Operator following a transfer of all or substantially all of its assets as an entirety, under the conditions permitting such actions contained in Section 12.01 hereof.

(h) Whenever the Operator shall fail to provide adequate assurance (i) that Operator will promptly cure all defaults hereunder, if any; (ii) that Operator will compensate, or provide adequate assurance that Operator will promptly compensate, the City for any actual pecuniary loss to the City resulting from any Event of Default hereunder; and (iii) of future performance by Operator of the terms and conditions of this Agreement, each within thirty (30) days after (1) the granting of an Order for Relief with respect to Operator pursuant to Title XI of the United States Code; (2) the initiation of a proceeding under any bankruptcy or insolvency law or the reorganization provisions of any law of like import; or (3) the granting of the relief sought in an involuntary proceeding against the Operator under any bankruptcy or insolvency law. As used in this Agreement, adequate assurance of future performance of this Agreement shall include, but shall not be limited to, adequate assurance (1) of the source of Net Rent and other consideration due hereunder and (2) that the assumption or assignment of this Agreement will not breach any provision, such as a use, management, or ownership provision, in this Agreement, any other material lease, any financing agreement, or master agreement relating to the Special Facilities.

Section 10.02: Remedies on Default. Whenever any Event of Default referred to in Section 10.01 hereof shall have happened and continue to exist, then the City must notify the chairperson of the LLC Managing Committee and may take any one or more of the following remedial steps as against the defaulting Operator:

(a) The City may, and upon a payment default shall, re-enter and take possession of the Operator's interest in the Special Facilities and Project Site without terminating this Agreement and use its best efforts to (i) complete construction and equipping of the Maintenance/Storage Facilities (and apply proceeds of the Bonds for such purpose) and (ii) sublease such Operator's interest in the Special Facilities and Project Site to another Operator on the same basis, all for the account of the Operator, holding the Operator liable for the difference between the rents and other amounts payable by the Operator hereunder and the charges received from rents and other amounts received from any sublessee with respect to the Special Facilities and Project Site. All proceeds derived from the CFC imposed by such Operator shall be remitted to the Trustee for application pursuant to the Trust Indenture.

(b) The City may terminate this Agreement, exclude the Operator from possession of the Special Facilities and Project Site and use its best efforts to (i) complete construction and equipping of the Maintenance/Storage Facilities (and apply proceeds of the Bonds for such purpose) and (ii) lease such Operator's interest in the same to another Operator on the same basis, all for the account of the Operator, holding the Operator liable for all rents and other amounts due under this Agreement and not received by the City from rents with respect to the Special Facilities and Project Site. All proceeds derived from the CFC imposed by such Operator shall be remitted to the Trustee for application pursuant to the Trust Indenture.

(c) The City may take whatever other action at law or in equity as may appear necessary or desirable to collect the rent then due and thereafter to become due, or to enforce performance and observance of any obligation,

agreement or covenant of the Operator under this Agreement. The City shall use its best efforts to lease such Operator's interest in the Special Facilities to another Operator under the terms of this Agreement for the account of Operator as provided in clauses (a) and (b) above after an Event of Default by Operator, whether or not City retakes possession of the Special Facilities and Project Site or terminates this Agreement.

Section 10.03: Additional Remedy. In addition to the other remedies herein provided, the City may, in the case of an Event of Default under Section 10.01(c), enter the Operator's interests in the Special Facilities and Project Site (without such entering causing or constituting a termination of this Agreement or an interference with the possession of the Special Facilities and Project Site by Operator) and do all things reasonably necessary to cure such Event of Default, charging to Operator the reasonable cost and expense thereof and Operator agrees to pay to City upon demand such charge in addition to all other amounts payable by Operator hereunder.

Section 10.04: No Remedy Exclusive. No remedy herein conferred upon or reserved to the City is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or hereafter existing under law or in equity (to the extent not inconsistent with the terms hereof). No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the City to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice, unless such notice is herein expressly required or is required by law.

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## ARTICLE XI

### ASSIGNMENTS, SUBLETTING AND TERMINATION BY AN OPERATOR

Section 11.01: Assignments and Subletting by any Operator. (a) This Agreement may not be assigned or otherwise transferred in whole or in part by any Operator (except pursuant to Section 12.01 hereof) without the prior written consent of the Director; provided, however, that, unless permitted by the Trust Indenture or Section 12.01 hereof, the City will not consent to any assignment by an Operator of its rights hereunder without first obtaining a written agreement from the Operator that Operator shall remain primarily liable for all of its payment obligations hereunder. An Operator may sublet its interest in the Special Facilities and Project Site or any part thereof to any party, subject to the condition that the Operator first obtains the written consent of the Director to such subletting and all the terms thereof, unless such subletting is expressly authorized herein.

(b) If an Operator sublets all or any part of its interests in the Special Facilities and/or Project Site or if all or any part of its interest in the Special Facilities are occupied (pursuant to a written consent from the Director) by anyone other than Operator (including any subsidiary of Operator), the City may, if an Event of Default shall have occurred hereunder and be continuing, collect rent from such sublessee or occupant and the City shall apply the amount collected to the extent possible to satisfy the obligations of Operator hereunder, but no such collection shall be deemed a waiver by the City of the covenants contained herein or an acceptance by the City of any such sublessee, claimant or occupant as a successor Operator, nor a release of Operator by the City from the further performance by the Operator of the covenants imposed upon Operator herein.

(c) NOTWITHSTANDING ANYTHING CONTAINED HEREIN TO THE CONTRARY, SO LONG AS ANY BONDS REMAIN OUTSTANDING NO SUCH SUBLEASE OR ASSIGNMENT SHALL BE AUTHORIZED IF IN ANY WAY IT RELEASES AN OPERATOR FROM ITS PRIMARY OBLIGATIONS HEREUNDER, INCLUDING ITS OBLIGATION TO COLLECT AND REMIT THE CFC, UNLESS SUCH RELEASE IS EXPRESSLY AUTHORIZED BY THE TRUST INDENTURE.

Section 11.02: Termination of Agreement by Operator. An Operator shall not terminate this Agreement for any reason whatsoever as long as any of the Bonds remain Outstanding unless expressly permitted by the Trust Indenture.

## ARTICLE XII

### MISCELLANEOUS

Section 12.01: Operator to Maintain Its Organizational Existence. The Operator shall throughout the term hereof maintain its organizational existence, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another entity or permit one or more other entities to consolidate with or merge into it; provided, that the Operator may, without violating the agreement contained in this Section, consolidate with or merge into another entity, or permit one or more other entities to consolidate with or merge into it, or sell or otherwise dispose of all or substantially all of its assets as an entirety and thereafter dissolve, provided, if Operator is not the surviving entity, the surviving, resulting or transferee entity, as the case may be, (i) assumes in writing all of the obligations of the such Operator herein and (ii) qualifies or is qualified to do business in Texas.

\* \* \*

## APPENDIX B

### SELECTED PROVISIONS OF THE INDENTURE

*The following are excerpts of certain provisions of, and certain defined terms contained in, the Trust Indenture, in addition to the Trust Indenture provisions summarized elsewhere in the Official Statement. These excerpts do not purport to be comprehensive or definitive and are qualified in their entirety by the reference to the full terms of the Trust Indenture. Capitalized terms not otherwise defined have the meaning specified in the respective document.*

THIS TRUST INDENTURE (which, together with all supplements and amendments hereto as herein permitted, is herein called the “Indenture”) is made and entered into as of March 1, 2001, by and between the CITY OF HOUSTON, TEXAS, a municipal corporation and home rule city, duly incorporated under the laws of the State of Texas (the “State”), situated primarily in Harris County, Texas (the “City”) and The Chase Manhattan Bank, a New York state bank, which is authorized to accept and execute trusts and exercise corporate trust powers of the character herein set out (hereinafter together with any successor to the trust herein granted referred to as the “Trustee”).

\* \* \*

#### ARTICLE I

##### DEFINITIONS AND INTERPRETATIONS

Section 1.1: Definitions. In this Indenture, the following terms shall have the following meanings, unless the context clearly indicates otherwise:

“**Additional Bonds**” shall mean any additional parity revenue bonds permitted to be issued by the City pursuant to Section 6.1 of the Trust Indenture.

“**Administrative Costs Fund**” shall have the meaning ascribed to such term in Article IV of the Trust Indenture.

“**Administrative Costs Requirement**” shall mean \$50,000 for calendar year 2001 and thereafter such amount as shall be estimated by the Independent Rate Consultant to be necessary to pay the costs and expenses in such calendar year of the Trustee, the Independent Rate Consultant, the auditor, the bookkeeper and other such administrative or professional fees; provided, however, that any surplus funds remaining in the Administrative Costs Fund from previous calendar years must be applied toward such estimate. In the absence of such a determination, the Administrative Costs Requirement shall be the amount for the prior calendar year.

“**Agreement**” shall mean that certain Master Special Facilities Lease Agreement (Consolidated Rental Car Facility Project) dated as of January 1, 2001, by and between the City and the Operators from time to time signatories thereto pursuant to Operator Agreements, and all supplements, amendments and modifications thereof not prohibited by Section 7.1 of the Trust Indenture.

“**Airport**” shall mean George Bush Intercontinental Airport/Houston.

“**Airport System**” shall mean all airport, heliport and aviation facilities, or interest therein, now or from time to time owned operated, or controlled in whole or in part by the City, which currently includes the Airport, William P. Hobby Airport, and Ellington Field.

“**Authorized Investments**” shall mean any of the investment securities (including with respect to which the Trustee or any Person affiliated with the Trustee receives compensation) that are authorized under (i) the Texas Public Funds Investment Act, as amended, (ii) the City of Houston, Texas, Investment Policy, as amended, and Sections 4.10 and 13.2 of the Trust Indenture.

**“Authorized Representative”** shall mean with respect to the City, the director of the City’s Department of Aviation (or successor to that position) or his or her designee, and with respect to the Operators, shall mean the Operators’ Authorized Representative as provided in the Agreement.

**“Bonds”** or **“Special Facilities Bonds”** shall mean collectively the Series 2001 Bonds, the Series 2014 Bonds, and any Additional Bonds and Refunding Bonds from time to time hereafter issued under the Trust Indenture. All such Bonds shall constitute “Special Facilities Bonds” within the meaning of the City’s ordinances authorizing the issuance of the City’s Airport System Senior, Subordinate and Inferior Lien Revenue Bonds and Notes.

\* \* \*

**“Business Day”** shall mean a day other than a Saturday, Sunday, or legal holiday or the equivalent (other than a moratorium) on which banking institutions generally in Houston, Texas or New York, New York are authorized or required by law or executive order to close.

\* \* \*

**“Capitalized Interest Account”** shall mean the Capitalized Interest Accounts created within the Debt Service Fund pursuant to Section 4.2 of the Trust Indenture.

**“Capitalized Interest Account Requirement”** shall mean for the Series 2001 Bonds, \$16,185,256.08 (being interest scheduled to accrue on the Series 2001 Bonds that are issued as Current Interest Bonds through January 1, 2003) and for any Additional Bonds, the amount, if any, provided for in any supplement to the Trust Indenture authorizing such Additional Bonds.

\* \* \*

**“Costs of the Project”** shall mean those costs that are so defined in Section 1.01 of the Agreement.

**“Coverage Fund”** shall have the meaning ascribed to such term in Article IV of the Trust Indenture.

**“Coverage Fund Requirement”** shall mean 25% of the Maximum Annual Debt Service Requirements for the Series 2001 Bonds and, upon the issuance of any Additional Bonds or Refunding Bonds, shall mean 25% of the Maximum Annual Debt Service Requirements for all Bonds then Outstanding.

**“Current Annual Debt Service Requirements”** shall mean the annual scheduled payments of principal of and interest on the Bonds in the then current calendar year; provided, however, that such definition may be amended in any supplemental indenture with respect to any series of Additional Bonds or Refunding Bonds.

**“Customer Facility Charge”** or **“CFC”** shall mean the charge required to be collected by the Operators upon vehicle rentals pursuant to Section 6.02 of the Agreement, the proceeds of which are required to be remitted directly to the Trustee to satisfy the Operators’ obligation to pay Special Facilities Rent, which is pledged under the Trust Indenture to the payment of the Bonds.

**“Debt Service Fund”** shall have the meaning ascribed to such term in Article IV of the Trust Indenture, inclusive of the Capitalized Interest Account therein.

**“Debt Service Reserve Fund”** shall have the meaning ascribed to such term in Article IV of the Trust Indenture.

\* \* \*

**“Department of Aviation”** shall mean that department of the City that manages the Airport System, also known as the Houston Airport System.

**“Director”** shall mean the Director of the Department of Aviation or any designee of such Director.

\* \* \*

“**Event of Default**” under the Trust Indenture, shall mean those events or occurrences defined in Section 8.1 of the Trust Indenture.

“**Facility Improvement Fund**” shall have the meaning ascribed to such term in Article IV of the Trust Indenture.

“**Feasibility Consultant**” shall mean a nationally recognized independent firm, person or corporation having a widely known and favorable reputation for special skill, knowledge and experience in methods of development, operation, financing and management of airports of approximately the same size as the properties constituting the Airport System.

\* \* \*

“**Holder**” and “**Registered Owner**” shall mean the Person in whose name such Bond is registered.

“**Independent Rate Consultant**” shall mean a nationally recognized independent firm, person or corporation having a widely known and favorable reputation for special skill, knowledge and expertise in methods of development, operation, financing and management of airports of approximately the same size as the properties constituting the Airport System.

\* \* \*

“**LLC**” shall mean IAH RACS LLC, a Delaware limited liability company, or its successors, or any other limited liability companies, partnerships, corporations or other business entities which all Operators own, control and participate in, and which shall act on behalf of all Operators as provided under the Agreement, and solely at their cost and expense, to operate, repair and/or maintain the Special Facilities and the Project Site (other than the Exclusive Use Ground Lease Area and the exclusive use areas within the Customer Service Building).

“**Maximum Annual Debt Service Requirements**” for the Bonds shall mean the maximum annual scheduled payments of principal and interest on the Bonds in any calendar year; provided, however, that such definition may be amended in any supplemental indenture with respect to any series of Additional Bonds or Refunding Bonds.

\* \* \*

“**Operator**” or “**Operators**” shall mean individually or collectively the rental car companies that, by execution of an Operator Agreement, are or become signatories to the Agreement, and any of their successors and permitted assigns thereunder.

“**Outstanding**” when used with respect to the Bonds means, as of the date of determination, the aggregate principal amount of all Bonds theretofore authenticated and delivered under the Trust Indenture, except, without duplication:

- (1) Bonds theretofore canceled by the Trustee or delivered to the Trustee for cancellation;
- (2) Bonds for the payment or redemption of which money in the necessary amount has been theretofore deposited with the Trustee or any Trustee in trust for the Holders of such Bonds, provided that, if such Bonds are to be redeemed prior to the stated maturity thereof, notice of such redemption has been duly given pursuant to the Trust Indenture, or waived, or provision therefor satisfactory to the Trustee has been made;
- (3) Bonds in lieu of which another Bond has been authenticated and delivered under the Trust Indenture; and
- (4) Bonds purchased or held by the City.

“**Person**” shall mean any individual, corporation, partnership, joint venture, association, joint-stock company, trust, limited liability company, unincorporated organization, or government or agency or political subdivision thereof.

\* \* \*

“**Project Fund**” shall have the meaning ascribed to such term in Article IV of the Trust Indenture.

“**Rate Reports**” shall mean the written reports and recommendations of the Independent Rate Consultant or, with the consent of the LLC, the City), prepared pursuant to Section 7.2 of the Trust Indenture, which shall include the following information:

- (1) the recommended Customer Facility Charge for the ensuing calendar year (or other stated period);
- (2) the recommended transfers to the Revenue Fund from the CFC Stabilization Account or from other amounts in the Facility Improvement Fund;
- (3) pro forma Customer Facility Charge collection data for the ensuing calendar year (or other stated period) on a monthly basis, together with calculations showing 90% and 80% of such monthly amounts;
- (4) the estimated Administrative Cost Requirement for the ensuing calendar year (or other stated period); and
- (5) the Rate Report may include any additional documentation to support the recommended CFC rate and reflecting the anticipated disposition of the CFC revenues among the Funds established and maintained under the Trust Indenture.

“**Refunding Bonds**” shall mean revenue refunding bonds permitted to be issued under the Trust Indenture.

“**Requisition Certificate**” shall mean a written consent or order executed by an Authorized Representative of the Operators or the City in substantially the form of Exhibits A-1 and A-2 to the Indenture.

“**Revenue Fund**” shall have the meaning ascribed to such term in Article IV of the Trust Indenture.

\* \* \*

“**Special Facilities**” shall mean the Project, all extensions, additions, modifications and improvements thereto and all other improvements, fixtures, equipment and facilities that, pursuant to the Agreement or any supplement thereto or amendment thereof, are financed with any proceeds of the Series 2001 Bonds or any Additional Bonds.

“**Special Facilities Rent**” shall mean such rent payable by Operators directly to the Trustee pursuant to Section 6.02 of the Agreement and pledged to the payment of the Bonds.

\* \* \*

“**Transaction Day**” shall mean the period or fraction thereof which constitutes a transaction day for assessment of the Customer Facility Charge.

“**Trustee**” shall mean the bank designated as Trustee under the Trust Indenture, or any successor trustee thereunder.

Section 1.2: Interpretations. All terms defined herein and all pronouns used in this Indenture shall be deemed to apply equally to singular and plural and to all genders. The table of contents, titles and headings of the articles and Sections of this Indenture have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof. This Indenture and all the terms and



provisions hereof shall be liberally construed to effectuate the purposes set forth herein and to sustain the validity of the Bonds and the validity of the lien on and pledge of the Pledged Revenues to secure the payment of the Bonds.

\* \* \*

#### ARTICLE IV

##### SOURCE OF PAYMENT FOR ALL BONDS: SPECIAL FUNDS AND FLOW OF FUNDS

Section 4.1: Source of Payment for Bonds. The Bonds are special limited obligations of the City payable solely from, and secured by a lien on and pledge of, the Pledged Revenues and the Pledged Funds. The Bonds shall never constitute an indebtedness of the City within the meaning of any provisions of the Constitution or laws of the State of Texas or the City's Home Rule Charter and shall not be general obligations of the City. The Holders of the Bonds shall never have the right to demand payment thereof out of any funds raised or to be raised by taxation or any other revenues generally available to the City or the Airport System other than the Pledged Revenues and the Pledged Funds.

\* \* \*

Section 4.9: Security for Funds. So long as any of the Bonds remain Outstanding, all cash balances from time to time on deposit to the credit of any funds or accounts maintained under this Indenture, including money placed on time deposit, shall be secured by the Trustee in the manner required by law for City funds.

Section 4.9A: Deficiencies in Funds. If in any month there shall not be transferred into any Fund maintained pursuant to this Article the full amounts required herein, amounts equivalent to such deficiency shall be set apart and transferred to such Fund or Funds from the first available and unallocated moneys in the Revenue Fund, and such transfer shall be in addition to the amounts otherwise required to be transferred to such Funds during any succeeding month or months.

Section 4.10: Investment of Funds. (a) Subject to the provisions of Section 13.2 of this Indenture, moneys from time to time credited to the funds and accounts hereunder may be invested by the Trustee in Authorized Investments, as directed in writing by the City. The Trustee may conclusively presume that all investments directed by the City constitute Authorized Investments. All investments shall belong to the fund or account from which such moneys were taken. The Trustee shall have the right to have sold in the open market a sufficient amount of such investments from any fund or account to meet its obligations from such fund or account if sufficient uninvested funds are not then on deposit therein. Neither the Trustee nor the City shall be responsible for any loss arising from investments made in accordance with this Section, or for any loss resulting from the redemption or sale of any such investments as authorized by this Section.

(b) All Authorized Investments made with moneys deposited to the credit of the Debt Service Fund, including the Capitalized Interest Account, shall mature on or before the last business day prior to the next Interest Payment Date on the Bonds to the extent there are not funds and investments already on deposit therein sufficient to provide for the payment of all amounts payable therefrom on such date.

(c) Excluding any interest earned on amounts contained within the Project Fund and the Facility Improvement Fund, all interest and income derived from the deposit or investment of moneys in any other fund or account shall be transferred to the Revenue Fund. All interest and earnings on moneys deposited in the Project Fund shall remain within the Project Fund until completion of the Project. All interest and earnings on moneys deposited in the Facility Improvement Fund shall remain within the Facility Improvement Fund so long as any Bonds remain Outstanding.

(d) On the last business day of each calendar year, all investments in all funds and accounts shall be valued based on then current market value, except for any amounts invested in United States Treasury obligations (State and local series), which shall continuously be valued at their par amount.

\* \* \*

## ARTICLE VII

### COVENANTS OF THE CITY

Section 7.1: Concerning the Agreement. The City covenants and warrants (i) that the Agreement has been duly and lawfully entered into, executed and delivered by the City and represents a valid, binding and enforceable agreement between the City and the Operators; (ii) that this Indenture has been approved as required by the Agreement; (iii) that so long as any Bonds remain Outstanding, the City will not consent to or grant any modification of or amendment to Section 6.02 of the Agreement; (iv) that so long as any Bonds remain Outstanding, the City will not consent to or grant any modification of or amendment to any other provision of the Agreement that would have the effect of reducing, altering or modifying the obligations and commitments of the Operators contained in Sections 6.02 and 6.03 of the Agreement, or would minimize, reduce or lessen the rights of the City in the event of a default in the payment of Special Facilities Rent by the Operators thereunder, or would materially and adversely affect the security herein provided for the payment of the Bonds; and (v) that so long as any Bonds remain Outstanding, the City will perform and discharge its duties and obligations under the Agreement and will use its best efforts to require the Operators to perform and discharge each and all of its duties and obligations thereunder.

Section 7.2: Rate Covenant. (a) The City shall cause the Customer Facility Charge to be calculated, established and imposed as herein provided so long as any Bonds remain Outstanding, and the City shall use diligence to cause the Customer Facility Charge to be collected by the Operators in accordance with the terms of the Agreement and deposited with the Trustee directly by the Operators. The Customer Facility Charge shall be established initially and reviewed and adjusted (if necessary) annually, or as required below, by the Director based upon the Rate Reports from the Independent Rate Consultant (or, with the consent of the LLC, by the City), at rates estimated to generate CFC revenues, along with other Pledged Revenues, in each calendar year equal to not less than:

(i) 125% of the debt service requirements on the Bonds for such calendar year; and

(ii) the amounts necessary to fund in such calendar year all transfers from the Revenue Fund as required by Article IV of this Indenture.

(b) The Director shall cause the Rate Reports to be prepared and to be filed with the Trustee prior to each calendar year, based upon the Transaction Day and other rental information required to be provided annually to the Independent Rate Consultant by the Operators pursuant to the Agreement. If at any time during such ensuing Calendar year,

(i) the aggregate collections of Customer Facility Charge are less than 90% of the pro forma aggregate collections for the corresponding period as shown in the Rate Reports filed with the Trustee, the Director, following consultation with the Operators, may promptly increase the Customer Facility Charge without waiting for the next annual review; or

(ii) for four (4) consecutive months the monthly collections of the Customer Facilities Charge are less than 80% of the pro forma monthly collections for the corresponding periods as shown in the Rate Reports filed with the Trustee, the Director shall promptly direct the Independent Rate Consultant to review the Transaction Day and CFC collection history and to issue a new Rate Report recommending appropriate action with respect to the CFC rate (and which may include recommending the use of amounts in the CFC Stabilization Account and Facility Improvement Fund), which Rate Report recommendation shall be implemented as promptly as practicable;

provided, that if such Rate Report is to be issued within the final three (3) months of a calendar year, it may also include recommendations for the ensuing calendar year, in which case no additional Rate Report for such ensuing calendar year will be required, except as may be required by this clause (ii).

(c) In the event the Rate Covenant shall not be satisfied in any Calendar year, it shall not constitute an event of default so long as no payment default has occurred and the City promptly engages an Independent Rate Consultant to

recommend a rate for the Customer Facility Charge that will enable the Rate Covenant to be satisfied and the City promptly causes the Customer Facility Charge to be imposed at the recommended rate.

(d) The Director shall file a certificate with the Trustee no less than annually setting forth the current Customer Facility Charge and stating whether the actions described within Section 7.2(b)(i) and (ii) above have been taken during the previous twelve (12) months.

Section 7.3: Collection of Special Facilities Rent. The City shall use diligence to cause the Special Facilities Rent payable by the Operators under the Agreement to be paid by Operators directly to Trustee in the amounts and at the times necessary to enable the Trustee to make all transfers to the Debt Service Fund and every other fund required herein and in the Agreement.

\* \* \*

Section 7.5: Diligence in Certain Events of Default. In the Event of a Default by any Operator under the Agreement (and whether or not it elects to terminate such Operator's rights under the Agreement), the City covenants and agrees, subject to the terms in the Agreement, to use its best efforts to keep the Special Facilities leased, or subleased on a net rent lease basis and to impose and collect from the Operators Special Facilities Rent for the use of the Special Facilities in such amounts and under such terms and conditions as shall be sufficient to pay and retire the Bonds and all interest thereon when and as due and payable and to maintain the amounts required to be on deposit in the Debt Service Fund and to provide for the proper maintenance and operation and insurance of the Special Facilities without expense to the City.

Section 7.6: Payment of Bonds. Subject to the provisions of Article IV hereof, the City agrees promptly to cause to be paid as the same become due and payable the principal of and interest on the Bonds.

Section 7.7: Transfers and Assignments. So long as any Bonds remain Outstanding, the City shall not cause or permit the Operators to sell, dispose of, or encumber any portion of the Special Facilities, except as may be permitted under the Agreement and this Indenture; provided, however, that this prohibition shall not prevent the City from disposing or permitting the disposal of any portion of the Special Facilities that has been declared surplus or is no longer needed or useful for the proper operation of the Special Facilities.

Section 7.8: Encumbrance of Pledged Revenues and Pledge Funds. The Pledged Revenues and Pledged Funds (other than the Project Fund) are not in any manner pledged to the payment of any debt or obligation of the City other than the Bonds except as specially provided in this Indenture and any supplement thereto. Except through the issuance of Additional Bonds and Refunding Bonds, the City covenants that it will not in any manner pledge or further encumber the Pledged Revenues and Pledged Funds except as specially provided in this Indenture and any supplement thereto.

## ARTICLE VIII

### EVENTS OF DEFAULT AND REMEDIES

Section 8.1: Events of Default. Each of the following occurrences or events for the purposes of this Indenture shall be and is hereby declared to be an "Event of Default," to wit:

(a) The failure to make payment of the principal of or any installment of interest on any of the Bonds when the same shall become due and payable;

(b) The City shall fail, refuse or neglect to enforce the payment by the Operators of Special Facilities Rent under the Agreement, the imposition, collection or remittance to the Trustee of Customer Facility Charges, or otherwise fail, refuse or neglect to enforce any other provisions of the Agreement in a manner which materially adversely affects the rights of the Holders of the Bonds, including, but not limited to, their prospect or ability to be repaid in accordance with the terms and provisions of this Indenture, and the continuation thereof for a period of thirty (30) days after notice of such failure shall have been given to the City and the Operators by the Trustee; and

(c) The City shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Bonds or in this Indenture on its part to be performed, and such default shall continue for thirty (30) days after written notice specifying such default and requiring the same to be remedied shall have been given to the City and the Operators by the Trustee.

Section 8.2: Remedies. Upon the happening and continuation of any Event of Default as provided in Section 8.1 hereof, the Trustee may, and upon the written request of the Holders of not less than 50% of the aggregate principal amount of the Bonds then Outstanding and upon indemnification as provided in Section 9.2 hereof, but subject to the provisions of Section 13.2(e)(v) hereof, proceed against the City and/or the Operators for the purpose of protecting and enforcing the rights of the Holders of Bonds under this Indenture, by mandamus or other suit, action or special proceeding in equity or at law, in any court of competent jurisdiction, for any relief permitted by law, including the specific performance of any covenant or agreement contained herein, or thereby to enjoin any act or thing which may be unlawful or in violation of any right of the Holders of the Bonds hereunder or any combination of such remedies as the Trustee shall deem most effectual to protect and enforce any of its rights or the rights of the Holders of the Bonds. It is provided, however, that all such proceedings at law or in equity against the City and/or the Operators shall be strictly limited to the security and source of payment herein pledged to the Bonds, and shall be instituted and maintained for the equal benefit of all Holders of the Bonds. Each remedy, right or privilege herein provided shall be in addition to and cumulative of any other remedy, right or privilege available at law or equity, and the exercise of any remedy, right or privilege or the delay in or failure to exercise any remedy, right or privilege or the delay in or failure to exercise any remedy, right or privilege shall not be deemed a waiver of any other remedy, right or privilege hereunder.

Section 8.3: Effect of Discontinuance of Proceedings. In case any proceeding taken by the Trustee on account of any default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee, then and in every such case the City, the Trustee and each Holder shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceeding had been taken.

Section 8.4: Right of Holders to Direct the Proceedings. Anything in this Indenture to the contrary notwithstanding, but subject to the provisions of Section 13.2(e)(iii) hereof, the Holders of a majority in principal amount of the Bonds then Outstanding hereunder shall have the right, subject to the provisions of Section 9.2 of the Indenture, by an instrument in writing executed and delivered to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law or the provisions of the Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to the Holders not parties to such direction.

Section 8.5: Restrictions Upon Action by Individual Holders. No Holder of any of the Bonds shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust hereunder or for any other remedy hereunder unless (a) such Holder previously shall have given to the Trustee written notice of the Event of Default on account of which such suit, action or proceedings is to be instituted, (b) the Holders of not less than 50% in principal amount of the Bonds then Outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers herein above granted or to institute such action, suit or other proceeding in its or their name, (c) there shall have been offered to the Trustee security and indemnity reasonably satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and (d) the Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts of this Indenture or for any other remedy hereunder. It is understood and intended that no one or more Holders hereby secured shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Indenture or to enforce any right hereunder except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the benefit of all Holders.

Section 8.6: Trustee's Right to Act Without Possession of Bonds. All rights of action under this Indenture or under any of the Bonds secured hereby, enforceable by the Trustee, may be brought against third parties or otherwise, may be enforced by it without the possession of any of the Bonds or other proceeding relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the benefit of all the Holders of such Bonds, subject to the provisions of the Indenture.

Section 8.7: Right of Individual Holder to Enforce Payment. Nothing contained in this Article shall affect or impair the right of any Holder to enforce the payment of the principal of and interest on his Bonds, or, the obligation of the City to pay the principal of and interest on each Bond issued hereunder to the Holder thereof at the time and place expressed in said Bond.

## ARTICLE IX

### THE TRUSTEE

Section 9.1: Acceptance of Trusts. The Trustee, for itself and its successors, hereby accepts the trusts under this Indenture, but only upon the following terms and conditions set forth in this Article.

(a) The Trustee may execute any of the trusts or powers hereof and perform any duties required of it by or through attorneys or agents selected by it with reasonable care, and shall be entitled to advice of counsel concerning all matters of trust hereof and its duties hereunder, and may in all cases pay such reasonable compensation as it shall deem proper to all such attorneys and agents as may reasonably be required and employed in connection with the trusts hereof, and the Trustee shall not be responsible for the acts or negligence of such attorneys, agents or counsel, if selected with reasonable care.

(b) The Trustee shall not be responsible for any recitals herein or in the Bonds, except with regard to its acceptance of trusts under this Indenture. The Trustee may require of the City full information and advice as to the performance of the covenants, conditions and agreements contained in this Indenture. The recitals and statements of fact and warranties contained in this Indenture and in the Bonds shall be taken as statements by the City and shall not be considered as made by or as imposing any obligation or liability upon the Trustee.

(c) The Trustee shall not be under any responsibility or duty with respect to the further disposition of Bonds delivered in accordance with this Indenture, or for the disposition, use or application of any monies disbursed from the Project Fund upon receipt of a proper Requisition Certificate.

(d) Except as otherwise provided in this Indenture, the Trustee shall not be bound to recognize any person as a Holder of any Bond or to take action at such person's request, unless such Bond shall be deposited with the Trustee, or submitted to it for inspection. Any action taken by the Trustee pursuant to this Indenture upon the request, authority or consent of any person who, at the time of making such request or giving such authority or consent, shall be conclusive and binding upon all future owners or Holders of such Bond.

(e) Prior to an Event of Default hereunder, and after the curing of any such Event of Default, (i) the Trustee shall not be liable for the performance of any duties, except such duties as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee, and (ii) in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely upon the truth, completeness and accuracy of requisitions, the letters of instruction, statements, certificates, opinions, certified resolutions and other certified showings conforming on their face to the requirements of this Indenture. The Trustee shall be under no duty to investigate or make any inquiry as to any matter, document, direction, acquisition or request which, on its face, conformed to the requirements of this Indenture. In case of an Event of Default continuing for the period, if any, specified in Article VIII hereof, which Event of Default has not been cured, the Trustee shall exercise such of the rights and powers vested in it by this Indenture and shall use the same degree of care and skill in its exercise thereof as an ordinary corporate trustee would exercise or use under similar circumstances.

(f) Nothing herein contained shall relieve the Trustee from liability for its own negligent action or failure to act or its own willful misconduct, except that this subsection shall not be construed to limit the effect of subsection (e) of this Section 9.1. The Trustee shall not incur any liability (i) for any error of judgment made in good faith by a responsible officer or responsible officers thereof, unless it shall be proved that it was negligent in ascertaining the pertinent facts, or (ii) in respect of any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of the percentage of the Bonds specified herein relating to the time, method and place of conducting any proceeding, for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee under this Indenture.

(g) Except as otherwise expressly provided by the provisions of this Indenture, the Trustee shall not be obligated and may not be required to give or furnish any notice, demand, report, request, reply, statement, advice or opinion to any Holder of any Bond or to the City or any other person, and the Trustee shall not incur any liability for its failure or refusal to give or furnish same unless obligated or required to do so by express provision hereof.

(h) None of the provisions contained in this Indenture shall require the Trustee to advance, expend or risk its own funds or to otherwise incur financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if there is reasonable ground for believing that the repayment of such funds or liability is not reasonably assured to it by the security afforded to it by the terms of this Indenture. The Trustee shall not be required to give any bond or surety with respect to the execution of its trusts, powers, rights or duties under this Indenture.

(i) No personal recourse may be taken, directly or indirectly, against any incorporator, officer, director, agent or employee of the Trustee with respect to the obligations of the Trustee under this Indenture or any certificate or other writing delivered in connection therewith. The Trustee's immunities and protection from liability and its right to payment of compensation or indemnification in connection with the performance of its duties and functions under this Indenture shall extend to the Trustee's officers, directors, employees and agents and survive the Trustee's resignation or removal and the final payment of the Bonds.

(j) In the event the Trustee receives inconsistent or conflicting requests and indemnity from two or more groups of Holders of Bonds each representing less than a majority of the aggregate principal amount of Bonds then Outstanding, the Trustee, in its sole discretion, may determine what action, if any, shall be taken.

(k) In performing its duties under the Continuing Disclosure Agreement, the Trustee shall be entitled to all of the rights, protection and immunities accorded to it as Trustee under this Indenture.

(l) Except for information provided by the Trustee concerning the Trustee, the Trustee shall have no responsibility for any information in any offering memorandum or other disclosure material distributed with respect to the Bonds, and the Trustee shall have no responsibility for compliance with any state or federal securities laws in connection with the Bonds.

(m) In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Agreement, the Indenture or the existence, furnishing or use of the Project.

(n) The Trustee shall be under no liability for interest on any monies received by it hereunder except as provided herein or as the Trustee may otherwise specifically agree in writing.

(o) The Trustee is not required to take notice or deemed to have notice of any Event of Default hereunder, except an Event of Default under Section 8.1(a) hereof, unless the Trustee has received notice in writing of such Event of Default from the City or the Holders of at least 25% in aggregate principal amount of the Bonds Outstanding, which notice shall reference this Indenture and such Event of Default, and in the absence of any such notice, the Trustee may conclusively assume that no Event of Default exists.

(p) Except as provided in the Continuing Disclosure Agreement described in Section 12.1 hereof, or unless otherwise requested in writing, the Trustee shall have no responsibility for any registration, filing, recording, re-registration, refiling or rerecording of this Indenture, the Agreement, any of the other documents securing the Bonds or any financing statements relating thereto.

(q) The Trustee shall provide to the Airport System and the Operators' Authorized Representative an accounting of all funds held by the Trustee under this Indenture, upon any reasonable request, but in no event less than monthly.

Section 9.2: Trustee's Right To Require Indemnification. Trustee shall be under no obligation to exercise any remedy or take any other action hereunder which, in its opinion, is likely to involve expense or liability, unless one or more of the Holders of the Bonds shall furnish Trustee with indemnity reasonably satisfactory to it against expense and liability.

Section 9.3: Trustee To Give Certain Notices. In order to provide for the full and timely payment of the Bonds, the Trustee agrees that, if by any Interest Payment Date of any year while any Bonds remain Outstanding, the Operators shall fail to make deposits to the Debt Service Fund of amounts sufficient to provide for the payment of all principal of and interest on the Bonds on the next principal and/or Interest Payment Date the Trustee shall promptly notify in writing the City of such failure. Any delay or failure by Trustee to give such notice, however, shall not constitute a waiver of any Event of Default or remedy or other right herein provided.

\* \* \*

Section 9.7: Removal of Trustee. The Trustee may be removed at any time by (i) the City, if no Event of Default is then continuing, by delivering notice thereof to the Trustee, or (ii) an instrument or concurrent instruments in writing, signed by the Holders of a majority in principal amount of the Bonds then Outstanding and delivered to the Trustee, with notice thereof given to the City.

Section 9.8: Resignation of Trustee. (a) Except as provided in subsection 9.8(b) hereof, the Trustee may at any time resign and be discharged from the trusts hereby created by giving written notice to the City and by publishing notice of its intended resignation at least ninety (90) days in advance thereof, which notice shall specify the date on which such resignation shall take effect and shall be given in writing to the Holders of all of the Bonds and such resignation shall take effect from the date specified in such notice, unless a successor to such Trustee shall have been appointed by the Holders of the Bonds or by the City as hereinafter provided, in which event such resignation shall take effect immediately upon the appointment and acceptance of a successor Trustee.

(b) Notwithstanding any provision to the contrary contained in Section 9.7 or subsection 9.8(a) above, no removal or resignation of a Trustee hereunder shall become effective until a successor Trustee is appointed under Section 9.9 hereof.

Section 9.9: Appointment of Successor Trustee. Subject to the provisions of Section 13.2(k) of this Indenture, in case the Trustee hereunder shall resign, or shall be removed or dissolved, or shall be in the course of dissolution or liquidation, or shall otherwise become incapable of acting hereunder, or in case the Trustee shall be taken under control of any public officer or officers or a receiver appointed by a court, a successor may be appointed by the City after consultation with the LLC, if no Event of Default is then continuing, or in the absence of such an appointment by the City, be appointed by the Holders of a majority in principal amount of the Bonds then Outstanding, by an instrument or concurrent instruments in writing, signed by such Holders or their duly authorized representatives and delivered to the Trustee, with notice thereof given to the Operators; provided, however, that in any of the events above mentioned, the City, after consultation with the LLC, may nevertheless appoint a temporary Trustee to fill such vacancy until a successor shall be appointed by the Holders in the manner above provided, and any such temporary Trustee so appointed by the City shall immediately and without further act be automatically succeeded by the successor to the Trustee appointed by the Holders. The City shall promptly mail notice of the appointment of any successor Trustee to the Holders of the Bonds. Any successor Trustee or temporary Trustee shall be a state or national bank or trust company having combined capital and surplus of not less than \$150,000,000.

In the event that no appointment of successor Trustee is made by the Holders or by the City pursuant to the foregoing provisions of this Section at the time a vacancy in the office of the Trustee shall have occurred, the Holder of any Bond issued hereunder or the retiring Trustee may apply to any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice as it shall deem proper, if any, appoint a successor Trustee.

Section 9.10: Powers of Successor Trustee. Each successor Trustee appointed hereunder shall execute, acknowledge and deliver to its predecessor and to the City, an instrument in writing accepting such appointment hereunder, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all the estates, properties, rights, powers, trusts, duties and obligations of its predecessor, but such predecessor Trustee shall, nevertheless, on the written request of the City, execute and deliver an instrument transferring to such successor Trustee all the estates, properties, rights, powers, trusts, duties and obligations of such predecessor hereunder. Each predecessor Trustee shall immediately deliver all properties, securities and moneys held by it to its successor; provided, however, that before any such delivery is required or made, all proper fees, advances and expenses of the predecessor Trustee shall be paid in full. Should any instrument in writing be required from the City by any successor Trustee for properties, rights,

powers, trusts, duties and obligations hereby vested or intended to be vested in the predecessor Trustee, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by the City. The resignation of any Trustee, the appointment of a successor Trustee hereunder, together with all instruments provided for in this Article, shall be filed with such successor Trustee.

Section 9.11: Merger, Conversion or Consolidation of Trustee. Notwithstanding any provision hereof to the contrary, any corporation or association into which the Trustee may be merged or converted, or with which it may be consolidated, or any corporation or association resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or which succeeds to all or substantially all of the corporate trust business of the Trustee, shall be the successor Trustee under this Indenture without the execution or filing of any instrument or any other act on the part of any of the parties hereto.

\* \* \*

## ARTICLE XI

### DEFEASANCE

Section 11.1: Defeasance. (a) If the whole amount of the principal of and interest due on or to become due and payable upon all of the Bonds then Outstanding, if any, shall be paid or sufficient funds shall be held by the Trustee or the Trustee for such purpose, and provision shall also be made for paying all other sums payable hereunder by the City, together with all fees and charges of the Trustee and Trustee, and if any Bonds to be redeemed prior to maturity shall have been duly called for redemption or irrevocable instructions to call such bonds for redemption shall have been given by the City to the Trustee, then and in that case the right, title and interest of the Trustee herein shall thereupon cease, determine and become void, and the Trustee in such case, on demand of the City, shall release this Indenture and shall execute such documents to evidence such release as may be reasonably required by the City, and shall turn over to the City all balances remaining in all Funds created by this Indenture, other than funds held for redemption or payment of Bonds; otherwise this Indenture shall be, continue and remain in full force and effect.

(b) Any Bond shall be deemed to be paid and no longer Outstanding within the meaning of this Indenture when payment of the principal of on such Bond, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, upon redemption, or otherwise), either (i) shall have been made or caused to be made in accordance with the terms thereof, or (ii) shall have been provided by irrevocably depositing with the Trustee, pursuant to an escrow or trust agreement, a sufficient amount of cash and/or any obligation authorized under Texas law to be deposited for the payment or redemption of the Bonds, in principal amounts and maturities and bearing interest at rates which are certified by an independent certified public accountant to be sufficient to provide for the full and timely payment of the principal amount and redemption premium, if any, of such Bonds plus interest thereon to the date of maturity or redemption plus all fees and charges of the Trustee and Trustee in connection therewith; provided, however, that if any of such Bonds are to be redeemed prior to their respective dates of maturity, provision shall have been made for giving proper notice of redemption therefor; provided, however, that such defeasance comply with the provisions of Section 13.2(l) of this Indenture.

(c) To accomplish defeasance the City shall cause to be delivered (i) a report of an independent firm of nationally recognized certified public accountants ("Accountant") verifying the sufficiency of the escrow established to pay the Bonds in full on the maturity or redemption date ("Verification"), (ii) an escrow agreement, and (iii) an opinion of nationally recognized bond counsel to the effect that the Bonds are no longer "Outstanding" under State law and this Indenture; each Verification and defeasance opinion shall be acceptable in form and substance, and addressed, to the City and the Trustee.

\* \* \*



**APPENDIX C**

**FORM OF CO-BOND COUNSEL OPINION**

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**BRACEWELL & GIULIANI LLP**  
**711 LOUISIANA STREET, SUITE 2300**  
**HOUSTON, TEXAS 77002**

**LAW OFFICES OF FRANCISCO G. MEDINA**  
**1111 NORTH LOOP WEST, SUITE 820**  
**HOUSTON, TEXAS 77008**

\_\_\_\_\_, 2014

WE HAVE ACTED as co-bond counsel for the City of Houston, Texas (the “City”) in connection with the issuance of the bonds (the “*Series 2014 Bonds*”) described as follows:

CITY OF HOUSTON, TEXAS, AIRPORT SYSTEM SPECIAL FACILITIES TAXABLE  
REVENUE REFUNDING BONDS (CONSOLIDATED RENTAL CAR FACILITY PROJECT),  
SERIES 2014, in the principal amount of \$38,225,000.

The Series 2014 Bonds mature and bear interest as authorized by Ordinance No. 2013-0441, as supplemented and ratified by Ordinance No. 2014-0707 (collectively, the “*Ordinance*”) and the officers pricing certificate executed in connection therewith, and as further provided in the Trust Indenture dated as of March 1, 2001 and supplemented by a First Supplement to Trust Indenture dated as of May 1, 2003 (the “*Original Indenture*”) and as supplemented by the Second Supplemental Trust Indenture dated as of September 1, 2014 (the “*Second Supplemental Indenture*” and collectively with the Original Indenture, the “*Indenture*”) all by and between the City and The Bank of New York Mellon Trust Company, National Association, as successor to The Chase Manhattan Bank, as trustee (the “*Trustee*”). The Series 2014 Bonds are subject to redemption prior to maturity in the manner and upon the terms and conditions set forth in the Series 2014 Bonds and in the Indenture.

The proceeds of the Series 2014 Bonds are to be used to refund a portion of the City’s Airport System Special Facilities Taxable Revenue Bonds (Consolidated Rental Car Facility Project), Series 2001 (the “*Refunded Bonds*” and collectively with the Series 2014 Bonds, the “*Bonds*”), which were issued to finance the construction, equipment and improvement of a certain consolidated rental car facility at George Bush Intercontinental Airport/Houston and related airport facilities (the “*Project*”), which Project has been leased to certain rental car companies (the “*Operators*”) pursuant to a Master Special Facilities Lease Agreement (Consolidated Rental Car Facility Project), by and between the City and the Operators, dated as of January 1, 2001 (the “*Lease*”). The Operators have agreed to pay, pursuant to the terms of the Lease, certain Special Facilities Rent for the Project, to be derived solely from the collection from their customers of certain Customer Facility Charges as provided in the Lease and established from time to time by the City in amounts which, together with other Pledged Revenues as provided in the Indenture will be sufficient to pay principal of, premium, if any, and interest on the Series 2014 Bonds and the City’s outstanding Airport System Special Facilities Taxable Revenue Bonds (Consolidated Rental Car Facility Project), Series 2001, and any Additional Bonds or Refunding Bonds hereafter issued.

WE HAVE ACTED as co-bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Series 2014 Bonds under the Constitution and laws of the State of Texas. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of certified proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Operators or the City or the disclosure thereof in connection with the offer and sale of the Series 2014 Bonds. Our role in connection with the City’s Official Statement dated August 12, 2014 prepared for use in connection with the offer and sale of the Series 2014 Bonds has been limited as described therein. Capitalized terms used herein but not otherwise defined shall have the meanings assigned in the Indenture.

IN OUR CAPACITY as co-bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the authorization and issuance of the Series 2014 Bonds and refunding of the Refunded Bonds on which we have relied in giving our opinion. The transcript contains certified

copies of certain proceedings of the City Council of the City, customary certificates of officers and representatives of the City, the Operators and the Trustee, other certified showings relating to the authorization, execution and delivery of the Ordinance, the Indenture, the Lease and the authorization and issuance of the Series 2014 Bonds, and a report of Grant Thornton LLP verifying the sufficiency of the deposits to be made with the Trustee for the redemption of the Refunded Bonds. We have also examined executed counterparts of the Ordinance, the Indenture and the Lease and a specimen of the form of registered bonds.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

- (i) the transcript of certified proceedings referenced above evidences complete legal authority for the issuance of the Series 2014 Bonds in full compliance with the Constitution and laws of the State of Texas presently effective;
- (ii) the Series 2014 Bonds constitute legal, valid and binding special limited obligations of the City which are payable solely from and secured by a lien on and pledge of the Pledged Revenues and Pledged Funds, all as provided in the Indenture; and
- (iii) pursuant to Chapter 1207, Texas Government Code, firm banking and financial arrangements have been made for the discharge and final payment of the Refunded Bonds, and, therefore, the Refunded Bonds are deemed to be fully paid and no longer outstanding, except for the purpose of being paid from funds provided for such purpose pursuant to the Indenture.

Payment of the principal of and interest on the Series 2014 Bonds is not guaranteed by any of the Operators and no revenues, profits or property of the Operators are pledged as security for the Series 2014 Bonds. The Series 2014 Bonds do not constitute an indebtedness or general obligation of the City. Owners of the Series 2014 Bonds shall never have the right to demand payment of principal or interest out of any funds raised or to be raised by taxation or any other revenues generally available to the City or its Airport System, other than Pledged Revenues and Pledged Funds. The enforceability of the City's obligations pursuant to the Ordinance and the Indenture, and the Operators' obligations pursuant to the Lease are subject to limitation by applicable federal bankruptcy laws and any other similar laws affecting the rights of creditors generally.

THE CITY HAS RESERVED THE RIGHT TO ISSUE ADDITIONAL BONDS OR REFUNDING BONDS, subject to the restrictions contained in the Indenture, secured by liens on the Pledged Revenues and Pledged Funds that are on a parity with or junior and subordinate to the lien on Pledged Revenues and Pledged Funds securing the Series 2014 Bonds.

Interest on the Series 2014 Bonds is not excludable from gross income for federal income tax purposes under existing law. We express no other opinion as to any federal, state, or local tax consequences resulting from the ownership of, receipt or accrual of interest on, or disposition of the Series 2014 Bonds.

Our opinion is based upon existing law, which is subject to change. Such opinion is further based on our knowledge of the facts as of the date hereof. We assume no duty to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in law that may hereafter occur or become effective. This opinion speaks only as of its date and only in connection with the Series 2014 Bonds and may not be applied to any other transaction. Further, this opinion is specifically limited to the laws of the State of Texas.

Very truly yours,

## APPENDIX D

### DEPOSITORY TRUST COMPANY

*The information in this APPENDIX D describes the securities clearance procedures of The Depository Trust Company (“DTC”) in the United States. The information in this APPENDIX concerning DTC has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy of such information.*

#### **The Depository Trust Company**

DTC will act as securities depository for the Series 2014 Bonds. The Series 2014 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Series 2014 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Series 2014 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2014 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2014 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2014 Bonds, except in the event that use of the book-entry system for the Series 2014 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2014 Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2014 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2014 Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Series 2014 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2014 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2014 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the financing documents. For example, Beneficial Owners of the Series 2014 Bonds may wish to ascertain that the nominee holding the Series 2014 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2014 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such a maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2014 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2014 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2014 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from Issuer or Bond Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Trustee, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest on the Series 2014 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Bond Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2014 Bonds at any time by giving reasonable notice to the Issuer or the Bond Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

## **APPENDIX E**

### **DESCRIPTION OF DEBT SERVICE RESERVE FUND SURETY POLICY PROVIDER**

**THE FOLLOWING INFORMATION HAS BEEN OBTAINED FROM THE APPLICABLE SURETY PROVIDER FOR USE IN THIS OFFICIAL STATEMENT. THE CITY, THE FINANCIAL ADVISORS AND THE UNDERWRITERS DO NOT MAKE ANY REPRESENTATIONS AS TO THE COMPLETENESS OR ACCURACY OF SUCH INFORMATION OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.**

#### **NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION**

The following information has been furnished by National Public Finance Guarantee Corporation (“National” or the “Surety Provider”) for use in this Official Statement.

The Surety Provider does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Surety Policy (as defined below) and National set forth in this APPENDIX E. Additionally, the Surety Provider makes no representation regarding the Series 2014 Bonds or the advisability of investing in the Series 2014 Bonds.

#### **The Debt Service Reserve Fund Surety Policy**

On March 22, 2001, Financial Guaranty Insurance Company (“FGIC”) issued its Municipal Bond Debt Service Reserve Fund Policy numbered 01010187 (the “Surety Policy”) in connection with the \$130,250,000 City of Houston, Texas Airport System Special Facilities Taxable Revenue Bonds (Consolidated Rental Car Facility Project), Series 2001, together with any parity obligations secured by the same reserve fund (the “Special Facilities Bonds”), which Surety Policy remains in full force and effect.

On February 18, 2009, MBIA Inc., the parent holding company of MBIA Corp., announced that it had established a new U.S. public finance financial guarantee insurance company within the MBIA Inc. group by restructuring MBIA Corp. and its subsidiaries through a series of transactions (the “Transactions”). As part of the Transactions, (i) the stock of MBIA Insurance Corp. of Illinois (which, effective March 19, 2009 was renamed National Public Finance Guarantee Corporation), an existing public finance financial guarantee insurance subsidiary of MBIA Corp., was transferred to a newly established intermediate holding company, National Public Finance Guarantee Holdings, Inc. (“National Holdings”), also a subsidiary of MBIA Inc.; and (ii) effective January 1, 2009, MBIA Corp. ceded to National all of MBIA Corp.’s U.S. public finance business, including the Surety Policy, pursuant to that certain Amended and Restated Quota Share Reinsurance Agreement between MBIA Corp. and National (the “Reinsurance Agreement”).

Pursuant to the Reinsurance Agreement, MBIA Corp. paid to National approximately \$2.89 billion (which equals the net unearned premium, loss and loss adjustment expense reserves, net of the 22 percent ceding commission that MBIA Corp. received) as a premium to reinsure the policies covered under the Reinsurance Agreement (each a “Covered Policy”). The Surety Policy is a Covered Policy. National was further capitalized with \$2.09 billion from funds distributed by MBIA Corp. to MBIA Inc. as a dividend and return of capital, which was ultimately contributed to National through National Holdings. The Reinsurance Agreement provides a cut-through provision enabling the holder of a Covered Policy to make a claim for payment directly against National. In addition, National has also issued second-to-pay policies for the benefit of the holder of a Covered Policy, granting such policyholder the right to make a claim directly against National if MBIA Corp. did not honor such claim.

#### **National Public Finance Guarantee Corporation (“National”)**

National is an operating subsidiary of MBIA Inc., a New York Stock Exchange listed company. MBIA Inc. is not obligated to pay the debts of or claims against National. National is domiciled in the State of New York

and is licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia and the Commonwealth of Puerto Rico.

The principal executive offices of National are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 765-3333.

## **Regulation**

As a financial guaranty insurance company licensed to do business in the State of New York, National is also subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for National, limits the classes and concentrations of investments that are made by National and requires the approval of policy rates and forms that are employed by National. State law also regulates the amount of both the aggregate and individual risks that may be insured by National, the payment of dividends by National, changes in control with respect to National and transactions among National and its affiliates.

The Surety Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

## **Financial Strength Ratings of National**

National's current financial strength ratings from the major rating agencies are summarized below:

<u>Agency</u>	<u>Ratings</u>	<u>Outlook</u>
S&P	AA-	Stable
Moody's	A3	Negative
KBRA	AA+	Stable

Each rating of National should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of National and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Series 2014 Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Series 2014 Bonds. National does not guaranty the market price of the Series 2014 Bonds nor does it guaranty that the ratings on the Series 2014 Bonds will not be revised or withdrawn.

## **Recent Litigation**

In the normal course of operating its business, National may be involved in various legal proceedings. Additionally, MBIA Inc. may be involved in various legal proceedings that directly or indirectly impact National. For additional information concerning material litigation involving National and MBIA Inc., see MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2013 and Quarterly Report on Form 10-Q for the quarter ended June 30, 2014, which is hereby incorporated by reference into this appendix and shall be deemed to be a part hereof, as well as the information posted on MBIA Inc.'s web site at <http://www.mbia.com>.

MBIA Inc. and National are defending against/pursuing the aforementioned actions and expect ultimately to prevail on the merits. There is no assurance, however, that they will prevail in these actions. Adverse rulings in these actions could have a material adverse effect on National's ability to implement its strategy and on its business, results of operations and financial condition.

Other than as described above and referenced herein, there are no other material lawsuits pending or, to the knowledge of National, threatened, to which National is a party.



## **National Financial Information**

Based upon statutory financials, as of June 30, 2014, National had cash and admitted assets of \$5.4 billion (unaudited), total liabilities of \$3.2 billion (unaudited), and total surplus of \$2.2 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning National, see the financial statements of MBIA Inc. and its subsidiaries as of December 31, 2013, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of MBIA Inc. for the year ended December 31, 2013, which are hereby incorporated by reference into this appendix and shall be deemed to be a part hereof.

## **Incorporation of Certain Documents by Reference**

The following documents filed by MBIA Inc. with the Securities and Exchange Commission (the “SEC”) are incorporated by reference into this Official Statement:

MBIA Inc.’s Annual Report on Form 10-K for the year ended December 31, 2013; and

MBIA Inc.’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2014.

Any documents, including any financial statements of National that are included therein or attached as exhibits thereto, or any Form 8-K, filed by MBIA Inc. pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of MBIA Inc.’s most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Series 2014 Bonds offered hereby shall be deemed to be incorporated by reference in this appendix and to be a part hereof from the respective dates of filing such documents.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this appendix, shall be deemed to be modified or superseded for purposes of this appendix to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this APPENDIX E.

MBIA Inc., files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of MBIA Inc.’s SEC filings (including MBIA Inc.’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 and MBIA Inc.’s Annual Report on Form 10-K for the year ended December 31, 2013) are available (i) over the Internet at the SEC’s web site at <http://www.sec.gov>; (ii) at the SEC’s public reference room in Washington D.C.; (iii) over the Internet at MBIA Inc.’s web site at <http://www.mbia.com>; and (iv) at no cost, upon request to National at its principal executive offices.

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## **APPENDIX F**

### **REPORT OF THE INDEPENDENT RATE CONSULTANT**

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## **ROGER H. BATES**

**Airport Consultant**

December 31, 2013

Mr. Kenneth Gregg  
Manager – Capital Programs  
Houston Airport System  
16930 JFK Boulevard  
Houston, TX 77032

Re: 2014 Annual Rate Report—Consolidated Rental Car Facility

Dear Mr. Gregg:

Acting in the capacity of the City's designated Independent Rate Consultant, I am pleased to submit this Annual Rate Report for Calendar Year 2014 regarding the Consolidated Rental Car Facility (the Project or the Facility) at George Bush Intercontinental Airport / Houston (the Airport).

In March 2001, the City of Houston (the City) issued *\$130,250,000 City of Houston, Texas, Airport System Special Facilities Taxable Revenue Bonds (Consolidated Rental Car Facility Project), Series 2001* (the Bonds) to finance the Project. The Bonds are secured in large part by a pledge of CFC Revenues—revenues derived from a Customer Facility Charge imposed by the City and collected by the rental car operators (the Operators). The Operators have been collecting CFC revenues and forwarding those revenues to the Trustee since April 2001. The City imposed a \$3.00 Customer Facility Charge at the Airport as of April 1, 2001, and the CFC rate has subsequently been adjusted as follows:

- Increased to \$3.50 effective July 1, 2003,
- Reduced to \$3.25 effective April 1, 2005,
- Reduced to \$3.00 effective July 1, 2006,
- Increased to \$3.75 effective November 1, 2009,
- Increased to \$4.25 effective April 1, 2011, and
- Reduced to \$4.00 effective April 1, 2013

In connection with the issuance of the Bonds, the City (as the Issuer of the Bonds) entered into a Trust Indenture, dated March 1, 2001, with Chase Manhattan Bank, now Bank of New York (as Trustee). This Report is required under Section 7.2 of the Trust Indenture.

### **Requirements of the Trust Indenture**

The specific requirements for the Rate Report are set forth in the Trust Indenture.

Section 7.2.a of the Trust Indenture states:

The City shall cause the Customer Facility Charge to be calculated, established and imposed as herein provided so long as any Bonds remain Outstanding, and the City shall use diligence to cause the Customer Facility Charge to be collected by the Operators in accordance with the terms of the Agreement and deposited with the Trustee directly by the Operators. The Customer Facility Charge shall be established initially and reviewed and adjusted (if necessary) annually by the Director based upon the Rate Reports from the Independent Rate Consultant (or, with the consent of the LLC, by the City) at rates estimated to generate CFC revenues, along with other Pledged Revenues, in such calendar year equal to not less than:

- (1) 125% of the debt service requirements on the Bonds for such calendar year; and
- (2) the amounts necessary to fund in each calendar year all transfers from the Revenue Fund as required by Article IV of this Indenture.

This provision is referred to as the Rate Covenant.

Section 7.2.b of the Trust Indenture goes on to state:

The Director [the City's Director of Aviation] shall cause the Rate Reports to be prepared and to be filed with the trustee prior to each calendar year, based upon the Transaction Day and other rental information required to be provided annually to the Independent Rate Consultant by the Operators pursuant to the Agreement.

The Trust Indenture defines "Rate Reports" as follows:

"Rate Reports" shall mean the written reports and recommendations of the Independent Rate Consultant...which shall include the following information:

- (1) the recommended Customer Facility Charge for the ensuing calendar year (or other stated period);
- (2) the recommended transfers to the Revenue Fund from the CFC Stabilization Account or from other amounts in the Facility Improvement Fund;
- (3) pro forma Customer Facility Charge collection data for the ensuing calendar year (or other stated period) on a monthly basis, together with calculations showing 90% and 80% of such monthly amounts;
- (4) the estimated Administrative Cost Requirement for the ensuing calendar year (or other stated period); and
- (5) any additional documentation to support the recommended CFC rate and reflecting the anticipated disposition of the CFC revenues among the funds established and maintained under the Indenture.

### **Recent Trends in Air Traffic Demand**

Table 1 shows recent trends in air traffic activity at the Airport by month for calendar years 2012 and year-to-date 2013 (through October) as obtained from HAS records.

For the first 10 months of 2013 compared to the same period of 2012, reported passenger originations (the driver of rental car activity) *decreased* by 0.8%. However, HAS recently determined that there were errors in the reporting of United's passenger originations in the immediate aftermath of its merger with Continental, in which all of United's passengers (originating and connecting) were reported as originating passengers. HAS worked with United to correct the reporting errors from July 2012 forward, but was unable to do so for the January-June 2012 period. As a result, the originating passengers shown for January-June 2012 are overstated (by the amount of United's, but not Continental's, connecting passengers during those months), and the percentage variances shown in Table 1 for January-June 2013 are correspondingly understated. For the July-October 2013 period alone (for which the corrections in reported originations have been made), passenger originations at the Airport *increased* by 4.2% over the same four-month period in 2012, suggesting a significant strengthening of the area economy in recent months.

### **Recent Trends in CFC Revenues and Transaction Days**

Tables 2A and 2B on the second following page show (1) CFC revenues and (2) rental car transaction days, respectively, for the first ten months of Calendar Year 2013 and 2012. Actual CFC revenues and transaction days for 2013 are then compared with the 2012 actual amounts and with the projections for 2013 prepared in December 2012.

Through October 2013, CFC revenues have increased by \$859,226, or 6.2%, compared to the same period in 2012 and by \$1,258,101, or 9.4%, against the December 2012 projection, in spite of the CFC rate reduction from \$4.25 per transaction day to \$4.00 per transaction day put in place on April 1, 2013. .

Through October 2013, rental car transaction days have increased by 255,036, or 7.9%, over actual 2012, and by 213,889, or 6.5%, against the December 2012 projection.

The increase in CFC revenues and transaction days in 2013 are attributable to the combined effect of the increase in passenger activity (*originations*) and an increase in the propensity of those passengers to rent cars (*transaction days per originating passenger*) which have combined to more than offset the reduction in the CFC rate over the past year.

Certain of the Operators did not adjust the CFC rate (from \$4.25 to \$4.00) as planned on April 1, 2013 and continued to charge and collect the \$4.25 rate throughout the year.

Advantage Rent-a-Car filed for bankruptcy protection on November 5, 2013. The bankruptcy court has allowed Advantage to pay all of its pre-petition airport fees, including concession fees and CFCs. Advantage is in the process of selling the company to an investment group and expects to conclude the sale in early 2014. For the purposes of this report, it is assumed that Advantage will emerge from bankruptcy in early 2014 and ultimately pay all of its CFCs accrued after November 5, 2013. During the first 10 months of 2013, Advantage accounted for 3.2% of total CFC revenues generated at the Airport.

Table 1

**RECENT TRENDS IN AIR TRAFFIC ACTIVITY**  
**Calendar Years 2013 and 2012**  
George Bush Intercontinental Airport / Houston

Year / Month	Enplaned Passengers			O&D Passengers		
		Number	% Change from Prior Year	Number <sup>1</sup>	% Change from Prior Year	% of Total Enplaned Passengers
<b>2013</b>						
Jan	Actual	1,539,554	-0.1%	696,401	-4.7%	45.2%
Feb	Actual	1,416,434	-2.5%	643,409	-8.7%	45.4%
Mar	Actual	1,722,903	0.4%	803,533	-1.9%	46.6%
Apr	Actual	1,601,234	-3.6%	767,020	-4.8%	47.9%
May	Actual	1,725,908	-1.5%	832,293	-5.9%	48.2%
Jun	Actual	1,836,173	-1.1%	894,551	-6.2%	48.7%
Jul	Actual	1,865,113	-0.4%	890,798	5.5%	47.8%
Aug	Actual	1,733,544	-1.1%	824,140	3.8%	47.5%
Sep	Actual	1,482,257	0.9%	703,109	3.9%	47.4%
Oct	Actual	1,606,710	1.2%	770,026	3.6%	47.9%
	(10 mos YTD)	<b>16,529,830</b>	<b>-0.8%</b>	<b>7,825,280</b>	<b>-1.6%</b>	<b>47.3%</b>
Nov	Estimate	1,585,000	0.0%	757,000	0.0%	47.8%
Dec	Estimate	1,647,000	0.0%	782,000	0.0%	47.5%
	Estimate	<b>3,232,000</b>	<b>0.0%</b>	<b>1,539,000</b>	<b>0.0%</b>	<b>47.6%</b>
<b>Total 2013</b>		<b>19,761,830</b>	<b>-0.7%</b>	<b>9,364,280</b>	<b>-1.4%</b>	<b>47.4%</b>
<b>2012</b>						
Jan		1,541,378	-1.7%	730,377	1.0%	47.4%
Feb		1,452,575	7.2%	704,928	12.1%	48.5%
Mar		1,716,881	-0.4%	819,012	-3.3%	47.7%
Apr		1,661,186	6.1%	805,483	7.0%	48.5%
May		1,752,268	-1.0%	884,571	-2.5%	50.5%
Jun		1,856,519	-1.0%	953,858	1.4%	51.4%
Jul		1,872,709	-5.4%	844,156	-14.9%	45.1%
Aug		1,753,493	-0.9%	793,788	-8.0%	45.3%
Sep		1,468,525	-2.8%	676,824	-14.1%	46.1%
Oct		1,587,274	-1.1%	743,556	-3.8%	46.8%
		<b>16,662,808</b>	<b>-0.3%</b>	<b>7,956,553</b>	<b>-3.1%</b>	<b>47.8%</b>
Nov		1,584,977	-0.9%	757,466	-2.1%	47.8%
Dec		1,647,019	-4.4%	782,101	-5.1%	47.5%
		<b>3,231,996</b>	<b>-2.7%</b>	<b>1,539,567</b>	<b>-3.6%</b>	<b>47.6%</b>
<b>Total 2012</b>		<b>19,894,804</b>	<b>-0.7%</b>	<b>9,496,120</b>	<b>-3.2%</b>	<b>47.7%</b>

<sup>1</sup> Data for January - June 2012 are overstated because of reporting errors by United.  
See Report for further discussion.  
Source: HAS records.



Table 2A

**2013 CFC REVENUES**  
**As Reported by the Trustee**  
**Consolidated Rental Car Facility**  
George Bush Intercontinental Airport / Houston

		CFC Rate					
		2013	2012				
Jan - Mar		\$4.25	\$4.25				
Apr - Dec		\$4.00	\$4.25				

Month of Accrual	Month of Payment	Total CFC Revenues		Increase (Decrease)	Percentage Change	2013 Projection	Actual 2013 vs. Projection	Percentage Change
		Actual 2013	Actual 2012					
Jan	Feb	\$1,279,339.25	\$1,197,985.75	\$81,353.50		\$1,275,000.00	\$4,339.25	
Feb	Mar	1,407,855.56	\$1,257,566.50	150,289.06		1,309,000.00	98,855.56	
Mar	Apr	1,616,938.00	\$1,502,630.00	114,308.00		1,590,000.00	26,938.00	
Apr	May	1,535,128.75	\$1,416,146.75	118,982.00		1,388,000.00	147,128.75	
May	Jun	1,652,910.75	\$1,575,904.25	77,006.50		1,484,000.00	168,910.75	
Jun	Jul	1,416,556.50	\$1,343,548.25	73,008.25		1,244,000.00	172,556.50	
Jul	Aug	1,328,905.25	\$1,243,779.50	85,125.75		1,148,000.00	180,905.25	
Aug	Sep	1,481,661.25	\$1,430,112.25	51,549.00		1,292,000.00	189,661.25	
Sep	Oct	1,346,163.50	\$1,303,271.00	42,892.50		1,084,000.00	262,163.50	
Oct	Nov	1,554,642.50	\$1,489,931.00	64,711.50		1,548,000.00	6,642.50	
		\$14,620,101.31	\$13,760,875.25	\$859,226.06	6.2%	\$13,362,000.00	\$1,258,101.31	9.4%
			1,494,087.50			1,292,000.00		
			1,224,922.25			1,084,000.00		
		\$0.00	\$2,719,009.75	\$0.00		\$2,376,000.00	\$0.00	
			\$16,479,885.00			\$15,738,000.00		
Nov	Dec							
Dec	Jan							

Note 1: CFC payments are required to be sent to the Trustee by the 20th day of the month following collection.  
Therefore, for example, the May payments to the Trustee represent CFC revenues accrued in April.  
Source: BNY Mellon monthly account statements, based on amounts submitted by the Operators.

Table 2B

**2013 TRANSACTION DAYS**  
**Consolidated Rental Car Facility**  
George Bush Intercontinental Airport / Houston

Applicable Month	Month of Payment	Total Transaction Days		Increase (Decrease)	Percentage Change	2013 Projection	Actual vs. Projection	Percentage Change
		Actual 2013	Actual 2012					
Jan	Feb	301,021	281,879	19,142		300,000	1,021	
Feb	Mar	331,260	295,898	35,362		308,000	23,260	
Mar	Apr	380,456	353,560	26,896		374,000	6,456	
Apr	May	366,437	333,211	33,226		347,000	19,437	
May	Jun	397,444	370,801	26,643		371,000	26,444	
Jun	Jul	341,108	316,129	24,979		311,000	30,108	
Jul	Aug	320,091	292,654	27,437		287,000	33,091	
Aug	Sep	356,930	336,497	20,433		323,000	33,930	
Sep	Oct	324,092	306,652	17,440		271,000	53,092	
Oct	Nov	374,051	350,572	23,479		387,000	(12,949)	
		3,492,889	3,237,853	255,036	7.9%	3,279,000	213,889	6.5%
		0	351,550			323,000		
		0	288,217			271,000		
		0	639,767	0		594,000	0	
			3,877,620			3,873,000		
Nov	Dec							
Dec	Jan							

Source: Obtained from certified reports of CFC revenues and transaction days submitted by the Operators.

### Projection of Air Traffic Activity and Rental Car Demand

Table 3, "Revised Projection of Rental Car Transaction Days and CFC Revenues—Calendar Year 2013," on the following page, shows relationships between air traffic activity, rental car transaction days and CFC revenues and CFC collections for the first 10 months of 2013 and develops projections of CFC revenues and CFC collections for the last two months of the year.

In Table 3, CFC revenues are projected for the months of November and December based on assumptions regarding passenger traffic growth and transaction days per originating passenger for those months. Based on those projections, total CFC revenues are now projected to be \$17,228,000 in 2013, a 9.5% increase over CFC revenues projected for the year last December, and a 4.5% increase over actual CFC revenues in 2012.

CFC collections are now projected to be \$17,277,000 in 2013, a 9.4% increase over CFC projected for the year last December, and a 5.1% increase over actual CFC collections in 2012.

Projected CFC collections for November and December of 2013, together with moneys currently available in the Debt Service Account, are projected to be more than sufficient to provide for the debt service payment coming due on January 2, 2014:

Balance as of 10/30/13 in the Debt Service Account	\$5,509,215
Projected CFC Collections—November & December 2013	<u>2,986,643</u>
Total resources projected to be available January 2, 2014	<u>\$8,495,858</u>
Debt service requirement—January 2, 2014	
Interest	\$3,776,322
Principal	3,590,000
Required additional deposit to Coverage Fund <sup>1</sup>	<u>0</u>
Total requirements through January 2, 2014	<u>\$7,366,322</u>

CFC collections are now forecast to be \$17,277,000 in 2013—approximately \$6.1 million greater than the amount required to pay debt service on the Bonds accruing during the year (\$11,143,000). CFC collections generated in excess of annual requirements are being, and will continue to be, transferred monthly to the Facility Improvement Fund and reserved for future capital improvements and other needs.

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<sup>1</sup> The Coverage Fund Requirement—25% of the Maximum Annual Debt Service Requirements on the Bonds—is \$3,169,143, equal to the current balance in the Coverage Fund.

Table 3

## REVISED PROJECTION OF RENTAL CAR TRANSACTION DAYS AND CFC REVENUES

Calendar Year 2013

Consolidated Rental Car Facility

George Bush Intercontinental Airport / Houston

## Key Assumptions:

	CFC Rate
Jan - Mar	\$4.25
Apr - Dec	\$4.00

Applicable Month	Actual or Projection	Enplaned Passengers	% Change from Prior Year	Originating Passengers	% Change from Prior Year	Percent Originating	Transaction Days	% Change from Prior Year	Transaction Days per O.P.	% Change from Prior Year	CFC Revenues	% Change from Prior Year	CFC Collections	% Change from Prior Year
Jun	Actual	1,539,554	-0.1%	696,401	-4.7%	45.2%	301,021	6.8%	0.432	12.0%	\$1,279,339	6.8%	\$1,224,922	2.9%
Feb	Actual	1,416,434	-2.5%	643,409	-8.7%	45.4%	331,260	12.0%	0.515	22.7%	\$1,407,856	12.0%	\$1,279,339	6.8%
Mar	Actual	1,722,903	0.4%	803,533	-1.9%	46.6%	380,456	7.6%	0.473	9.7%	\$1,616,938	7.6%	\$1,407,856	12.0%
Apr	Actual	1,601,234	-3.6%	767,020	-4.8%	47.9%	366,437	10.0%	0.478	15.5%	\$1,535,129	8.4%	\$1,616,938	7.6%
May	Actual	1,725,908	-1.5%	832,293	-5.9%	48.2%	397,444	7.2%	0.478	13.9%	\$1,652,911	4.9%	\$1,535,129	8.4%
Jan	Actual	1,836,173	-1.1%	894,551	-6.2%	48.7%	341,108	7.9%	0.381	15.1%	\$1,416,557	5.4%	\$1,652,911	4.9%
Jul	Actual	1,865,113	-0.4%	890,798	5.5%	47.8%	320,091	9.4%	0.359	3.6%	\$1,328,905	6.8%	\$1,416,557	5.4%
Aug	Actual	1,733,544	-1.1%	824,140	3.8%	47.5%	356,930	6.1%	0.433	2.2%	\$1,481,661	3.6%	\$1,328,905	6.8%
Sep	Actual	1,482,257	0.9%	703,109	3.9%	47.4%	324,092	5.7%	0.461	1.7%	\$1,246,164	3.3%	\$1,481,661	3.6%
Oct	Actual	1,606,710	1.2%	770,026	3.6%	47.9%	374,051	6.7%	0.486	3.0%	\$1,554,643	4.3%	\$1,346,164	3.3%
		<b>16,529,830</b>	<b>-1.1%</b>	<b>7,825,280</b>	<b>-4.7%</b>	<b>47.3%</b>	<b>3,492,889</b>	<b>15.7%</b>	<b>0.446</b>	<b>9.7%</b>	<b>14,620,101</b>	<b>6.2%</b>	<b>14,290,381</b>	<b>6.2%</b>
Nov	Estimate	1,585,000	0.0%	757,000	0.0%	47.8%	358,000	1.8%	0.473	2.0%	\$1,432,000	-4.2%	\$1,554,643	4.3%
Dec	Estimate	1,647,000	0.0%	782,000	0.0%	47.5%	294,000	2.0%	0.376	2.0%	\$1,176,000	-4.0%	\$1,432,000	-4.2%
Total - Actual 1st 10 mos 2013		<b>19,761,830</b>	<b>-1.4%</b>	<b>9,364,280</b>	<b>-4.6%</b>	<b>47.4%</b>	<b>4,144,889</b>	<b>14.9%</b>	<b>0.443</b>	<b>8.4%</b>	<b>\$17,228,000</b>	<b>4.5%</b>	<b>\$17,277,000</b>	<b>5.1%</b>
Prior Projection (Dec 2012)		<b>19,754,000</b>		<b>9,879,000</b>		<b>50.0%</b>	<b>3,873,000</b>		<b>0.392</b>		<b>\$15,738,000</b>		<b>\$15,793,000</b>	
Change from Projection		<b>7,830</b>		<b>(514,720)</b>			<b>271,889</b>				<b>\$1,490,000</b>		<b>\$1,484,000</b>	
% Change		<b>0.0%</b>		<b>-5.2%</b>			<b>7.0%</b>				<b>9.5%</b>		<b>9.4%</b>	

Table 4 shows historical patterns in monthly transaction days per enplaned passenger for calendar years 2011, 2012 and year-to-date 2013, and projected monthly transaction days per originating passenger for the last two months of 2013 and all of calendar year 2014. For the purposes of forecasting CFC revenues, it is assumed that the monthly transaction days per originating passenger would increase by 2% in 2014, continuing the recent increasing trend, with the same monthly demand patterns. These assumptions regarding transaction days per originating passenger are a principal driver of the 2014 forecast of transaction days and CFC revenues.

Table 4

**Trends in Transaction Days per Originating Passenger**

**Rental Car Market**

George Bush Intercontinental Airport / Houston

	2011	2012	2013	2014
				<i>assume 2% increase from prior year</i>
Jan	0.363	0.386	0.432	0.441
Feb	0.419	0.420	0.515	0.525
Mar	0.376	0.432	0.473	0.483
Apr	0.453	0.414	0.478	0.487
May	0.380	0.419	0.478	0.487
Jun	0.308	0.331	0.381	0.389
Jul	0.295	0.347	0.359	0.367
Aug	0.337	0.424	0.433	0.442
Sep	0.373	0.453	0.461	0.470
Oct	0.419	0.471	0.486	0.495
Nov	0.396	0.464	0.473	0.483
Dec	0.308	0.369	0.376	0.383
Annual Average	0.367	0.408	0.443	0.452
Percent Change	5.1%	11.1%	8.4%	2.0%

Table 5, "Projected Rental Car Transaction Days and CFC Revenues—Calendar Year 2014," extrapolates the historical relationships shown in Table 3 to produce a projection of CFC revenues and CFC collections for 2014 *assuming continuation of the current \$4.00 CFC Rate*. The forecast of CFC revenues is also based on the following key assumptions:

- Overall air traffic activity (passenger enplanements) would increase by 1% in 2014, reflecting the recent strengthening of passenger demand in the Houston market.
- Originating passengers would account for 47.5% of passenger enplanements in 2014, consistent with the average percentage experienced during the first 10 months of 2013.

Table 5

**PROJECTION OF RENTAL CAR TRANSACTION DAYS AND CFC REVENUES****Calendar Year 2014**

Consolidated Rental Car Facility

George Bush Intercontinental Airport / Houston

2014		Key Assumptions:				1.0%			47.5%	Jan-Dec		\$4.00		
Applicable Month	Actual or Forecast	Enplaned Passengers	% Change from Prior Year	Originating Passengers	% Change from Prior Year	Percent Originating	Transaction Days	% Change from Prior Year	Transaction Days per O.P.	% Change from Prior Year	CFC Revenues	% Change from Prior Year	CFC Collections	% Change from Prior Year
Jan	Projection	1,555,000	1.0%	739,000	6.1%	47.5%	326,000	8.3%	0.441	2.0%	\$1,304,000	1.9%	\$1,176,000	-4.0%
Feb	Projection	1,431,000	1.0%	680,000	5.7%	47.5%	357,000	7.8%	0.525	2.0%	\$1,428,000	1.4%	\$1,304,000	1.9%
Mar	Projection	1,740,000	1.0%	827,000	2.9%	47.5%	399,000	4.9%	0.483	2.0%	\$1,596,000	-1.3%	\$1,428,000	1.4%
Apr	Projection	1,617,000	1.0%	768,000	0.1%	47.5%	374,000	2.1%	0.487	2.0%	\$1,496,000	-2.5%	\$1,596,000	-1.3%
May	Projection	1,743,000	1.0%	828,000	-0.5%	47.5%	403,000	1.4%	0.487	2.0%	\$1,612,000	-2.5%	\$1,496,000	-2.5%
Jun	Projection	1,855,000	1.0%	881,000	-1.5%	47.5%	343,000	0.6%	0.589	2.0%	\$1,372,000	-2.1%	\$1,612,000	-2.5%
Jul	Projection	1,884,000	1.0%	895,000	0.5%	47.5%	328,000	2.5%	0.367	2.0%	\$1,312,000	-1.3%	\$1,372,000	-3.1%
Aug	Projection	1,751,000	1.0%	832,000	1.0%	47.5%	368,000	3.1%	0.442	2.0%	\$1,472,000	-0.7%	\$1,312,000	-1.3%
Sep	Projection	1,497,000	1.0%	711,000	1.1%	47.5%	334,000	3.1%	0.470	2.0%	\$1,336,000	-0.8%	\$1,472,000	-0.7%
Oct	Projection	1,623,000	1.0%	771,000	0.1%	47.5%	382,000	2.1%	0.495	2.0%	\$1,528,000	-1.7%	\$1,336,000	-0.8%
Nov	Projection	1,601,000	1.0%	760,000	0.4%	47.5%	367,000	2.5%	0.483	2.0%	\$1,468,000	2.5%	\$1,528,000	-1.7%
Dec	Projection	1,663,000	1.0%	790,000	1.0%	47.5%	303,000	3.1%	0.383	2.0%	\$1,212,000	3.1%	\$1,468,000	2.5%
Total - 2014		19,960,000	1.0%	9,482,000	1.3%	47.5%	4,284,000	3.4%	0.452	2.0%	\$17,136,000	-0.5%	\$17,100,000	-1.0%

- Monthly transaction days per originating passenger in 2014 would increase by 2% over 2013 and would be consistent with the seasonal patterns of the past year.

Assuming no change in the CFC rate in 2014, CFC revenues are projected to be \$17,136,000 and CFC collections are projected to be 17,100,000 in 2014. The projection of CFC collections represents a 1.0% decrease from projected 2013, attributable to the lower CFC rate in the first three months of 2014 compared with the same period of 2013.

Although not shown in this report, the computed “breakeven” CFC rate for 2013 (the rate required to cover only debt service requirements and fund replenishments) is \$2.18.

### **Other Capital Needs**

HAS and the Operators have identified a series of capital improvements for the Consolidated Rental Car Facility to be accomplished largely over the next two years, 2014 and 2015. Many of these projects were originally scheduled to be undertaken in 2012 and 2013 but were deferred for various reasons. The current capital improvement program is shown in the table on the following page. The projects are briefly described below:

- **Garage Lighting Retrofit** (\$700,000) – moneys to replace existing fixtures with more energy efficient fixtures and to provide an improved lighting control system. The project is estimated to generate over \$3 million in savings in operating costs (both energy consumption and maintenance) over the next 10 years.
- **Emergency Generators** (\$2,226,080) – purchase of two emergency generators and related improvements to provide back-up power to the facility in the event of a power outage.
- **Repair Terrazzo Floors in Central Service Building** (\$96,000) – Repairs to a section of the existing terrazzo floor that has developed some cracking.
- **HVAC Improvements at Bus Level Entrance Doors** (\$425,000) – improvements to entrance doors and relate HVAC systems to provide better capture of conditioned air in the warm summer months and heated air during cool winter months for purposes of energy efficiency.
- **Security Barriers** (\$20,000) – to protect certain curbside areas of the facility from potential vehicle intrusion.
- **New Entrant Capital Investment** (\$850,000) – moneys to refund to a potential new entrant operator costs incurred in constructing maintenance/wash facilities and other related improvements.
- **Canopy over Existing Transformer** (\$150,000) – construction of a canopy enclosure to provide additional weather protection for the transformer.
- **Roadway Improvements** (\$540,000) – a new access/egress roadway to/from the ready/return garage in anticipation of possible reallocation of rental car areas within the facility and the possibility of a new entrant operator.

**2014 - 2018 CAPITAL IMPROVEMENT PROGRAM BUDGET**

**Consolidated Rental Car Facility**  
George Bush Intercontinental Airport / Houston

Project	Actual	Projected					Total
	2013	2014	2015	2016	2017	2018	
1 PERFORMANCE CONTRACT		\$0					\$0
2 GARAGE LIGHTING RETROFIT		\$700,000					\$700,000
3 BACKUP GENERATOR CSB / BMF			\$2,226,080				\$2,226,080
4 ELECTRICAL METERS		\$0					\$0
5 CSB TERRAZZO FLOOR REPAIRS		\$96,000					\$96,000
6 CHILLER UPGRADE	\$47,550						\$0
7 BUS LEVEL HVAC / ENTRANCE DOOR IMPROVEMENTS			\$425,000				\$425,000
8 SECURITY BARRIERS			\$20,000				\$20,000
9 NEW ENTRANT CAPITAL INVESTMENT			\$850,000				\$850,000
10 TRANSFORMER CANOPY			\$150,000				\$150,000
11 ROADWAY IMPROVEMENTS		\$540,000					\$540,000
12 BMF RTU # 2 REPLACEMENT	\$14,013						\$0
13 NEW BUSES (28 ea.)		\$10,846,752					\$10,846,752
14 GPS GARAGE UPGRADE		\$95,000					\$95,000
15 LANDSCAPING CSB UPGRADE			\$100,000				\$100,000
16 EAST SIDE EMPLOYEE PARKING LOT			\$2,000,000				\$2,000,000
ADMINISTRATIVE COSTS	\$42,000						\$0
<b>Total</b>	<b>\$103,563</b>	<b>\$12,277,752</b>	<b>\$5,771,080</b>				<b>2014 - 2018 \$18,048,832</b>

- **Bus Replacement Program (\$10,846,752)** – replacement of 28 of the existing shuttle buses. This program is in process, HAS and the rental car operators decided to purchase diesel/electric hybrids, and a firm bid was received in 2012 from a manufacturer (Gillig) for the purchase of up to 30 busses at a cost of \$372,917 each. HAS now intends to purchase 28 busses. The busses are on order, and all are expected to be delivered in the fourth quarter of 2014.
- **GPS Garage Upgrade (\$95,000)** - installation of a distributed antenna system within the garage allowing the GPS systems of those customers who choose to rent GPS devices with their car rental to “sync” up before they leave the garage. Currently, customers renting GPS systems are finding that the systems don’t “sync” up until well outside the garage causing them to stop on the local roadways and driveways creating potential traffic hazards.



- **Landscaping Upgrade (\$100,000)** – upgrade of landscaping in areas most visible to RAC customers. This project, which has not yet been designed, is expected to include large planters on second level, irrigation for open spaces, replacement of trees that have succumbed to drought, and seasonal color plantings in the visitor parking area. Regular O&M costs would be expected to increase slightly due to the seasonal color change-outs.
- **Employee Parking Lot (\$2,000,000)** – construction of a new employee surface parking lot east of the Customer Service Building (CSB), thereby creating additional parking capacity for rental cars in the CSB and reducing congestion.

The total cost of these projects is estimated by HAS to be **\$18,049,000** over the next two years – \$12,228,000 (68%) in 2014 and \$5,771,000 (32%) in 2015.

#### **Recommended 2014 CFC Rate / CFC Revenue Projection**

The current balance in the Facility Improvement Fund (FIF) is more than sufficient to fund near-term capital needs of the Consolidated Rental Car Facility as set forth in the Capital Improvement Program. For this reason, it was possible to consider a further reduction in the CFC rate in 2014.

After careful consideration, however, HAS has decided to leave in place the current \$4.00 CFC rate in place for 2014. This is being done in consideration of remaining uncertainties associated with carrying out the current Capital Improvement Program, and in recognition of the fact that the facility is approaching its 15<sup>th</sup> year of service and could require major systems upgrades and other refurbishment in the near-term future. Also, in spite of an improving economy, there are many uncertainties that could adversely affect local rental car demand in the future. HAS intends to monitor its cash position and facility operating trends and to review the CFC rate situation in a year, at which time it may consider a significant CFC rate reduction if circumstances warrant. I concur with this decision.

The current \$4.00 CFC rate is well above the projected 2014 “breakeven rate” of \$2.18 and, therefore, the facility should continue to generate cash flow well in excess of debt service requirements. As a result, HAS expects to continue to build reserves in the FIF during the coming year.



Projected monthly CFC collections in 2014 are summarized as follows:

**Summary of Projected CFC Collections (@ \$3.50 CFC Rate effective 4/1/14)**

**Calendar Year 2014**

George Bush Intercontinental Airport / Houston

	Projected CFC Collections		
	100.0%	90.0%	80.0%
January	\$1,176,000	\$1,058,400	\$940,800
February	1,304,000	1,173,600	1,043,200
March	1,428,000	1,285,200	1,142,400
April	1,596,000	1,436,400	1,276,800
May	1,496,000	1,346,400	1,196,800
June	1,612,000	1,450,800	1,289,600
July	1,372,000	1,234,800	1,097,600
August	1,312,000	1,180,800	1,049,600
September	1,472,000	1,324,800	1,177,600
October	1,336,000	1,202,400	1,068,800
November	1,528,000	1,375,200	1,222,400
December	1,468,000	1,321,200	1,174,400
Total--Calendar Year 2014	\$17,100,000	\$15,390,000	\$13,680,000

Table 6 on the following page shows the projected operating cash flow associated with the Consolidated Rental Car Facility in 2013 and 2014 assuming no change in the current \$4.00 CFC rate in 2014. CFC collections, together with other available resources, are projected to be sufficient to cover all the funding requirements under the Trust Indenture and generate projected surplus cash flows of \$6.1 million in 2013 and \$5.8 million in 2014.

Table 6

**PROJECTED ANNUAL CFC REQUIREMENT AND CASH FLOWS**  
**For Calendar Years Ending December 31**  
**Consolidated Rental Car Facility**  
George Bush Intercontinental Airport / Houston

	CFC Rate:	Estimated 2013	Projected 2014
	<i>Jan-Mar</i>	\$4.25	\$4.00
	<i>Apr-Dec</i>	\$4.00	\$4.00
Projected CFC Collections (from Tables 3 and 5)		\$17,277,000	17,100,000
Transfers from CFC Rate Stabilization Account		0	0
Interest Income		1,000	1,000
Total Revenues and Transfers		\$17,278,000	\$17,101,000
Replenish Administrative Costs Account (to \$50,000)		\$25,940	\$37,000
Replenish CFC Rate Stabilization Account (to \$300,000)		0	0
Transfers to Debt Service Fund			
Principal		3,590,000	3,945,000
Interest		7,553,000	7,321,000
		\$11,143,000	\$11,266,000
Total Requirement		\$11,168,940	\$11,303,000
Projected surplus @ proposed CFC rate (= estimated transfer to Facility Improvement Fund)		\$6,109,060	\$5,798,000

**Status of the Facility Improvement Fund**

As of October 31, 2013, the balance in the FIF was \$26,038,902. These funds represent moneys available for the planned Capital Improvement Program and for future bus repairs and replacement, capital improvements, contingencies, debt retirement, or, if needed, rate stabilization.

Table 7 on the following page shows the projected flows in the FIF in 2013 and 2014. The balance in the FIF is projected to be approximately \$26.9 million at the end of 2013 and \$20.5 million at the end of 2014 (when the more than two thirds of the Capital Improvement Program is expected to have been completed).

Table 7

**PROJECTED CASH FLOWS IN THE FACILITY IMPROVEMENT FUND**

**Consolidated Rental Car Facility**

George Bush Intercontinental Airport / Houston

For Years Ending December 31

	<b>Estimated 2013</b>	<b>Projected 2014</b>
<b><u>Facility Improvement Fund (FIF)</u></b>		
Beginning balance	\$20,736,343	\$26,912,000
Transfers in (from CFC Revenue Fund)	6,109,060	5,798,000
Capital Expenditures		
Bus Replacment Program		(10,846,752)
Other	103,563	(1,431,000)
Interest income	67,000	51,000
Ending Balance	\$26,912,403	\$20,483,248
Balance as of 10/31/13:	\$26,038,092	
Reserve for potential cash funding of DSRF	0	0
Unreserved balance in FIF	\$26,912,403	\$20,483,248

**Status of the Project Funds**

Under the Trust Indenture, two accounts were established in the Project Fund: the *Operators Account* used to construct the Operators' maintenance and storage facilities (referred to as the Operators Projects), and the *City Account* used to construct the site infrastructure, central facility, and rental car garage (referred to as the City Project). Both of these Projects are complete and the accounts have been closed out.

**Projected Debt Service Coverage**

Table 8 on the following page shows the calculation of debt service coverage on the 2001 Bonds for actual 2011, actual 2012, estimated 2013, and projected 2014.

Table 8

**CALCULATION OF DEBT SERVICE COVERAGE**

**Consolidated Rental Car Facility**

George Bush Intercontinental Airport / Houston

For Years Ending December 31

<u>CFC Rate:</u>	Jan - Mar	\$3.75	\$4.25	\$4.25	\$4.00
	Apr - Jun	\$4.25	\$4.25	\$4.00	\$4.00
		<b>Actual</b>	<b>Actual</b>	<b>Estimated</b>	<b>Projected</b>
		<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
CFC Collections		\$14,596,573	\$16,444,942	\$17,277,000	<b>\$17,100,000</b>
Interest Income		475	318	1,000	1,000
Transfers from Rate Stabilization Account		0	0	0	0
Transfers from Coverage Account		3,169,143	3,169,143	3,169,143	3,169,000
Total Resources available for Debt Service	<b>A</b>	\$17,766,191	\$19,614,403	\$20,447,143	<b>\$20,270,000</b>
Total Annual Debt Service	<b>B</b>	10,904,033	11,019,329	11,142,645	<b>11,266,449</b>
Debt Service Coverage Ratio	<b>A / B</b>	<b>1.63</b>	<b>1.78</b>	<b>1.84</b>	<b>1.80</b>

Pledged Revenues include CFC collections, interest income on certain funds and accounts, and transfers from the Rate Stabilization Account and the Coverage Account.

The Trust Indenture requires that Pledged Revenues provide at least 1.25x coverage of debt service each year. Debt service coverage is projected to be **1.84x in 2013**, based on 10 months year-to-date actual results, and **1.80x in 2014**—ratios that substantially exceed the 1.25x Trust Indenture requirement. The reduction in the debt service coverage ratio projected in 2014 is largely attributable to the small projected reduction in the CFC collections coupled with the small scheduled increase in debt service.

**Recommendation**

Based on the foregoing, I concur with HAS's decision to keep the current \$4.00 CFC rate in effect in 2014 and recommend that the rate be so maintained.

Respectfully submitted,



Roger H. Bates

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