AIRPORT SYSTEM FUND

An Enterprise Fund of
The City of Houston, Texas

Comprehensive Annual Financial Report
Fiscal Year Ended June 30, 2009

HOUSTON AIRPORTS

Prepared by Office of the City Controller
Annise D. Parker, City Controller

Airport System Fund

An Enterprise Fund of the

City of Houston, Texas

Comprehensive Annual Financial Report

Fiscal Year Ended June 30, 2009

Prepared by:
Office of the City Controller

Annise D. Parker
City Controller

Rudy Garcia, CPA
Deputy City Controller

Becky Moores, CPA
Houston Airport System

COMPREHENSIVE ANNUAL FINANCIAL REPORT
TABLE OF CONTENTS

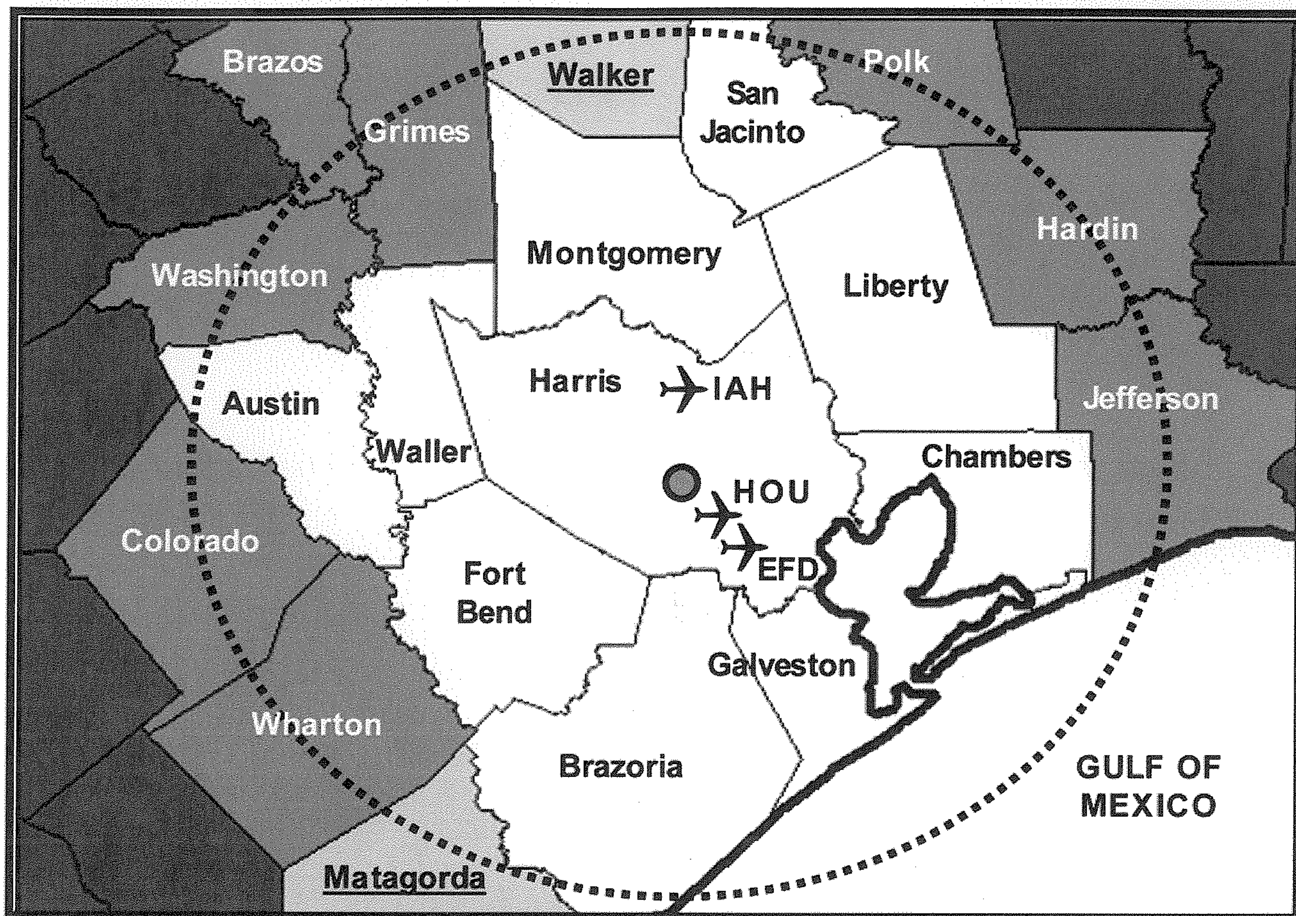
COMPREHENSIVE ANNUAL FINANCIAL REPORT

INTRODUCTORY SECTION

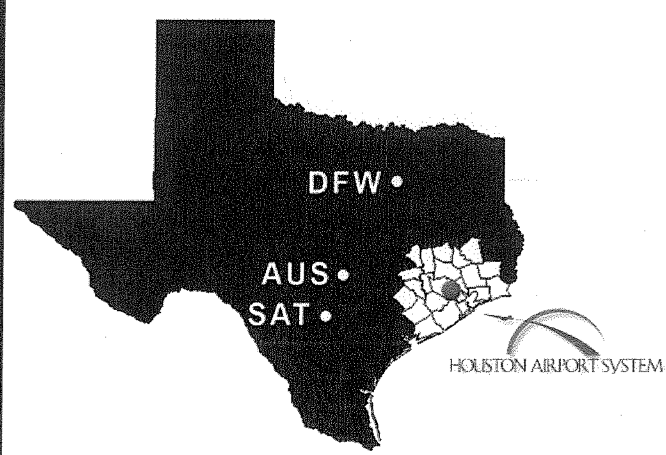
CITY OF HOUSTON

TEXAS

Houston Airport System Air Service Area



	Metropolitan Statistical Area (MSA) of **Houston – Sugar Land – Baytown, TX** includes 10 counties
	Consolidated Statistical Area (CSA) of **Houston – Baytown – Huntsville, TX** adds both Matagorda & Walker counties
	75-mile radius adds parts of an additional 8 counties



Source: U.S. Census Bureau

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Houston, Texas Airport System Fund

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2008

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

OFFICE OF THE CONTROLLER
CITY OF HOUSTON
TEXAS

December 18, 2009

To the Citizens, Mayor and Members of the City Council of the City of Houston, Texas:

I am pleased to present you with the Comprehensive Annual Financial Report (CAFR) for the City of Houston, Texas, Airport System Fund (the Fund) for the fiscal year ended June 30, 2009, including the independent auditor's report. The Controller's Office and the Houston Airport System share responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the Fund.

The CAFR includes three sections: Introductory, Financial, and Statistical. The Introductory Section includes this transmittal letter, a list of principal officials, and the Fund's organizational chart. The financial section includes Management's Discussion and Analysis and financial statements with accompanying notes, as well as the independent auditors' report on the financial statements. The statistical section includes selected financial trends, revenue capacity, debt capacity, demographic and economic, and operating information, generally presented on a ten-year basis.

The Financial Section described above is prepared in accordance with Generally Accepted Accounting Principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board (GASB). The Management's Discussion and Analysis offers readers an overview and analysis of the financial activities of the Fund and should be read as an introduction to the financial statements. In addition, the notes to the financial statements offer additional important information and are essential to a full understanding of this report.

The Reporting Entity and Its Services

The Houston Airport System, under the administrative control of the Mayor, manages and operates the Fund. The City Controller, as the chief financial officer of the City of Houston (the City), maintains the books of account, prepares financial statements, and, with the Mayor, co-signs all warrants, contracts, and orders for payment of any public funds or money relating to the Department.

The Fund is an enterprise fund of the City and is included in the City's Comprehensive Annual Financial Report, which is a matter of public record. An enterprise fund is used to account for services provided to the general public on a continuing basis with costs recovered primarily through user charges. The City's Airport System includes the following: George Bush Intercontinental Airport/Houston (Intercontinental); William P. Hobby Airport (Hobby); and Ellington Airport. Continental Airlines, Inc. is the dominant air carrier operating at Intercontinental and Southwest Airlines, Inc. is the dominant air carrier operating at Hobby.

901 BAGBY • P.O. BOX 1562 • HOUSTON, TEXAS 77251-1562

Economic Conditions and Major Initiatives

Economic conditions

Houston is classified as a large air traffic hub by the Federal Aviation Administration (FAA). Based on total U.S. passenger traffic for calendar year 2008, Intercontinental and Hobby ranked eighth and forty-third, respectively, among U.S. airports. Intercontinental, which opened in 1969, is the City's dominant air carrier facility and is located approximately 22 miles north of the City's central business district on property comprising approximately 10,000 acres. Hobby is located approximately seven miles southeast of the central business district on approximately 1,500 acres. Ellington Airport is situated approximately 15 miles southeast of the central business district on approximately 2,000 acres, a portion of which was conveyed to the City by the federal government on July 1, 1984.

The City of Houston is the nation's fourth most populous city and lies within the sixth largest metropolitan statistical area in the United States. Located on the coastal plain in Southeast Texas, approximately 50 miles from the Gulf of Mexico, the City is a center for the energy, financial, medical, transportation, manufacturing, and retail industries. The service region for the Houston Airport System, the ten-county Houston-Sugar Land-Baytown Metropolitan Statistical Area, has a diverse economic base and is recognized as a major national and international energy, financial, medical, transportation, educational, and distribution center.

Key factors that will affect future airline traffic at the Houston Airport System include (1) the growth in the population and economy of the Service Region, (2) national and international economic conditions, (3) airline economics and air fares, (4) the availability and price of aviation fuel, (5) airline service and route networks, (6) the capacity of the air traffic control system, and (7) the capacity of the airports themselves. The national and global economic conditions have impacted the Houston Airport System (HAS). While HAS had grown its passenger traffic in each of the four prior fiscal years, fiscal year 2009 recognized a decline in passengers of 8.3% and a decline in air freight as well.

Capital Improvement Program

The Houston Airport System's five-year Capital Improvement Program (CIP) for 2010-2014 has appropriation requirements of approximately $527 million, with over half of the appropriations planned for Fiscal Years 2010 and 2011. These improvements will be funded from airport revenues, airport revenue bonds, commercial paper, the Federal Aviation Administration's Airport Improvement Program grants and Passenger Facility Charges (PFC) at both Hobby and Intercontinental Airports. The Intercontinental Airport PFC began on December 1, 2008. Tightening of the credit markets and a recession in the general economy, along with the state of the airline industry, requires additional and continuous due diligence and review of the CIP, prioritizing projects and rescheduling projects as necessary.

At Intercontinental, Runway 9-27 was completed in March 2009. Installations of electronic detection systems to screen checked baggage have been completed in Terminal C and are underway in Terminal D. Demolition and removal of structures for the noise mitigation project were completed. The Terminal C rehabilitation of the parking garage and the terminal building renovation are in progress. The anticipated completion date for the automated people mover extension from Terminal B to Terminal A is June 2010. Preliminary design of the Terminal D renovation began in 2009 and construction will continue for several years. Other master plan projects will be incorporated into the Capital Improvement Program as demand reaches trigger levels including additional terminal space, runways, and roadway improvements. An environmental impact study is underway which will verify the need for runway improvements and terminal building improvements at Intercontinental. The Houston Airport System and Continental Airlines are in discussions to explore financing options and redevelopment of Terminal B South.

Hobby's major project, the terminal expansion and rehabilitation, will continue over the next few years. The next phase is the renovation of the terminal building and began in April 2009. The airport access control system is nearing its completion date of December 2009. Phase 2 of the environmental impact study is delayed until additional airfield capacity is warranted. Rehabilitation of Runway 12L-30R was completed in 2009. Rehabilitation of Runway 4-22 and Taxiway C will start in March of 2010 with an anticipated completion of October 2010.

At Ellington Airport, rehabilitation of Taxiway H was completed. Rehabilitation of Taxiways A, D, and F are underway with an anticipated completion date of April 2010. The Air Traffic Control Tower is in the preliminary stages of design.

Financial Information

Accounting systems and budgetary controls

The Fund's financial accounting system utilizes an accrual basis of accounting. Internal accounting controls are an integral part of the Fund's accounting system and are designed to provide reasonable, but not absolute, assurance that assets are safeguarded from unauthorized use or disposition.

The Fund controls current expenses at all division levels. The Houston Airport System's Deputy Directors are responsible for the expenses approved by the Division Managers reporting to them; in turn, Division Managers are responsible for budgetary items that are controllable at their organizational level. Budgetary control is maintained at the expenditure category (i.e., Personnel Services, Supplies, Other Services and Capital Outlay) through the encumbrance of estimated purchase amounts prior to the release of purchase orders or contracts to vendors. This is accomplished primarily through an automated encumbrance and accounts payable system.

The City Council approves the Fund's annual operations budget for current expenses. The Airport Fund as a whole is not budgeted. City Council authorizes capital project expenditures through individual appropriation ordinances based on a five-year Capital Improvement Plan that is proposed by the Mayor and the Houston Airport System Director and approved by City Council. City Council can legally appropriate only those amounts of money that the City Controller has certified.

Other Information

Independent Audit

An independent auditor audits the financial statements of the Airport System Fund each year. The firm of Deloitte & Touche LLP performed the fiscal year 2009 and 2008 audits. The financial section of this report includes the independent auditor's report on the basic financial statements.

The City is required to undergo an annual Single Audit in conformity with the provisions of the Single Audit Act, the U.S. Office of Management and Budget Circular A-133, "Audits of State, Local Governments and Non-profit Organizations," and the State of Texas Single Audit Circular. These audits are conducted simultaneously with the Fund's annual financial statement audit. Information related to these Single Audits, including the schedules of financial assistance, findings and recommendations, and auditor's reports on the internal control structure and compliance with applicable laws and regulations is included in separate Single Audit Reports.

Awards/Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to City of Houston, Texas Airport System Fund for its comprehensive annual financial report for the fiscal year ended June 30, 2008. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

The preparation of this comprehensive annual financial report was made possible by the dedicated service of the Finance Division of the Houston Airport System, and the City Controller's Office.

Respectfully submitted,

Annise D. Parker

Annise D. Parker
City Controller

INTRODUCTORY SECTION
LIST OF PRINCIPAL OFFICIALS AT JUNE 30, 2009

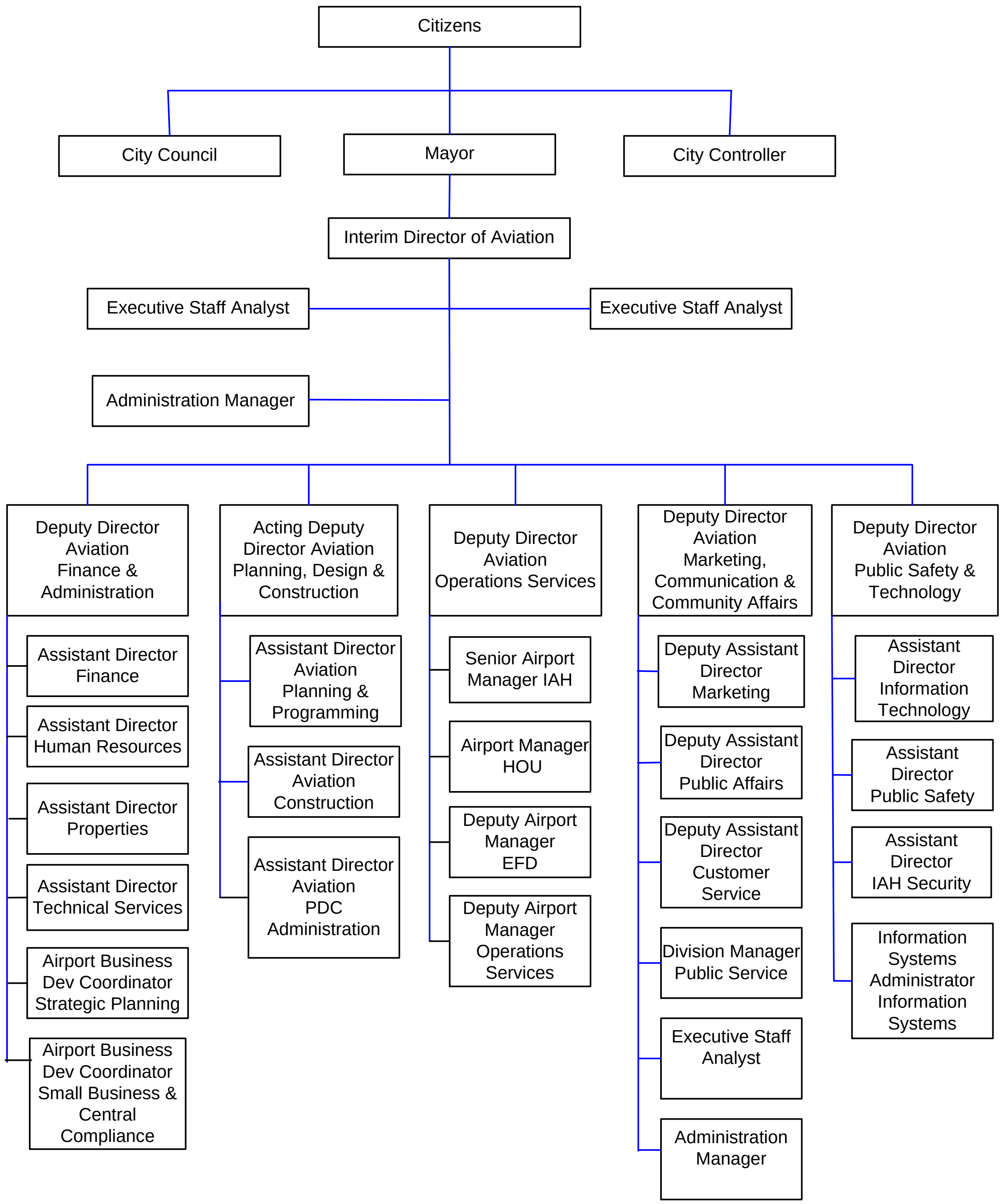
ELECTED:

Mayor	Bill White
Controller	Annise D. Parker
Councilmember, At-Large, Position 1	Peter Brown
Councilmember, At-Large, Position 2	Sue Lovell
Councilmember, At-Large, Position 3	Melissa Noriega
Councilmember, At-Large, Position 4	Ronald C. Green
Councilmember, At-Large, Position 5	Jolanda "Jo" Jones
Councilmember, District A	Toni Lawrence
Councilmember, District B	Jarvis Johnson
Councilmember, District C	Anne Clutterbuck
Councilmember, District D	Wanda Adams
Councilmember, District E	Mike Sullivan
Councilmember, District F	M.J. Khan
Councilmember, District G	Pam Holm
Councilmember, District H	Adrian Garcia
Councilmember, District I	James G. Rodriguez

HOUSTON AIRPORT SYSTEM (a department of the City of Houston):

Interim Director of Aviation	Eric R. Potts
Deputy Director, Public Security and Technology	Frank Haley
Deputy Director, Finance and Administration	Ian Wadsworth
Deputy Director, Marketing, Communications, and Community Affairs	Rob Wigington
Deputy Director, Airport Operations Services	Thomas B. Bartlett
Acting Deputy Director, Planning, Design and Construction	John Silva
Assistant Director, Finance	David K. Arthur, CPA

INTRODUCTORY SECTION
ORGANIZATIONAL CHART



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FINANCIAL SECTION

CITY OF HOUSTON
TEXAS

Deloitte.

Deloitte LLP
Suite 4500
1111 Bagby Street
Houston, TX 77002-4196
USA

Tel: +1 713 982 2000
Fax: +1 713 982 2001
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor, Members
of City Council, and City Controller
of the City of Houston, Texas:

We have audited the accompanying statements of net assets of the Airport System Fund (the "Fund") of the City of Houston, Texas (the "City") as of June 30, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("generally accepted auditing standards"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Airport System Fund and do not purport to, and do not, present fairly the financial position of the City of Houston, Texas as of June 30, 2009 and 2008, the changes in its net assets, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport System Fund of the City of Houston, Texas as of June 30, 2009 and 2008, and its change in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying Management's Discussion and Analysis (pages 3-7); Pension System Supplementary Information (page 40) and Other Post Employment Benefits Schedule of Funding Progress (page 40) are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of City's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Fund's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of the City's management. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Deloitte & Touche LLP

December 18, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As management of the Airport System Fund, we offer readers of the Airport System Fund's financial statements this narrative overview and analysis of the financial activities of the Airport System Fund for the fiscal year ended June 30, 2009. Please read this in conjunction with the financial statements and the notes to the financial statements, which follow this section. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Financial Highlights

The Airport System Fund's net assets increased by $56.3 million or 4.3% during the year. Operating income decreased by $83.8 million or 91.4%, due to a decrease in operating revenue of $61.4 million or 13.7%. The decrease in revenues is attributable to an 8.3% decrease in passenger volume over the previous year and an adjustment to the Rates and Charges amounts billed to the airlines of $27.6 million

- Interest revenue decreased by $4.4 million or 10.5%.
- Total Operating expenses increased by $22.4 million or 6.3%. Depreciation expense increased $10.6 million or 8.4%. Maintenance and operating expenses increased $11.8 million or 5.1%.
- The Fund had a net loss before contributions of $14.7 million, compared to a net gain before contributions of $41.5 million in fiscal year 2008.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Airport System Fund's financial statements. The Airport System Fund's financial statements consist of the following components: this management's discussion and analysis, the financial statements, the notes to the financial statements, and required supplementary information. The notes are essential to a full understanding of this report. In addition, a statistical section is included for further analysis.

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

The statement of net assets presents information on all the Fund's assets and liabilities, with the difference between the two reported as net assets. Increases and decreases in net assets from year to year may serve as a useful indicator of whether the financial position of the Airport System Fund is improving or deteriorating.

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

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

MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Houston’s progress in funding its obligation to provide pension benefits to its employees.

Net Assets

Total net assets at June 30, 2009 were $1,379.0 million, a 4.3% increase from June 30, 2008. Total net assets at June 30, 2008 were $1,322.7 million, an 11.2% increase from June 30, 2007.

NET ASSETS
JUNE 30, 2009, JUNE 30, 2008 and JUNE 30, 2007
(in thousands)

	June 30, 2009	June 30, 2008	June 30, 2007
Current assets	$ 793,641	$ 866,353	$ 756,776
Noncurrent assets	5,375	5,261	1,804
Capital assets	2,958,723	2,857,099	2,828,729
Total assets	3,757,739	3,728,713	3,587,309
Current liabilities	167,817	138,509	133,549
Long term liabilities	2,210,922	2,267,487	2,263,689
Total liabilities	2,378,739	2,405,996	2,397,238
Net assets invested in capital assets, net of related debt	790,731	685,286	648,933
Restricted net assets	588,269	637,431	541,138
Total net assets	$ 1,379,000	$ 1,322,717	$ 1,190,071

The largest portion of the Fund’s total net assets (57.3% in fiscal year 2009) reflects net assets invested in capital assets (e.g., land, buildings, runways, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Fund uses these capital assets to operate the airports; consequently, these assets are not available for future spending. Although the Fund’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from airport revenue and other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Fund’s net assets (42.7% in fiscal year 2009) represents resources that are subject to external restrictions on how they may be used. Most of these restrictions are due to covenants made to the holders of the Airport System Fund’s revenue bonds within ordinances passed by City Council. These covenants further require that any unrestricted net assets carried in cash and cash equivalents at the end of the fiscal year be restricted for future capital improvements.

Changes in Net Assets

From July 1, 2008 to June 30, 2009, net assets of the Airport System Fund increased by $56.3 million or 4.3%. From July 1, 2007 to June 30, 2008, net assets increased by $132.6 million or 11.2%.

CHANGES IN NET ASSETS
JUNE 30, 2009, JUNE 30, 2008, AND JUNE 30, 2007
(in thousands)

	June 30, 2009	June 30, 2008	June 30, 2007
Operating revenue:			
Landing area fees	$ 82,823	$ 99,017	$ 92,140
Rentals, building and ground	174,433	211,786	199,720
Parking and concessions	122,701	131,747	119,994
Other	5,800	4,626	4,284
Total operating revenues	385,757	447,176	416,138
Nonoperating revenue:			
Interest on investments	37,332	41,694	33,722
Passenger facility charges	32,398	11,608	6,530
Other nonoperating	1,093	514	541
Total nonoperating revenues	70,823	53,816	40,793
Total revenues	456,580	500,992	456,931
Operating expenses:			
Maintenance and operating	241,303	229,551	214,611
Depreciation	136,554	125,951	126,953
Total operating expenses	377,857	355,502	341,564
Nonoperating expenses:			
Interest expense	94,396	104,056	101,186
(Gain) / Loss on disposal of assets	(1,020)	(37)	7
Total nonoperating expenses	93,376	104,019	101,193
Total expenses	471,233	459,521	442,757
Excess (deficit) before contributions	(14,653)	41,471	14,174
Capital contributions	70,936	91,175	41,681
Change in net assets	56,283	132,646	55,855
Net assets, July 1	1,322,717	1,190,071	1,134,216
Net assets, June 30	$ 1,379,000	$ 1,322,717	$ 1,190,071

Operating revenues decreased by $61.4 or 13.7% for fiscal year 2009. Enplaned and deplaned passenger volume decreased 8.3% in fiscal year 2009 and increased 1.6% in fiscal year 2008**.** The decrease in passengers in fiscal year 2009 is directly related to the global economic downturn and the corresponding decrease in personal discretionary spending. In addition, an adjustment in the rates and charges amounts billed to the airlines resulted in a $27.6 million reduction in Operating Income. Another factor contributing to the decrease is the implementation of Passenger Facility Charges (PFC) at Intercontinental which started in December 2008. These charges are not included in operating revenue and decrease the amounts charged to the airlines through rates and charges. In fiscal year 2008, increases in airport rates and charges accounted for approximately $17.6 million of the increase in operating revenues. Detailed passenger statistics and comparative rates and charges can be found in the statistical section of this report.

Operating expenses increased by $22.4 million or 6.3% in fiscal year 2009. Depreciation expense increased by 10.6 million, or 8.4%, during fiscal year 2009. This compares to a 5.0% increase in depreciable assets. Base salary expense increased $5.0 million or 8.7% partially as a result of a Houston Organization of Public Employees (HOPE) Union 4.25% salary increase. Operating expenses in fiscal year 2008 increased by $13.9 million or 4.1%. Depreciation expense decreased by $1.0 million or .8% and base salary expense increased $1.0 million or 1.7% in fiscal year 2008.

Capital contributions in fiscal year 2009 decreased by $20.2 million or 22.2% over fiscal year 2008. This decrease is the result of the Airport System fund receiving additional discretionary grants in the previous fiscal year. Also, there was an approximate $3.5 million decrease in Hobby entitlement grants due to PFC charges being received. In fiscal year 2008, capital contributions increased by $49.5 million or 118.7% due mainly to a grant for $16.4 million from the Transportation Security Administration for an Explosives Detection Screening System at Intercontinental, $11.1 million in discretionary grants for Hobby from the Federal Aviation Administration (FAA), and $5.5 million received as a donated asset.

Non-operating revenue increased by $17.0 million or 31.6% in fiscal year 2009. This was due to a $20.8 million increase in PFC. Fiscal year 2009 was the first year that PFC's were instituted at Intercontinental. Interest revenue decreased by $4.4 million or 10.5% as the total value of the Fund's Investments decreased by $62.2 million or 7.4%. In fiscal year 2008, non-operating revenue increased by $13.0 million or 31.9%.

Interest expense decreased by $9.7 million or 9.3%. In addition, the fund is responsible for a portion of the interest expense on pension obligation bonds issued as general obligation debt during fiscal year 2005.

Capital Assets

The Airport System Fund's investment in capital assets amounts to $2.96 billion at June 30, 2009, an increase of $101.6 million, or 3.6%, from June 30, 2008. Capital assets at June 30, 2008 were $2.86 billion which was an increase of $28.4 million, or 1.0%, from June 30, 2007.

CAPITAL ASSETS
JUNE 30, 2009, JUNE 30, 2008, AND JUNE 30, 2007
(net of accumulated depreciation in thousands)

	June 30, 2009	June 30, 2008	June 30, 2007
Land	$ 209,311	$ 207,439	$ 202,214
Buildings and building improvements	1,411,348	1,383,832	1,374,229
Improvements other than buildings	1,000,178	983,965	903,799
Machinery and equipment	51,890	45,773	46,298
Construction in progress	285,996	236,090	302,189
	$ 2,958,723	$ 2,857,099	$ 2,828,729

Major capital projects ongoing during fiscal year 2009 at Intercontinental included the runway 9-27 rehabilitation, the automated people mover system expansion to Terminal A, the Terminal C garage upgrades, the in-line baggage systems, the noise mitigation and Terminal D renovations. Projects at Hobby included the terminal renovation, the runway 12R-30L rehabilitation, the access control and perimeter fencing and the CCTV. Ellington Airport had Taxiway H improvements, and there was a GIS development project for the entire airport system. For more information on Capital Assets, please refer to note 4 of the financial statements.

Debt

At the end of the current fiscal year, the Airport System Fund had total long-term debt of $2.19 billion, which represents outstanding subordinate lien revenue bonds net of unamortized discounts, premiums and deferred amount, senior lien commercial paper, and an inferior lien contract, all secured solely by Airport Fund revenues. In addition, the Fund is responsible for pension obligation bonds. At the end of fiscal years 2008 and 2007, the Fund had a total debt of $2.26 billion and $2.27 billion respectively.

OUTSTANDING DEBT
JUNE 30, 2009, JUNE 30, 2008, AND JUNE 30, 2007
(in thousands)

	June 30, 2009	June 30, 2008	June 30, 2007
Senior lien debt:			
Commericial paper	$ 93,000	$ 83,000	$ 95,000
Total senior lien debt	93,000	83,000	95,000
Subordinate lien debt:			
Current maturities-revenue bonds	40,840	43,050	34,500
Long-term revenue bonds payable	2,042,415	2,083,255	2,083,320
Unamortized discounts, premium, or deferred amounts on refunding	(30,835)	(32,135)	(36,968)
Total subordinate lien debt	2,052,420	2,094,170	2,080,852
Inferior lien debt:			
Current maturities-contract	4,085	3,880	3,660
Long-term contract payable	41,735	45,820	49,700
Total inferior lien debt	45,820	49,700	53,360
Other debt:			
Collateralized pension note	-	34,800	34,800
Pension obligation bonds	2,006	2,006	2,006
Electricity deferral	-	1,011	1,961
Total other debt	2,006	37,817	38,767
Total net outstanding debt	$ 2,193,246	$ 2,264,687	$ 2,267,979

Total outstanding debt decreased $71.4 million or 3.2% during fiscal year 2009. This decrease was partly attributable to the payment of the collateralized pension note of $34.8 million. During fiscal year 2008, the outstanding debt decreased $3.3 million or 0.2%.

For a complete list of outstanding debt and required debt service, please refer to note 6 to the financial statements. See note 13 subsequent event section of the financial statements for details of the issuance of debt in August of 2009.

The underlying ratings of the Airport System Fund's obligations for fiscal year 2009 as well as the new ratings which were announced during July 2009 are as follows:

	Effective July 2009		FY 2009
	Senior	Subordinate	Subordinate
Standard & Poor's	AA-	A	A+
Moody's	Aa3	A2	A1
Fitch's	Not Rated	A+	A+

Requests for Information

This financial report is designed to provide a general overview of the City of Houston, Texas Airport System Fund finances for all of those with an interest in the fund's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Controller, 901 Bagby, 8th Floor, P.O. Box 1562, Houston, Texas 77251-1562.

STATEMENTS OF NET ASSETS (in thousands)
FOR YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
Assets		
Current assets		
Cash and cash equivalents	$ 767,199	$ 828,803
Accounts Receivable (net of allowance for doubtful accounts of $2,428 in 2009 and $1,984 in 2008)	2,047	21,279
Due from City of Houston	1,274	34
Inventory	2,521	2,869
Prepaid insurance	2,475	2,224
Due from other governments - grants receivable	11,299	3,688
Restricted assets - investments	6,826	7,456
Total current assets	793,641	866,353
Noncurrent assets		
Deferred charges	5,375	5,261
Capital Assets		
Land	209,311	207,439
Buildings, improvements and equipment	3,926,051	3,741,652
Construction in progress	285,996	236,090
Total capital assets	4,421,358	4,185,181
Less accumulated depreciation	(1,462,635)	(1,328,082)
Net capital assets	2,958,723	2,857,099
Total noncurrent assets	2,964,098	2,862,360
Total assets	$ 3,757,739	$ 3,728,713

(continued)

STATEMENTS OF NET ASSETS (in thousands)
FOR YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
Liabilities		
Current Liabilities		
Accounts payable	$ 15,410	$ 6,116
Accrued payroll liabilities	3,731	3,441
Due to City of Houston	336	7
Advances and deposits	1,865	1,976
Deferred revenue	3,777	1,607
Claims for workers' compensation	1,063	1,260
Compensated absences	4,751	4,343
Revenue bonds payable	40,840	43,050
Inferior lien contract payable	4,085	3,880
Accrued interest payable	44,174	47,686
Contracts and retainages payable	47,785	24,132
Other current liabilities	-	1,011
Total current liabilities	167,817	138,509
Long-term liabilities		
Revenue bonds payable, net	2,011,580	2,051,120
Inferior lien contract, net	41,735	45,820
Commercial paper payable	93,000	83,000
Collateralized note payable	-	34,800
Pension obligation bonds payable	2,006	2,006
Claims for workers compensation	3,372	3,762
Compensated absences	5,252	5,514
Net pension obligation payable	33,329	30,109
Other post employment benefits	20,648	11,356
Total long-term liabilities	2,210,922	2,267,487
Total liabilities	2,378,739	2,405,996
Net assets		
Invested in capital assets, net of related debt	790,731	685,286
Restricted net assets		
Restricted for debt service	78,014	67,847
Restricted for maintenance and operations	41,899	41,048
Restricted for renewal and replacement	10,000	10,000
Restricted for capital improvements	458,356	518,536
Total net assets	$ 1,379,000	$ 1,322,717

The accompanying notes are an integral part of the financial statements

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (in thousands)
FOR YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
Operating Revenues		
Landing area fees	$ 82,823	$ 99,017
Rentals, building and ground area	174,433	211,786
Parking	66,565	72,958
Concessions	56,136	58,789
Other	5,800	4,626
Total operating revenues	385,757	447,176
Operating Expenses		
Maintenance and operating	241,303	229,551
Depreciation	136,554	125,951
Total operating expenses	377,857	355,502
Operating income	7,900	91,674
Nonoperating revenues (expenses)		
Interest revenue	37,332	41,694
Interest expense	(94,396)	(104,056)
Gain / (Loss) on disposal of assets	1,020	37
Passenger facility charges	32,398	11,608
Other revenue	1,093	514
Total nonoperating revenues (expenses)	(22,553)	(50,203)
Income/(loss) before capital contributions	(14,653)	41,471
Capital contributions	70,936	91,175
Change in net assets	56,283	132,646
Total net assets, July 1	1,322,717	1,190,071
Total net assets, June 30	$ 1,379,000	$ 1,322,717

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF CASH FLOWS (in thousands)
FOR YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
Cash flows from operating activities		
Receipts from customers	$ 407,033	$ 437,312
Payments to employees	(92,550)	(84,338)
Payments to suppliers	(86,101)	(91,173)
Payments to the City of Houston	(41,766)	(36,833)
Claims paid	(1,064)	(1,260)
Other revenues	544	571
Net cash provided by operating activities	186,096	224,279
Cash flows from investing activities		
Sale of investments	25,237	26,485
Purchase of investments	(24,604)	(26,927)
Gain (loss) on sale of nonpooled stock	-	(169)
Interest income on investments	37,329	41,863
Net cash (used for) provided by investing activities	37,962	41,252
Cash flows from noncapital financing activities		
Retirement of collateralized pension note	(34,800)	-
Interest expense electricity contract	(53)	(50)
Interest expense pension obligation bonds	(106)	(106)
Interest expense collateralized note	(3,823)	(2,958)
Deferred charges on future debt issuance	(441)	(28)
Net cash (used for) provided by noncapital financing activities	(39,223)	(3,142)
Cash flows from capital and related financing activities		
Retirement of revenue bonds	(43,050)	(34,500)
Proceeds (use of cash) from issuance of debt	(5)	290,863
Refunding of revenue bonds	-	(247,858)
Interest expense on debt	(102,334)	(112,852)
Retirement of inferior lien contract	(3,880)	(3,660)
Proceeds from issuance of commercial paper	10,000	31,000
Retirement of commercial paper	-	(43,000)
Passenger facility charges	32,398	11,608
Advances and deposits	16	17
Contributed capital	61,864	84,417
Acquisition of capital assets	(201,448)	(131,710)
Net cash (used for) capital and related financing activities	(246,439)	(155,675)
Net increase (decrease) in cash and cash equivalents	(61,604)	106,714
Cash and cash equivalents, beginning of year	828,803	722,089
Cash and cash equivalents, end of the yea	$ 767,199	$ 828,803
Noncash transactions		
Capitalized interest expense	10,042	12,071
Donated assets	(2,009)	(5,486)
Capital additions included in liabilites	23,203	(5,023)
Loss (gain) on disposal of assets	(997)	(37)
Noncash transactions	$ 30,239	$ 1,525
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 7,900	$ 91,674
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	136,554	125,952
Other revenues	1,093	571
Changes in assets and liabilities		
Accounts receivable	19,232	(1,817)
Due from the City of Houston	(1,240)	(28)
Due from other governments	(549)	-
Inventory and prepaid insurance	97	639
Accounts payable	8,276	(975)
Accrued payroll liabilities	290	681
Due to the City of Houston	329	(602)
Advances and deposits	2,043	(8,047)
Other post-employment benefits	9,292	11,356
Net pension obligation payable	3,220	2,597
Claims for workers' compensation	(587)	905
Compensated absences	146	1,373
Net cash provided by operating activities	$ 186,096	$ 224,279

The accompanying notes are an integral part of the financial statements

1. Reporting Entity

The Airport System Fund (Fund), an enterprise fund of the City of Houston (City), is responsible for the operations, maintenance, and development of the City's Airport System. The Airport System consists of the George Bush Intercontinental Airport (Intercontinental), William P. Hobby Airport (Hobby) and Ellington Airport.

The Mayor and City Council members serve as the governing body that oversees operation of the Fund. The Fund is operated by the Houston Airport System as a self-sufficient enterprise and is administered by the Houston Airport System Director, who reports to the City's Mayor.

The Fund is not financially accountable for any other operations, and accordingly, is accounted for as a single major enterprise fund with no component units. The Fund is included in the City's Comprehensive Annual Financial Report, which is a matter of public record.

2. Summary of Significant Accounting Policies

Basis of Accounting

The City accounts for the Fund as a proprietary fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the City is that the cost of operations, including depreciation, be financed or recovered through user charges. The Fund is accounted for on a cost of services or "economic resources" measurement focus using the accrual basis of accounting, under which revenues are recognized in the accounting period in which they are earned and the related expenses are recorded in the accounting period incurred, if measurable. All assets and liabilities, current, non-current, and capital are included on the balance sheet.

The financial statements presented in this report conform to the reporting requirements of the Governmental Accounting Standards Board (GASB) which establishes generally accepted accounting principles for governmental entities. The Fund applies all Financial Accounting Standards Board (FASB) pronouncements issued prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Fund has elected not to follow FASB pronouncements issued subsequent to that date. The Fund defines operating revenues as receipts from customers and other receipts that do not result from transactions defined as capital and related financing, non-capital financing, or investing activities. All other revenue is recognized as non-operating. The Fund defines operating expenses as personnel and supply costs, utilities and other charges for service, the purchase of furniture and equipment with a value of less than $5,000, and other expenses that do not result from transactions defined as capital or related financing, non-capital financing, or investing activities. All other expense is recognized as non-operating.

In June 2007, the GASB issued statement No. 51, "Accounting and Financial Reporting for Intangible Assets". This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. The requirements of this statement are effective for periods beginning after June 15, 2009. The City has not determined the impact, if any, upon its financial position, results of operations, or cash flows upon adoption.

In June 2008, the GASB issued statement No. 53, "Accounting and Financial Reporting for Derivative Instruments". This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The requirements of this statement are effective for financial statements for

2. **Summary of Significant Accounting Policies, continued:**

periods beginning after June 15, 2009. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In March 2009, the GASB issued Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”. This statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010. The City has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

Inventories of Material and Supplies

Inventories of material and supplies are valued at average cost and charged to expense as used.

Capital Assets

The Fund defines capital assets as assets with an initial cost of more than $5,000. Acquired or constructed property is recorded at historical cost or estimated historical cost. Contributed property is recorded at the estimated fair value on the date received. Construction costs (excluding land and equipment) are added to construction work-in-progress until the assets are placed in service and are depreciated following completion. Depreciation on equipment begins in the year of acquisition. Interest costs on funds borrowed to finance the construction of capital assets are capitalized when the costs materially exceed interest earnings on related revenue bond proceeds. $10.0 million in interest costs was capitalized for the year ended June 30, 2009. $12.1 million was capitalized for the year ended June 30, 2008.

Depreciation on Airport System buildings and improvements is computed using the straight-line method on the component asset base over the estimated useful life, ranging from fifteen (15) to forty-five (45) years. Depreciation on equipment is computed using the straight-line method over the estimated useful life, ranging from four (4) to fifteen (15) years.

Compensated Absences

Full-time civilian employees of the City are eligible for 10 days of vacation leave per year. After four years, employees receive 15 days. The amount of vacation time gradually increases after that, reaching a maximum of 25 days per year after 18 years of service. Employees may accumulate up to 90 days of vacation leave (45 days for employees hired after December 31, 1999). Upon termination or retirement, employees are paid for unused vacation leave based on the average rate of pay during the employee’s highest paid 60 days of employment. Part-time employees (those working less than 30 hours per week) are not eligible for vacation leave benefits.

The majority of full-time civilian employees are covered under the compensatory sick leave plan and receive a leave time allowance of 2.5 hours per payroll period (bi-weekly) up to a maximum of 65 hours per year. Employees who use fewer than 65 hours during the benefit year will receive a match of additional hours equal to the number of hours accrued minus the number of hours used. Once an employee’s balance has reached 1,040 hours, no additional match for unused hours is given. Upon termination, all unused sick leave time allowances in excess of

2. Summary of Significant Accounting Policies, continued:

1,040 hours are payable to the employee at the employee's rate of pay at the time of termination. An employee who uses less than 16 hours of sick leave in any benefit year receives up to three days of personal leave in the next year. Personal leave may be used in place of vacation leave, but will not accumulate and will not be paid out at termination. The balance of full time civilian employees are covered by a sick plan that was closed to employees in 1985. That plan accumulates a cash value for every sick day not used, which is payable upon resignation or retirement.

The City also has adopted policies of compensatory time to comply with the Fair Labor Standards Act as amended in 1985. These policies provide limits to the accumulation of compensatory time and also provide that time not used will be paid in cash. Only classified employees and civilian employees in certain pay grades routinely earn compensatory time.

Vacation and other compensatory time benefits are accrued as liabilities as the benefits are earned, to the extent that the City's obligation is attributable to employees' services already rendered, and it is probable that the City will compensate the employees for the benefits through paid time off or some other means, such as cash payments.

Bond Discount and Issuance Costs

Bond discount and issuance costs are deferred and amortized over the term of the bonds using the effective interest method for fixed rate bonds and the straight-line method for variable rate bonds. Gains or losses on bond refundings are amortized over the term of the lesser of the new bonds or the refunded bonds using the same respective methods.

Statements of Cash Flows—Cash and Cash Equivalents

The Fund makes most of its deposits and withdrawals from the City's General Investment Pool, a cash management pool that has the general characteristics of a demand deposit account, in that the Fund may deposit additional cash at any time and may also effectively withdraw cash at any time without prior notice or penalty. The Fund defines cash and cash equivalents as its total equity in the pool. Investments are being held outside of the pool in separate accounts.

3. Deposits and Investments

Cash and Cash Equivalents

The Fund does not separately account for most deposits and investments, but participates in a City-wide investment pool managed internally by City personnel. The General Investment Pool has the characteristics of a demand deposit, where deposits and withdrawals can be made without notice or penalty. The Fund's total equity in the City's General Investment Pool was $767,199,078 and $828,785,198 at June 30, 2009 and June 30, 2008, respectively. As of June 30, 2008, the Fund's equity in the City's Tax Exempt Investment Pool was $17,542. The Fund did not have an equity position in the Tax Exempt Investment Pool as of June 30, 2009.

Deposits

The carrying amount of the City's deposits was ($39,163,447) on June 30, 2009 and ($17,103,929) on June 30, 2008. The City's bank balance is the sum of three accounts which total $28,000,379 on June 30, 2009 and $54,556,514 on June 30, 2008. The three accounts that comprise this balance are described as follows:

3. Deposits and Investments, continued:

	June 30, 2009		June 30, 2008	
Accounts	**Ledger**	**Collected**	**Ledger**	**Collected**
Concentration	$ 20,748,380	$ 15,000,100	$ 38,860,197	$ 15,000,000
Section 108	270,645	270,645	374,229	374,229
JPM Money Market Account	6,981,354	6,981,354	15,322,088	15,322,088
Total	$ 28,000,379	$ 22,252,099	$ 54,556,514	$ 30,696,317
Market Value Collateral	-	-	$ 26,133,078	$ 26,133,078

The first account is a demand deposit account with JP Morgan Chase bank that as of June 30, 2009 had a City balance of $20,748,380 and a collected balance of $15,000,100. The difference between the ledger and collected balance of $5,748,280 represents checks deposited in this bank account but uncollected by the bank. As of June 30, 2009, the balance was insured by the US Government. As of June 30, 2008, JPMorgan Chase bank had a ledger balance of $38,860,197 and a collected balance of $15,000,000. The difference between the ledger and collected balance of $23,860,197 represents checks deposited in this bank account for which the collection of available funds had not been obtained as of June 30, 2008. A Depository Pledge Agreement was in effect by which collateral was pledged by JPMorgan Chase to the City to cover collected balances. The collateral was in the form of fixed income securities which were held by a third party, and as of June 30, 2008 had a market value of $26,133,078. According to the terms of the pledge agreement, the City was granted a security interest in the pledged securities. In the event of a default by JPMorgan Chase, the City could sell the pledged securities to satisfy any indebtedness owed to the City by JPMorgan Chase, provided at least 3 business days written notice and opportunity to cure the default was given.

The second account is a demand deposit account with JP Morgan Chase Bank for the City's Housing and Urban Development section 108 account, which had a collected and ledger balance as of June 30, 2009 of $270,645. As of June 30, 2009, the balance was insured by the US Government. As of June 30, 2008, this section 108 account had both a collected and ledger balance of $374,299. At June 30, 2008, this balance was collateralized by the same Depository Pledge Agreement described in the first account above.

The third account is a highly rated, SEC registered money market fund. The balance in the money market fund as of June 30, 2009 was $6,981,354. The balance in the money market fund as of June 30, 2008 was $15,322,088. As this is not a bank account, collateral is not required to be held to cover the balance. There is no custodial risk associated with this money market fund.

Investments and Risk Disclosures

The following describes the investment positions of the City's operating funds as of June 30, 2009 and June 30, 2008. On these dates the City had $2.3 billion and $2.2 billion, respectively, in high grade, fixed income investments in three separate investment pools, each serving a specific purpose as described below. All investments are governed by state law and the City's Investment Policy, which dictates the following objectives, in order of priority:

1. Safety
2. Liquidity
3. Return on Investment
4. Legal Requirements

3. **Deposits and Investments, continued:**

These funds are managed internally by City personnel within a City-wide investment pool in order to gain operational efficiency. This pool consists of all working capital, construction and debt service funds which are not subject to yield restriction under IRS arbitrage regulations. The funds of the City's enterprise systems, as well as the general fund are commingled in this pool in order to gain operational efficiency. Approximately 99% of the City's total investable funds are contained in this portfolio on June 30, 2009, with approximately 98.7% of investable funds in the portfolio on June 30, 2008.

		June 30, 2009		June 30, 2008	
Pooled Investments as of June 30, 2009	Credit Quality Ratings	Market Value	Weighted Average Maturity*	Market Value	Weighted Average Maturity*
U.S. Treasury Notes	n/a	$ 300,977,433	0.508	$ 360,744,951	0.364
Housing and Urban Development Notes	n/a	54,676,137	2.392	46,287,909	2.244
Government National Mortgage Association	not rated	-	-	1,878,784	0.469
Agency Notes (4)	AAA	861,812,898	2.118	940,259,154	2.265
Agency Notes (3) (4)	not rated	373,918,920	0.446	212,639,110	0.134
Collateralized Mortgage Obligations (3) (4)	not rated	7,684,306	1.054	12,600,893	1.916
Mortgaged Backed Securities (3) (4)	not rated	281,877,946	3.256	248,767,919	4.384
Money Market Funds	AAA Short Term	47,805,992	0.003	250,489,772	0.085
Certificate of Deposit	FDIC insured	982,652	0.216	-	-
Commercial Paper Notes (5)	A1 Short Term	153,910,220	0.061	-	-
Municipal Bonds	AAA	74,190,651	0.630	81,622,817	1.855
Municipal Bonds	SP-1+/MIG1 Short Term	5,086,129	0.002	20,961,441	0.530
Municipal Bonds	AA Long Term	76,546,277	0.738	52,792,621	2.155
Municipal Bonds	AA Long Term/A1 Short Term	37,169,582	0.003	-	-
Municipal Bonds	AA Long Term/A2 Short Term	26,427,489	0.002	-	-
Municipal Bonds	A Long Term	11,688,173	0.069	16,139,591	0.055
Municipal Bonds (6)	SG Short Term	5,086,919	0.004	-	-
Total Investments		**$ 2,319,841,724**	**1.531**	**$ 2,245,184,962**	**1.732**

* Weighted Average Maturity (WAM) computed using average life of mortgage backed securities and effective maturity of callable securities.

(1) Standard and Poor's Rating Services (S&P) has assigned an AAAf credit quality rating and S1 volatility rating to the City's General Investment Pool. The AAAf signifies the highest level of credit protection, and the S1 rating signifies volatility consistent with a portfolio of government securities maturing from one to three years.

(2) All credit ratings shown are either actual Standard or Poor's ratings, or if an S&P credit rating is not available, the equivalent S&P credit rating is shown to represent the actual Moody's or Fitch credit rating.

(3) At June 30, 2009 and June 30, 2008, these securities are not individually rated by the rating agencies. However, senior lien debt of the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation ("Freddie Mac"), and the Federal National Mortgage Corporation ("Fannie Mae"), are rated AAA. Federal Agricultural Mortgage Corporation ("Farmer Mac") is not rated by the credit rating agencies as to the individual securities or as an issuer.

3. **Deposits and Investments, continued:**

(4) At June 30, 2009 and June 30, 2008, these are securities issued by government sponsored enterprises, including the Federal Home Loan Bank, Freddie Mac, Fannie Mae, and the Federal Agricultural Corporation ("Farmer Mac"). At June 30, 2008, there were also securities issued by Federal Farm Credit Bank System.

(5) At June 30, 2009, the City held its own commercial paper notes ("the Notes") in this amount. The Notes were purchased in recognition of IRS Notice 2008-88 which permits issuers to purchase and hold their own debt until December 31, 2009 without causing an extinguishment of such debt for federal income tax purposes. The Notes were purchased as an investment of funds on deposit in City's General Pool, in compliance with the Texas Public Funds Investment Act and the City's current investment policy. Such purchase was not intended to extinguish the debt evidenced by the Notes.

(6)This note was rated MIG-1 at time of purchase and was downgraded to SG in June 2009. It was sold on July 7, 2009.

Reverse Repurchase Agreements:
Also known as a securities lending program, the purpose is to earn incremental income by borrowing money at favorable interest rates and investing the proceeds of these loans at a positive spread in high grade commercial paper, money market funds or U.S. Agency securities. The City uses U.S. Treasury securities held in the pool as collateral to secure the loans. The City receives 102% of the value of the Treasury. The program is limited to 15% of the City's portfolio value, and the term of the agreements may not exceed 90 days. The term of the investments must exactly match the term of the reverse repurchase agreements. The program is authorized by the Texas Public Funds Investment Act and the City's Investment Policy.

The dates of the agreement, collateral securities, and market value of the borrowings under the program are detailed below:

City of Houston Reverse Repurchase Agreements as of June 30, 2009 Description of Collateral & Term of Agreement	Market Value of Collateral Security at 6/30/2009	Liability on Reverse Repurchase Agreements at 6/30/2009
US Treasury 4.625% 11/15/09, 6/18 -7/20/09	$ 25,275,400	$ 26,052,296
US Treasury 3.5% 8/15/09, 6/18 -7/20/09	30,213,270	31,147,959
US Treasury 3.625% 10/31/09, 6/18 - 7/20/09	25,398,450	25,924,745
US Treasury 6.0% 8/15/09, 6/29 - 7/20/09	14,099,526	14,714,286
US Treasury 4.625% 11/15/09, 6/22 -7/22/09	20,080,460	20,841,837
Total Market Value	115,067,106	118,681,123
Accrued Interest	1,555,163	13,373
Total Market Value plus Accrued Interest	**$ 116,622,269**	**$ 118,694,496**

Investments purchased with the proceeds of the securities lending program are included in the Commercial Paper Notes disclosed above. The Fund did not have Reverse Repurchase agreements as of June 30, 2008.

Risk Disclosures:
Interest Rate Risk. In order to ensure the ability of the City to meet obligations and to minimize potential fair value losses arising from rising interest rate environments, the City's investment

3. Deposits and Investments, continued:

policy limits this investment portfolio's dollar weighted average maturity to 2.5 years maximum. As of June 30, 2009, this investment portfolio's dollar-weighted average maturity was 1.53 years. Modified duration was 1.42 years. Modified duration can be used as a multiplier to determine the percent change in price of a bond portfolio for every 100 basis point (1%) change in yield. For example, a portfolio with a modified duration of 1.42 years would experience approximately a 1.42% change in market price for every 100 basis point change in yield.

Credit Risk –Investments. The US Treasury Notes and Housing and Urban Development Notes are direct obligations of the United States government. The Agency Notes, Collateralized Mortgage Obligations, and Mortgage Backed Securities were issued by government sponsored enterprises but are not direct obligations of the U.S. Government. The money market mutual funds were rated AAA. Long term municipal securities were rated at least A. Municipal securities considered short-term securities were State of Texas general obligations or had the highest short-term credit rating of A1 or MIG-1 at purchase.

Under the securities lending program, the City receives 102% of market value for its U.S. Treasury securities at the time the repurchase agreements are signed, and agreements are limited to 90 days by policy and have been less than 35 days by practice. At June 30, 2009 the value of the collateral held by the counterparty was less than the amount owed by the City.

Custodial Credit Risk. The custodial credit risk for investments is the risk that in the event of the failure of the counterparty the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are not registered in the name of the City, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. As of June 30, 2009, none of the City's investments in the General Investment Pool were subject to custodial credit risk.

Foreign Currency Risk. Foreign currency risk is the risk that investments will change value due to changes in exchange rates between time of purchase and reporting or sale. The City's general pool investments are all US dollar denominated and not subject to this risk.

Miscellaneous Money Market Accounts:

In addition to its investment pools, the City maintains several money market account balances for various purposes described below. The Airport Fund's portion of these is as follows:

Investments	Credit Quality Ratings	Market Value June 30, 2009	Market Value June 30, 2008	Weighted Average Maturity
JP Morgan US Government Money Market Fund: Airport System Special Facilities Revenue Bonds Series 1997A Reserve Fund.	AAA	$ 6,652,913	$ 6,871,409	< 90 days
JP Morgan US Treasury Securities Money Market Fund: Balances held for auction bonds debt service.	AAA	172,765	552,736	< 90 days
First American US Treasury Money Market Fund: Balances held for commercial paper debt service.	AAA	680	25,059	< 90 days
Total Investments		**$ 6,826,358**	**$ 7,449,204**	

3. Deposits and Investments, continued:

Risk Disclosures:

Interest Rate Risk. These money market funds maintained an average maturity of less than 90 days and seek to maintain a stable net asset value of $1.00. These funds are redeemable on a same day notice.

Credit Risk. These funds held only US dollar denominated securities that present minimal credit risk. They have the highest credit ratings.

Custodial Credit Risk. None of the City's investments in this pool were subject to custodial credit risk.

Foreign Currency Risk. The City's investments in this pool are all US dollar denominated and not subject to foreign currency risk.

Tax Exempt Pool:

The Tax Exempt Pool consists of those funds which are subject to yield restrictions and arbitrage regulation under the1986 Tax Reform Act. All these investments were held in a tax-exempt money market fund.

City of Houston Investments As of June 30, 2008*	Credit Quality Ratings	Market Value	WAM
Fidelity Tax-Exempt Money Market Mutual Fund	SEC 2a-7 fund	$ 17,112,015	<90 Days

*The Fund did not invest in the Pool at June 30, 2009.

Risk Disclosures:

Interest Rate Risk. In order to ensure the ability of the City to meet obligations and to minimize potential fair value losses arising from rising interest rate environments, the City's investment policy limits this pool's dollar-weighted average maturity to 1 year. As of June 30, 2008, all funds were invested in a SEC registered money market fund that kept a weighted average maturity of less than 90 days. Funds were available on same day notice.

Credit Risk. Due to the nature of municipal bonds (more risk, and less liquidity), the City investment policy limit its investments in the Tax-Exempt Pool to high quality, short maturity securities with an average dollar-weighted maturity of less than one year and a minimum rating of A, if the yield is reasonably higher than that of a tax-exempt money market mutual funds. Otherwise, funds in this pool will be invested in one or more tax-exempt money market mutual funds that are SEC registered and regulated under rule 2a-7. Rule 2a-7 requires that the fund have a weighted average maturity of less than 90 days to maturity, that individual securities cannot be more than 397 days to maturity, and that securities must have a rating by nationally recognized rating agencies in one of the two highest short-term rating categories.

Custodial Credit Risk. The custodial credit risk for investments is the risk that in the event of the failure of the counterparty, the City of Houston will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are not registered in the name of the City, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. As of June 30, 2008 none of the City's investments in the Tax Exempt Fund (Pool 971) were subject to custodial credit risk.

4. Capital Assets

Summaries of changes in fixed assets for the years ended June 30, 2009 and June 30, 2008 follow (in thousands):

	Balance June 30, 2008	Additions	Retirements	Transfers	Balance June 30, 2009
Capital assets not being depreciated:					
Land	$ 207,439	$ -	$ (108)	$ 1,980	$ 209,311
Construction work in progress	236,090	233,404	-	(183,498)	285,996
Total capital assets not being depreciated	443,529	233,404	(108)	(181,518)	495,307
Other capital assets:					
Buildings and building improvements	1,880,809	2,009	-	92,912	1,975,730
Improvements other than buildings	1,725,501	6		72,852	1,798,359
Equipment	135,342	2,885	(2,019)	15,754	151,962
Total other capital assets	3,741,652	4,900	(2,019)	181,518	3,926,051
Less accumulated depreciation for:					
Buildings and building improvements	(496,977)	(67,401)	-	(5)	(564,383)
Improvements other than buildings	(741,536)	(56,649)	-	5	(798,180)
Equipment	(89,569)	(12,504)	2,001	-	(100,072)
Total accumulated depreciation	(1,328,082)	(136,554)	2,001	-	(1,462,635)
Other capital assets, net	2,413,570	(131,654)	(18)	181,518	2,463,416
Total capital assets, net	$ 2,857,099	$ 101,750	$ (126)	$ -	$ 2,958,723

	Balance June 30, 2007	Additions	Retirements	Transfers	Balance June 30, 2008
Capital assets not being depreciated:					
Land	$ 202,214	$ -	$ -	$ 5,225	$ 207,439
Construction work in progress	302,189	141,457	-	(207,556)	236,090
Total capital assets not being depreciated	504,403	141,457	-	(202,331)	443,529
Other capital assets:					
Buildings and building improvements	1,807,690	7,329	-	65,790	1,880,809
Improvements other than buildings	1,593,441	491	-	131,569	1,725,501
Equipment	126,231	5,081	(942)	4,972	135,342
Total other capital assets	3,527,362	12,901	(942)	202,331	3,741,652
Less accumulated depreciation for:					
Buildings and building improvements	(433,461)	(63,516)	-	-	(496,977)
Improvements other than buildings	(689,642)	(51,894)	-	-	(741,536)
Equipment	(79,933)	(10,541)	905	-	(89,569)
Total accumulated depreciation	(1,203,036)	(125,951)	905	-	(1,328,082)
Other capital assets, net	2,324,326	(113,050)	(37)	202,331	2,413,570
Total capital assets, net	$ 2,828,729	$ 28,407	$ (37)	$ -	$ 2,857,099

5. Leases

The Airport Fund is the lessor of approximately 10 percent of its land and substantially all of its buildings and improvements. These lease agreements are non-cancelable operating leases with fixed minimum rentals and non-cancelable operating use and lease agreements with annually adjusted rates. Rental income is earned from leasing various parcels of land with asset costs of $20,931,126 to airlines, fixed base operators and various corporations for aircraft maintenance, facilities, hangars, flight kitchens, and cargo buildings; to auto rental companies for their service

5. **Leases, continued:**

facilities and storage lots; and to a variety of other entities for buildings and other permanent improvements. Airlines and airport concessionaires lease various sections of City-owned airport buildings and improvements for ticket counters, passenger hold rooms, baggage carousels, restaurants, retail stores and other facilities. Leased buildings, improvements and equipment have asset costs of $3,926,050,805 and carrying costs of $2,463,415,332. Accumulated depreciation on all these assets is $1,462,635,473.

Minimum guaranteed income on such non-cancelable operating leases is as follows (in thousands):

Year Ending June 30	Minimum Rental Income
2010	42,738
2011	35,414
2012	34,398
2013	32,115
2014	30,421
2015-2019	130,058
2020-2024	116,304
2025-2029	80,056
2030-2034	16,791
2035-2039	11,997
2040-2044	5,772
2045-2049	52
2050-2054	2
Total	536,118

Contingent income associated with these non-cancelable operating leases was approximately $7,820,681 and $12,088,511 for the years ended June 30, 2009 and 2008, respectively. Contingent income is earned when a concessionaire's payment, based on a percentage of sales, is higher than the minimum amount guaranteed to the Airport System under the terms of the lease. In addition, income is earned from certain non-cancelable operating use and lease agreements for landing fees and terminal building rentals. Such income is adjusted annually based on a compensatory formula to recover certain operating and capital costs of the related facilities. Compensatory income for the years ended June 30, 2009 and 2008 is as follows (in thousands):

	Compensatory Income	
	2009	2008
Landing Fees	$ 81,464	$ 95,730
Terminal Space- Airline	$ 152,866	$ 192,915
	$ 234,330	$ 288,645

6. Long-Term Liabilities

Changes in long-term liabilities for the years ended June 30, 2009 and 2008 are summarized as follows (in thousands):

	Balance June 30, 2008	Additions	Retirements/ Transfers	Balance June 30, 2009	Amounts Due within One Year
Revenue bonds payable	$ 2,126,305	$ -	$ (43,050)	$ 2,083,255	$ 40,840
Plus unamortized premium	11,458	-	(605)	10,853	-
Less unamortized discount	(26,827)	-	937	(25,890)	-
Less deferred amount on refundings	(16,766)	-	968	(15,798)	-
Revenue bonds payable, net	2,094,170	-	(41,750)	2,052,420	40,840
Inferior lien contract	49,700	-	(3,880)	45,820	4,085
Inferior lien contract, net	49,700	-	(3,880)	45,820	4,085
Commercial paper payable	83,000	10,000	-	93,000	-
Collateralized pension note	34,800	2,958	(37,758)	-	-
Pension obligation bonds	2,006	-	-	2,006	-
Compensated absences	9,857	6,483	(6,337)	10,003	4,751
Claims for workers compensation	5,022	476	(1,063)	4,435	1,063
Net pension obligation payable	30,110	3,219	-	33,329	-
Other post employment benefits	11,356	9,292	-	20,648	-
Other long-term liabilities	1,011	-	(1,011)	-	-
Total long-term liabilities	$ 2,321,032	$ 32,428	$ (91,799)	$ 2,261,661	$ 50,739

	Balance June 30, 2007	Additions	Retirements/ Transfers	Balance June 30, 2008	Amounts Due within One Year
Revenue bonds payable	$ 2,117,820	$ 298,670	$ (290,185)	$ 2,126,305	$ 43,050
Plus unamortized premium	3,031	8,903	(476)	11,458	-
Less unamortized discount	(35,640)	-	8,813	(26,827)	-
Less deferred amount on refundings	(4,359)	(13,086)	679	(16,766)	-
Revenue bonds payable, net	2,080,852	294,487	(281,169)	2,094,170	43,050
Inferior lien contract	53,360	-	(3,660)	49,700	3,880
Inferior lien contract, net	53,360	-	(3,660)	49,700	3,880
Commercial paper payable	95,000	31,000	(43,000)	83,000	-
Collateralized pension note	34,800	-	-	34,800	-
Pension obligation bonds	2,006	-	-	2,006	-
Compensated absences	8,484	7,921	(6,548)	9,857	4,343
Claims for workers compensation	4,117	2,165	(1,260)	5,022	1,260
Net pension obligation payable	27,513	2,597	-	30,110	-
Other post employment benefits	-	11,356	-	11,356	-
Other long-term liabilities	1,961	-	(950)	1,011	1,011
Total long-term liabilities	2,308,093	349,526	(336,587)	$ 2,321,032	$ 53,544

6. Long-Term Liabilities, continued:

Purpose of Debt

The Fund issues revenue bonds and commercial paper for the purpose of enlarging, maintaining and improving the Houston Airport System. The Fund has issued refunding bonds from time to time when there has been an operational or economic gain. These refundings have been structured as legal defeasances of the old debt as ruled by the Texas Attorney General, and such debt has been removed from the Fund's books.

Debt Service Requirements to Maturity

Aggregate future Airport system debt service payments to maturity as of June 30, 2009 were as follows (in thousands):

Year Ending June 30	Airport System Subordinate Lien Revenue Bonds		Airport System Senior Lien Commercial Paper		Airport System Inferior Lien Contract	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	40,840	88,098	-	1,293	4,085	2,388
2011	51,885	86,008	93,000	666	4,305	2,163
2012	52,285	83,738	-		4,535	1,925
2013	51,240	81,367	-	-	4,780	1,675
2014	59,015	78,919	-		5,040	1,408
2015-2019	327,720	352,260	-	-	23,075	2,623
2020-2024	426,960	268,232	-	-	-	-
2025-2029	553,105	164,882	-	-	-	-
2030-2034	520,205	48,676	-	-	-	-
2035	-	-	-	-	-	-
Total	$2,083,255	$1,252,180	$ 93,000	$ 1,959	$ 45,820	$ 12,182

Year Ending June 30	Airport System Pension Obligations		Airport System Total Future Requirements		
	Principal	Interest	Principal	Interest	Total
2010	-	106	44,925	91,886	136,811
2011	-	107	149,190	88,943	238,133
2012	-	106	56,820	85,770	142,590
2013	-	107	56,020	83,148	139,168
2014	-	106	64,055	80,434	144,489
2015-2019	-	533	350,795	355,416	706,211
2020-2024	-	533	426,960	268,764	695,724
2025-2029	293	532	553,398	165,414	718,812
2030-2034	1,334	282	521,539	48,958	570,497
2035	379	20	379	20	399
Total	$2,006	$2,432	$ 2,224,081	$ 1,268,753	$ 3,492,834

6. <u>Long-Term Liabilities</u>, continued:

On September 12, 2007 the City issued $298,670,000 of Airport System Subordinate Lien Revenue Refundings Bonds Series 2007B (Non-AMT). The bonds were issued at rates of 4.0 to 5.0% with an average yield of 4.77%. The bonds are due in varying amounts from 2008 to final maturity on July 1, 2032.

The proceeds were used to currently refund $30,960,000 of Airport System Subordinate Lien Revenue Refunding Bonds Series 1997 and $43,000,000 of Airport System Senior Lien Commercial Paper Notes, to advance refund $224,725,000 of Airport System Subordinate Lien Revenue Bonds Series 2000B, and to pay costs of issuance. The commercial paper was refunded to lock in fixed rates rather than to achieve present value savings. Cash savings on the current refunding were $2,579,000, and the net present value savings are $1,507,000 or 4.87%.

Cash savings on the advance refunding will be $30,493,000, and the net present value savings are $14,982,000 or 6.67%.

Certain bond ordinances have additional requirements for accumulation of principal and interest repayment amounts from surplus operating funds. Generally, the bonds may be redeemed prior to their maturities in accordance with the bond ordinances and at prices, which include premiums ranging downward from 5%. Significant additional restrictions and other data are set forth below. During 2009 and 2008, the City has complied with the requirements of all financial revenue bond ordinances and related bond restrictions.

To the extent it legally may do so, the Fund covenants in the ordinances to charge rates for use of the Airport System in order that in each fiscal year the net revenues will be not less than 125% of the debt service requirements for Senior Lien Bonds for such fiscal year and 110% of the debt service requirements for Subordinate Lien Bonds for such fiscal year.

The Fund purchased a Municipal Debt Service Reserve Fund Surety Policy concurrently with the issuance of the Airport System Subordinate Lien Revenue Refunding Bonds Series 2007B. The reserve fund surety policy, along with previously issued reserve fund surety policies, unconditionally guarantees the payment of the current principal and interest on all outstanding airport system subordinate lien issues. The reserve policies terminate upon final maturity. Each of the draws made against the reserve policy shall bear interest at the prime rate plus two percent, not to exceed a maximum interest rate of 12%. The repayment provisions require one-twelfth of the policy costs for each draw to be repaid monthly, beginning the first month following the date of each draw.

The City also maintains a separate reserve fund for the benefit of all Outstanding Subordinate Lien Bonds. In order to satisfy the Reserve Fund Requirement for the Outstanding Subordinate Lien Bonds, the City previously acquired Subordinate Lien Bond Reserve Fund Surety Policies issued by (1) FGIC in the aggregate maximum amount of $108,444,368.70, (2) Financial Security Assurance ("FSA") in the aggregate maximum amount of $31,921,383.50, and (3) Syncora Guarantee ("Syncora"), as successor to XL Capital Assurance, Inc. in the aggregate maximum amount of $15,756,228. As of April 26, 2009, the New York State Insurance Department (the "NYSID") stipulated that Syncora may not pay any claims under its policies until it had restored its surplus to policyholders to the minimum required by New York State insurance law. While the Syncora policies are still active, the City has made a supplemental deposit of cash into the Subordinate Lien Bond Reserve Fund in an amount equal to or exceeding the value of the Syncora policies to ensure that the Reserve Fund Requirement for the Subordinate Lien Bond is met.

6. Long-Term Liabilities, continued:

Airport System Inferior Lien Contract

On July 1, 2004 the City and Continental Airlines, Inc. entered into a Sublease Agreement associated with the Special Facilities Lease for the Automated People Mover System and the City's Airport System Special Facilities Revenue Bonds (Automated People Mover Project) Series 1997A ("1997A Special Facilities Bonds"). The City assumed Continental's interest in the project upon completion of the expansion of the Automated People Mover System on January 25, 2005. As part of the Sublease, the City agreed to make sublease payments that include amounts equal to the debt service on the 1997A Special Facilities Bonds. The payments are payable from Airport system net revenues on the same priority as inferior lien bonds. Accordingly, the principal amount remaining on the 1997A Special Facilities Bonds, totaling $45,820,000, is recorded as an Inferior Lien Contract.

Variable Rate Debt

The Fund has issued variable rate debt in Airport System Subordinate Lien Revenue Bonds Series 2000P-1 and Series 2000P-2. They were issued as auction reset securities with Series 2000P-1 to be auctioned every 7 days, and Series P-2 to be auctioned every 28 days. On July 20, 2005, Series P-2 changed to being auctioned every 7 days. Rates in effect at June 30, 2009, including dealer and auction fees, were 0.5705% and 0.5205%, respectively. Additional variable rate debt was issued as Series 2002C, Series 2002D-1, and Series 2002D-2 as auction rate securities to be auctioned every 35 days. These changed to being auctioned every 7 days as of August 10, 2005, August 3, 2005, and July 13, 2005, respectively. Rates in effect at June 30, 2009, including dealer and auction fees, were 0.878%, 0.878%, and 0.875%, respectively. Starting in February 2008, various auction rate securities began, and continue, to not be remarketed. Auction rate bonds that cannot be sold remain with the bondholder. However, if the auction is not successful, the rate is reset based on predetermined formulae which include the rating of the insurer, or the underlying rating of the Fund if it is higher than the insurer's rating. The formula for the Series 2000P-1 and Series 2000P-2 is 125% of the commercial paper rate until July 30, 2009 and will be 150% afterwards. The formula for the Series 2002C, Series 2002D-1, and Series 2002D-2 is 200% of LIBOR. Additional variable rate debt was issued as Series 2005A as variable rate demand obligations with a weekly reset. Rates in effect at June 30, 2008, including remarketing fees, were 0.811%.

6. Long-Term Liabilities, continued:

Revenue bonds payable for the years ended June 30, 2009 and 2008 (in thousands):

	Stated Interest Rate Range	Face Value Outstanding June 30, 2009	Face Value Outstanding June 30, 2008
Airport System Subordinate Lien Revenue Refunding Bonds, Series 1997, $33,255,000 original principal, matures in 2017	4.5%-5.125%	$ 630	$ 820
Airport System Subordinate Lien Revenue Refunding Bonds, Series 1998A, $70,405,000 original principal, matures in 2017	5.25%-6%	42,990	46,500
Airport System Subordinate Lien Revenue Bonds, Series 1998B, $479,940,000 original principal, matures in 2028	3.9%-5.25%	401,030	415,775
Airport System Subordinate Lien Revenue Bonds, Series 1998C, $150,905,000 original principal, matures in 2028	3.8%-5%	146,000	146,900
Airport System Subordinate Lien Revenue Bonds, Series 2000A, $327,225,000 original principal, matures in 2030	5%-6%	212,915	219,300
Airport System Subordinate Lien Revenue Bonds, Series 2000B, $269,240,000 original principal, matures in 2030	5.45%-5.7%	44,515	44,515
Airport System Subordinate Lien Revenue Bonds, Series 2000P-1, $50,000,000 original principal, (Periodic Auction Reset Securities), matures in 2030	N/A	45,325	46,425
Airport System Subordinate Lien Revenue Bonds, Series 2000P-2, $50,000,000 original principal, (Periodic Auction Reset Securities), matures in 2030	N/A	45,100	46,200
Airport System Subordinate Lien Revenue Refunding Bonds, Series 2001A, $65,475,000 original principal, matures in 2021	4%-5.5%	44,995	48,470
Airport System Subordinate Lien Revenue Bonds, Series 2002A, $200,050,000 original principal, matures in 2032	5%-5.625%	200,050	200,050
Airport System Subordinate Lien Revenue Bonds, Series 2002B, $274,455,000 original principal, matures in 2032	5%-5.5%	269,020	274,455
Airport System Subordinate Lien Revenue Bonds, Series 2002C, $100,000,000 original principal, (Auction Rate Securities), matures in 2032	N/A	96,650	98,450
Airport System Subordinate Lien Revenue Bonds, Series 2002D-1, $75,000,000 original principal, (Auction Rate Securities), matures in 2032	N/A	71,625	73,425
Airport System Subordinate Lien Revenue Bonds, Series 2002D-2, $75,000,000 original principal, (Auction Rate Securities), matures in 2032	N/A	71,600	73,450
Airport System Subordinate Lien Revenue Refunding Bonds, Series 2005A, $92,900,000 original principal, (Variable Rate Debt Obligations), matures in 2030	N/A	92,900	92,900
Airport System Subordinate Lien Revenue Refunding Bonds, Series 2007B, $298,670,000 original principal, matures in 2032	4%-5%	297,910	298,670
Total principal		2,083,255	2,126,305
Less:			
Total current maturities		(40,840)	(43,050)
Unamortized discount		(25,890)	(26,827)
Unamortized premium		10,853	11,458
Deferred amount on refunding		(15,798)	(16,766)
Total revenue bonds payable - long term		$ 2,011,580	$ 2,051,120

6. **Long-Term Liabilities, continued:**

Arbitrage Rebate

Arbitrage rebate rules, under Chapter 148 of the Federal Tax Code, require generally that a tax-exempt bond issuer pay to the federal government any profit made from investing bond proceeds at a yield above the bond yield, when investing in a taxable market. Payments based on cumulative profit are due, in general, every five years. There was no arbitrage rebate payable by the Airport Fund for fiscal years ended June 30, 2009 and June 30, 2008.

Commercial Paper

Airport System Commercial Paper Notes (the "Notes") have been authorized for $150 million for Series A and B and $150 million for Series C to establish, improve, enlarge, extend and repair the Houston Airport System, acquire land, and pay interest and cost of issuance of the Notes. As of June 30, 2009, $87.0 million is outstanding in Series A and $6.0 million is outstanding in Series B. The average year-end interest rate on the Notes, including credit facility and dealer fees, was 1.39%.

Series A and B are collateralized by a direct pay letter of credit issued by two commercial banks, and a lien on the net revenues of the Fund. The letter of credit was $161,095,890 at June 30, 2009. It will terminate on January 4, 2011. The credit agreement covers the $150 million face value plus $11,095,890 in respect of 270 days accrued interest computed at 10%. The bank agrees to lend up to the amount of principal and interest outstanding during the time of the agreement, and that at the end of the agreement period, the outstanding loans will be consolidated into a single term loan to be repaid in six equal semiannual installments of principal plus interest commencing on a date which is six months after the termination of the Revolving Credit Period.

Series C is backed by a lien on the net revenues of the Fund, but is not collateralized.

Pledged Revenues

The Fund has pledged airport system revenues, net of operation and maintenance expenses, to pay principal and interest on outstanding Senior Lien Commercial Paper Notes, Subordinate Lien Revenue Bonds, and an Inferior Lien Contract, with outstanding principal amounts of $93,000,000, $2,083,255,000 and $45,820,000, respectively. Interest rates, maturity dates and debt service to maturity are described in detail in Note 6. The Commercial Paper Notes and Revenue Bonds are issued to establish, improve, enlarge, extend and repair the Airport System. The Inferior Lien Sublease Agreement with Continental Airlines pays debt service on the Airport System Special Facilities Bonds, (Automated People Mover Project) Series 1997A.

Pledged airport system revenues exclude: proceeds of any bonds, replacement proceeds, or any investment income earned by bond proceeds; passenger facility charges; grants or gifts for construction or acquisition; insurance proceeds; revenue from special facilities pledged to Special Facility Bonds; taxes collected for others; and proceeds from the sale of property. Pledged airport system revenues, net of operation and maintenance expense, totaled $177,786,000 in Fiscal Year 2009, covering principal of $49,692,000 and interest of $101,049,000. In addition to pledged airport system revenue, grants and passenger facility charges and other funds totaling $51,739,000 were available to cover debt service in Fiscal Year 2009, making the ratio of net pledged revenue to reduced debt service cost 180%. For historical information on the Airport Fund's pledged revenues, see Pledged Revenues in the Statistical Section.

7. Defined Benefit Pension Plan

The Fund participates in the pension plan of the City of Houston's municipal employees, for which separately published financial statements are available. Since the plan does not separately account for the Fund, the following disclosures, as well as those in Note 8, generally relate to the City as a whole. A complete copy of the plan can be obtained from the Houston Municipal Employees Pension System at 1111 Bagby, Suite 2450, Houston, Texas 77002-2555.

Plan Description

The Municipal Employees Pension System of the City is a single employer defined benefit pension plan that covers all eligible municipal employees, including all employees of the Fund. This pension plan was established under the authority of Texas statutes (Vernon's Texas Civil Statutes, Articles 6243g), which establish the various benefit provisions. The plan provides for service-connected disability and death benefits to survivors, with no age or service eligibility requirements. Employer and employee obligations to contribute, as well as employee contribution rates, are included in the statutes. Some requirements are delineated in the meet and confer agreements of September 2004. Additionally, these laws provide that employer funding be based on periodic actuarial valuations, statutorily approved amounts or amounts agreed to in meet and confer agreements. The plan provides service, disability, death, and vesting benefits. The plan recognizes participant and employer contributions as revenues in the period in which they are due pursuant to formal commitments and recognizes benefits and refunds when they are due and payable in accordance with the terms of the pension statutes.

On November 10, 2004 the City issued a $300,000,000 collateralized note ("The Collateralized Note") to the Houston Municipal Employees Pension System ("HMEPS") as part of the meet and confer agreement with the HMEPS to fund part of the unfunded accrued actuarial liability of its pension plan. The notes bore interest at 8.5% per year. The promissory note from the Houston Hotel Corporation to the City, as well as the related Deed of trust, had been pledged as collateral on the notes. Interest on the notes could be paid or deferred, at the City's option, up to a maximum of $150,000,000 plus 75% of the amount by which the appraisal value of the hotel exceeded $300,000,000. If the interest is deferred, the City could issue uncollateralized deferred interest certificates that could be converted to assignable certificates at the request of the HMEPS up to $150 million, or collateralized deferred interest certificates up to the limit based on the appraisal value of the hotel. The Collateralized Note constituted a general obligation of the City with an ad valorem tax pledge, but the City could look to other revenue sources available to pay the debt, including the collateral and its proceeds as well as interest deferrals. This note was paid in January 2009 with proceeds from City of Houston, Texas Taxable Pension Obligation Refunding Bonds, Series 2008. The Airport System Fund paid its portion of the collateralized note in cash and is not responsible for any portion of these bonds.

Actuarially Determined Contribution Requirements and Contributions Made

The City's funding policies provide for actuarially determined periodic contributions at rates such that, over time, they will remain level as a percent of payroll. The contribution rate for normal cost is determined using the entry age normal actuarial cost method. The pension plan uses the level percentage of payroll method to amortize the unfunded actuarially accrued liability (or surplus) over 30 years from July 1, 2004.

The reported contributions to the pension funds for the year ended June 30, 2009, were different from the actuarially determined requirements based on the July 1, 2008 actuarial valuations.

7. **Defined Benefit Pension Plan, continued:**

Contributions are as follows:

	Percentage of Payroll
City of Houston normal cost	5.8%
Amortization of unfunded actuarial accrued liability	13.4%
Required employer contribution rate	19.2%
Employer contribution made	14.8%
Employee contribution made	5.0%

	Contribution Amounts (in thousands)
Net contribution required	$ 122,401
Total City contribution	78,500
Total employee contribution	20,449
Total contribution	$ 98,949

Annual Pension Cost and Net Pension Obligation

The annual employer's pension cost associated with the Houston Municipal Employees' Pension System for the current year is as follows (in thousands):

	June 30, 2009	June 30, 2008	June 30, 2007
Annual required contribution	$ 101,952	$ 92,914	$ 108,146
Interest on net pension obligation	24,264	22,416	19,067
Adjustment to annual required contribution	(20,117)	(18,585)	(15,808)
Annual pension cost	106,099	96,745	111,405
Contribution made	78,500	75,000	72,000
Change in net pension obligation	(27,599)	(21,745)	(39,405)
Net pension obligation beginning	(285,463)	(263,718)	(224,313)
Net pension obligation end of year	$ (313,062)	$ (285,463)	$ (263,718))

7. Defined Benefit Pension Plan, continued:

Schedule of Employer Contributions (in millions)

Year Ended June 30	Annual Pension Cost	Percentage Contributed	Net Pension Obligation	Annual Required Contribution as a % of Base Pay
2007	$111.4	64.6%	$263.7	24.1%
2008	$ 96.7	77.5%	$285.5	19.5%
2009	$106.1	74.0%	$313.1	19.2%

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as to the latest actuarial valuation used for purposes of the financial statements is as follows:

Valuation date	July 1, 2008
Actuarial cost method	Entry Age Normal cost
Amortization method	Level percentage of payroll over an open period of 30 years
Remaining amortization period	Rolling 30 year period
Asset valuation method	5 year smoothed market
Actuarial assumptions: investment rate of return	8.5%, net of expenses
Payroll growth factor	3.0%
Projected individual salary increases	Graded rates based on years of service
General inflation rate	3.0%

Schedule of Funding Progress (in millions)

Actuarial Valuation Date	Actuarial Value of Plan Asset (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (Surplus UAAL) (b-a)	Funded Ratio (a/b)	Projected Annual Covered Payroll (c)	UAAL as Percentage of covered Payroll ((b-a)/c)
July 1,2007	$ 2,193.7	$ 3,128.7	$ 935.0	70%	$ 448.9	208%
July 1,2008	$ 2,310.4	$ 3,296.4	$ 986.0	70%	$ 483.8	204%

8. Other Employee Benefits

Post-Retirement Health Insurance Benefits

Pursuant to a City Ordinance, the City provides certain health care benefits for retired employees. Substantially all of the City's employees become eligible for these benefits if they reach normal retirement age while working for the City. Contributions are recognized in the year paid. The cost of retiree health care premiums incurred by the City (employer and subscriber) amounted to approximately $56,284,638 and $54,477,067 for the years ended June 30, 2009 and June 30, 2008 respectively. Retiree health care is accounted for in the Health Benefits Fund, an Internal Service Fund. At June 30, 2009, there were 9,132 retirees eligible to receive benefits.

Annual Other Post Employment Benefits (OPEB) Cost and Net OPEB (Obligation) Asset

The annual OPEB cost associated with the City's retiree health care costs for the current year is as follows (in thousands):

	OPEB	
	June 30, 2009	June 30, 2008
Annual required contribution	$ 274,471	$ 326,518
Interest on net OPEB obligation	12,145	-
Adjustment to annual required contribution	(16,569)	-
Annual OPEB cost	270,047	326,518
Contribution made	(56,285)	(54,477)
Increase in net OPEB obligation	213,762	272,041
Net OPEB obligation beginning	272,041	-
Net OPEB obilgation end of year	$ 485,803	272,041

Fiscal Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008	$326,518	16.7%	$272,041
2009	$270,047	20.9%	$485,803

Schedule of Funding Progress (in millions)

Year Ended June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2008	$0	$3,238	$3,238	0%	$1,090.1	297%
2009	$0	$3,096	$3,096	0%	$1,136.5	272%

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as to the actuarial valuation used for purposes of the financial statements is as follows:

8. Other Employee Benefits, continued:

Valuation date	June 30, 2008
Actuarial cost method	Entry age Normal Cost
Amortization method	Level percent of payroll over an open period of 30 years
Discount Rate	4.5%
Annual increase attributable to seniority/merit	3.0% to 12.5%
Medical trend rates	4.0% to 11.0%

Health Benefits Internal Service Fund

The City's Health Benefits plan is currently administered by HMO Blue Texas. Employees and retirees are able to choose between an HMO Plan with all benefits covered by third party purchased insurance or a substantially self-insured Preferred Provider Organization Plan (PPO) with specific individual aggregate stop loss features. Specific and aggregate stop loss insurance is provided for the PPO plan of $150,000 individual and approximately $9,530,486 aggregate based on enrollment. Premiums paid (employer and subscriber) for current employees to third party administrators totaled $200,107,215 and $180,912,419 for the year ended June 30, 2009 and June 30, 2008, respectively.

The changes in the actuarial estimate of claims liability for the City related to the PPO/POS and PPO/OOA plans are as follows (in thousands):

	PPO/POS and PPO/OOA Schedule of Changes in Liability	
	June 30, 2009	June 30, 2008
Beginning actuarial estimate of claims liability, July 1	$ 911	$ 937
Incurred claims for fiscal year	9,068	9,398
Payments on claims	(9,786)	(9,483)
Actuarial adjustment	750	59
Ending actuarial estimate of claims liability, June 30	$ 943	$ 911

The City also provides one times salary of basic life insurance, with a minimum of $15,000, at no cost to the employee. The employee, at no cost to the City, may then obtain additional life insurance up to four times their annual salary. The current cost for active employees for both basic and voluntary life insurance totaled $5,416,181 and $6,157,628 for the year ended June 30, 2009 and June 30, 2008, respectively.

Long-Term Disability Plan

The long-term disability plan, accounted for as an internal service fund, is a part of the Income Protection Plan implemented effective September 1, 1985 (renamed the Compensable Sick Leave Plan (CSL) in October, 1996) and is provided at no cost to City employees who are members of CSL. Coverage is effective the later of September 1, 1985 or upon completion of one years of continuous service. When an employee cannot work because of injury or illness,

8. Other Employee Benefits, continued:

the plan provides income equal to 50% of base pay plus longevity or 70% of base plus longevity when combined with income benefits available from other sources. Plan benefits may be payable after all CSL scheduled sick leave benefits, including frozen sick leave days, have been used, however, not before six months absence from work. The plan is administered by Disability Management Alternatives, Inc., which is reimbursed from the fund for claims as they are paid along with a fee for administrative services.

Schedule of Changes in Liability (in thousands)

	June 30, 2009	June 30, 2008
Beginning actuarial estimate of claims liabitity, July 1	$ 8,260	$ 7,783
Incurred claims for fiscal year	2,342	1,939
Payments on claims	(845)	(805)
Actuarial adjustment	(1,698)	(657)
Ending actuarial estimate of claims liability, June 30	$ 8,059	$ 8,260

Deferred Compensation Plan

The City offers its employees a deferred compensation plan (Plan), created in accordance with Internal Revenue Code Section 457 as a separately administered trust. The Plan, available to all City employees, permits employees to defer a portion of their salary until future years. The deferred compensation funds are not available until termination, retirement, death or unforeseeable emergency. However, the Plan now offers loans to participant employees. The maximum amount is the lesser of $50,000 or 50% of the total account balance, less any outstanding loans. The minimum loan amount is $1,000. Pursuant to tax law changes, the Plan’s assets are no longer subject to the City’s general creditors and are not included in these financial statements.

Workers' Compensation Self-Insurance Plan

The City has established a Workers' Compensation Self-Insurance Plan, accounted for within the various operating funds. The plan is administered by Cambridge Integrated Services Group, Inc. Funds are wire transferred to Cambridge as needed to pay claims.

At June 30, 2009 the City has an accumulated liability in the amount of $77 million covering estimates for approved but unpaid claims and incurred but not reported claims (calculated on an actuarial basis) recorded in the Statement of Net Assets and Enterprise Funds. The amount of liability is based on an actuarial study.

8. Other Employee Benefits, continued:

Schedule of Changes in Liability (in thousands)

	June 30, 2009	June 30, 2008
Beginning actuarial estimate of claims liabitity, July 1	$ 77,986	$ 77,724
Incurred claims for fiscal year	13,128	15,366
Payments on claims	(13,504)	(15,094)
Actuarial adjustment	(892)	(10)
Ending actuarial estimate of claims liability, June 30	$ 76,718	$ 77,986

9. Transactions with City of Houston

Interfund Services

The City charges the Fund for certain services performed by other City funds on behalf of the Airport System Fund. Such charges were as follows for the years ended June 30, 2009 and 2008 (in thousands):

	2009	2008
Police services	$ 19,829	$ 18,051
Fire services	15,337	13,418
Indirect support services	2,750	2,141
Water and sewer services	2,468	2,303
Other	472	290
Total	$ 40,856	$ 36,203

Indirect costs consist of costs incurred in connection with the general administration of City affairs, which cannot be directly associated with specific funds. Such costs include financial, materials management, legal, personnel and other administrative costs. These costs are allocated to the Fund each year based on an annual indirect cost study.

The Fund also pays for services provided by other City departments and funds, including the Combined Utility Fund for water and wastewater services and the internal service funds for risk financing activities.

Due to and Due from the City of Houston

Amounts due to and due from other funds of the City at June 30, 2009 and 2008 are as follows (in thousands):

	2009		2008	
	Due to	Due from	Due to	Due from
General Fund	$ 67	$ 389	$ 7	$ 34
Convention and Entertainment	7			
Combined Utility System	70			
Internal Service Fund		197		
Grants Revenue	192	688		
Total	$ 336	$ 1,274	$ 7	$ 34

10. Major Customers

The Airport System Fund earns a significant portion of its operating revenues from two major customers as follows:

	Percentage of Operating Revenue	
	2009	2008
Continental Airlines	39.4%	40.6%
Continental Partners	0.9%	6.7%
Continental	**40.3%**	**47.3%**
Southwest Airlines	**7.8%**	**6.4%**

11. Conduit Debt Obligations

From time to time, the City has authorized the issuance of bonds to enable various third parties to acquire and/or construct facilities deemed to be in the public interest. To provide for the airport facilities, the City has issued eight series of Special Facility Revenue Bonds. These bonds are limited special obligations of the City, payable solely from and secured by a pledge of revenue to be received from agreements between the City and various third parties. The bonds do not constitute a debt or pledge of the faith and credit of the City or the Fund and accordingly have not been reported in the accompanying financial statements, except for the City of Houston Special Facility Revenue Bonds (Automated People Mover System), Series 1997A, which are reported as an Inferior Lien Obligation because the City has contracted with Continental Airlines to operate certain facilities and pay related debt service.

At June 30, 2009, the aggregate value of Special Facility Revenue Bonds outstanding was $629,090,000, which includes $45,820,000 of the City of Houston Special Facility Revenue Bonds (Automated People Mover System), Series 1997A bonds. The Series 1997A bonds are supported by an inferior lien contract between the Fund and Continental Airlines which is included in the Fund's liabilities. At June 30, 2008, outstanding conduit bonds totaled $638,465,000.

12. Commitments and Contingencies

Litigation and Claims

The City is the defendant in various lawsuits arising in the ordinary course of its municipal and enterprise activities, certain of which seek substantial damages. These matters affecting the Airport System are primarily class action and other lawsuits and claims alleging discriminatory pay practices. 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. Management has determined the amounts of loss, if any, would not be material in these financial statements.

Environmental Liabilities

The Houston Airport System is aware of various sites contaminated by asbestos, mold, and groundwater contamination. The assessment and remediation of asbestos and mold is ongoing and included in the costs of the capital project at the time it becomes an obligating event under GASB #49. The groundwater contamination remedy has not been identified or selected and is

12. Commitments and Contingencies, continued:

not currently estimable. Therefore, no liabilities have been established as of June 30, 2009. Management has determined that the costs would not be material in these financial statements.

Commitments for Capital Facilities

At June 30, 2009 and 2008, the Fund had contracted for, but not spent, $217,789,778 and $247,608,778, respectively, for capital projects.

Risk Management

The City carries fidelity coverage to comply with City ordinance, boiler and machinery insurance and purchases commercial property insurance with a per occurrence loss limit of $150 million. The current sub-limit for flood is $75 million, of which $50 million may apply to locations in the100-year flood plain (Flood Zone A). Property insurance provides deductibles as follows: $2.5 million per occurrence for all perils except; 3% of the damaged insured value for windstorm or hail from a named storm, subject to $2.5 million minimum and a $20 million maximum; and 5% of the damaged insured value for flood, subject to a $5 million minimum and a $20 million maximum. Should a named storm event occur that involves the perils of windstorm and flood, the maximum deductible is $20 million. Hurricane Ike (September 2008) losses sustained city-wide were not in excess of the $150 million per occurrence loss limit; however flooding caused damages in excess of the $5 million sub-limit to Flood Zone A. Insurance reimbursed the City $32.6 million for property damage resulting form Tropical Storm Allison.

Self-insured claims are reported as liabilities in the accompanying financial statements when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. This determination is based on reported pending claims, estimates of claims incurred but not yet reported, actuarial reports and historical analysis. All claims are accounted for in the Government-wide Statement of Net Assets.

Claims that are expected to be paid with expendable, available financial resources are accounted for in the General Fund and the appropriate Enterprise Funds.

Through its Health Benefit Plan, the City has consistently purchased commercial insurance up to certain limitations in the event of adverse loss experience.

For unemployment claims, the City pays claims as they are settled. Unemployment claim activity is as follows (in thousands):

	Unemployment Claim Activity	
	June 30, 2009	June 30,2008
Unpaid claims, beginning of fiscal year	$ 117,602	$ 123,964
Incurred claims (including IBNRs)	613,348	583,298
Claim payments	(534,939)	(589,660)
Unpaid claims, end of fiscal year	$ 196,011	$ 117,602

12. Commitments and Contingencies, continued:

Electricity Futures Contracts

Objective of the futures contracts. The City's electric supply agreement provides that the City will purchase electricity at prices based on market prices of natural gas at time of delivery. Therefore the City is exposed to significant price fluctuations in its electricity purchases. The agreement also allows the City to lock in fixed natural gas prices for future periods. To hedge the risk of increases and to be able to accurately budget future purchases, the City has entered into contracts to lock in fixed rates for the natural gas price component of future electricity purchases.

Terms: At June 30, 2009 the City had ten outstanding agreements to cover natural gas purchases for August 2009 through June 2013. As of June 30, 2009 the aggregate notional amount of the agreements was 3,167.5 contracts or 31,675,000 million British thermal units (MMBtu's) of natural gas. Locked-in prices ranged from $6.75 to $9.90 per MMBtu.

Fair value: As of June 30, 2009, because natural gas futures prices had generally declined from the time of the agreements, the contracts had a total negative net fair value of $36,921,000.

Credit risk: As of June 30, 2009 the City is exposed to credit risk on the contracts for a total fair positive value of $1,580,000. Other contracts do not involve credit risk because the fair market value is negative to the City. The City's electrical provider is the Texas General Land Office ("GLO"), an agency of the State of Texas, which is rated AA1 by Moody's, AA+ by Standard and Poor's, and AA+ by Fitch.

Termination risk: GLO can terminate the electrical supply agreement (and related price agreements) only if the City defaults on its obligations. The City can unwind the price agreements at its discretion, paying or receiving market value credit at the time of the unwind.

Purchase Commitments - Renewable Energy Credits and Fixed Power Price Transactions

Objective of the Renewable Energy Credit Agreements: To diversify energy sources, to manage its utility costs, and as part of its commitment to protect the environment, the City has entered into contracts for fixed power price transactions and renewable energy credits ("REC's"). REC's are Renewable Energy Credits produced in Texas and obtained from any type of renewable resource qualified under Texas Rules, including solar, landfill gas, wind and other renewable resources.

Terms: At June 30, 2009 the City had five outstanding fixed power price transactions and REC's contracts with GLO to receive 1,752,000 RECs or 1.7 billion kilowatt-hours of renewable energy from 2009 through 2013. This represents about 32% of the City's anticipated electrical use. Each contract was for 10 MW of power at prices ranging from $69 per MWhr to $91 per MWhr.

Credit Risk: As of June 30, 2009 the City is exposed to credit risk on the contracts as to delivery. The City's electrical provider is the Texas General Land Office ("FLO"), an agency of the State of Texas, which is rated AA1 by Moody's, AA+ by Standard and Poor's, and AA+ by Fitch.

Termination risk: GLO can terminate the electrical supply agreement (and related price agreements) only if the City defaults on its obligations. The City can unwind the price agreements at its discretion, paying or receiving market value credit at time of the unwind.

13. Subsequent Events

On August 20, 2009 the City issued $449,660,000 of Airport System Senior Lien Revenue and Refunding Bonds, Series 2009A ("the Airport Bonds") at rates ranging from 5.0 to 5.5%. The true interest cost was 5.42%. The bonds mature in varying amounts from 2015 to 2039. Proceeds were set aside to fund new construction, to fund a debt service reserve fund and capitalized interest fund, to pay costs of issuance, and to currently refund $87,000,000 of Senior Lien Commercial Paper Series A AMT. The Airport Bonds were issued to replace the variable rate commercial paper and lock in long term fixed rates, rather than to achieve debt service savings. Cash flow and net present value savings cannot be computed because the refunded commercial paper paid interest at varying rates depending on current market conditions. The Series 2009A Bonds are the first series to be issued at the Senior Lien level. The Series 2009A Bonds are not subject to the alternative minimum tax (AMT) as they are issued under the AMT Holiday provision of the American Recovery and Reinvestment Act.

Houston Municipal Pension System Supplementary Information (unaudited)
Schedule of Funding Progress (in millions*)*

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (Surplus UAAL) (b-a)	Funded Ratio (a/b)	Projected Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
July 1, 1999	$1,222.2	$1,339.9	$117.7	91%	$407.7	29%
July 1, 2000	$1,376.0	$1,509.4	$133.4	91%	$432.6	31%
July 1, 2001	$1,490.2	$1,955.8	$465.6	76%	$418.0	111%
July 1, 2002	$1,519.7	$2,515.2	$995.5	60%	$399.8	249%
July 1, 2003	$1,510.3	$3,278.3	$1,768.0	46%	$390.3	453%
July 1, 2004	$1,501.2	$2,633.8	$1,132.5	57%	$366.1	309%
July 1, 2005	$1,777.7	$2,725.3	$947.6	65%	$404.6	234%
July 1, 2006	$1,867.3	$2,894.3	$1,027.0	65%	$422.5	243%
July 1, 2007	$2,193.7	$3,128.7	$935.0	70%	$448.9	208%
July 1, 2008	$2,310.4	$3,296.4	$986.0	70%	$483.8	204%

Houston Other Post Employment Benefits Supplementary Information (unaudited)
Schedule of Funding Progress (in millions)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (Surplus UAAL) (b-a)	Funded Ratio (a/b)	Projected Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
June 30, 2006	$0	$3,238	$3,238	0%	$1,090.1	297%
June 30, 2008	$0	$3,096	$3,096	0%	$1,136.5	272%

COMPREHENSIVE ANNUAL FINANCIAL REPORT

STATISTICAL SECTION

(Unaudited)

Statistical Section

This section contains statistical information and differs from the financial statements because it usually covers more than one fiscal year and may present non-accounting data.

This information is presented in five categories:

Financial Trend – intended to assist users in understanding and assessing how the Houston Airport System's financial position has changed over time.

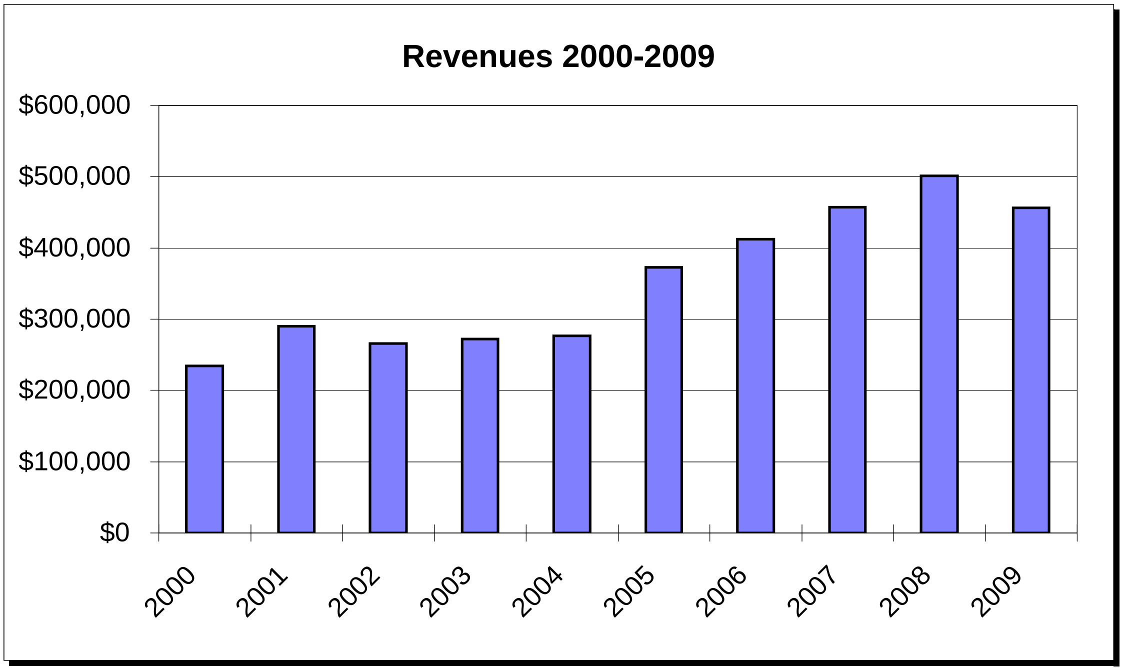
Revenue Capacity – intended to assist users in understanding and assessing the factors affecting the Houston Airport System's ability to generate its own source revenues.

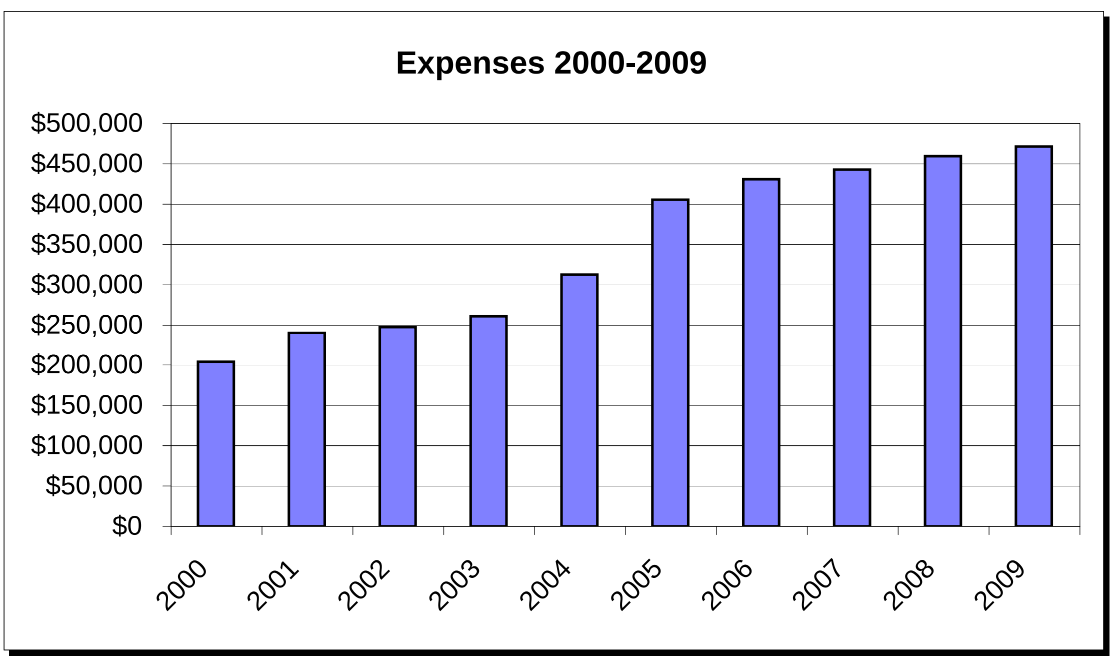
Debt Capacity – intended to assist users in understanding and assessing the Houston Airport System's debt burden and its ability to cover and issue additional debt.

Operational Information – intended to provide contextual information about the Houston Airport System's operations and resources to assist readers in using financial statement information to understand and assess the Houston Airport System economic condition.

Demographic and Economic – intended to assist users in understanding the socioeconomic environment within which the Houston Airport System operates and to provide information that facilitates comparisons of financial statement information over time and among similar entities.

TOTAL ANNUAL REVENUES AND TOTAL ANNUAL EXPENSES (in thousands)
STATISTICAL SECTION





CITY OF HOUSTON, TEXAS

TOTAL ANNUAL REVENUE, EXPENSES AND CHANGES IN NET ASSETS (in thousands)
STATISTICAL SECTION

CHANGES IN NET ASSETS	**2000**	**2001**	**2002**	**2003**
OPERATING REVENUES				
Landing area fees	$ 40,930	$ 48,298	$ 50,826	$ 51,162
Building and ground area fees	72,988	74,168	84,752	91,801
Concession and parking revenues	95,217	99,708	91,877	97,804
TOTAL OPERATING REVENUES	209,135	222,174	227,455	240,767
NONOPERATING REVENUES				
Interest Income	25,027	66,846	37,629	30,278
Passenger facility charges	-	-	-	-
Other nonoperating revenues	188	828	942	681
TOTAL NONOPERATING REVENUES	25,215	67,674	38,571	30,959
TOTAL REVENUES	234,350	289,848	266,026	271,726
OPERATING EXPENSES				
Maintenance and operating	113,442	122,594	142,950	154,541
Depreciation	46,390	52,410	60,088	59,987
TOTAL OPERATING EXPENSES	159,832	175,004	203,038	214,528
NONOPERATING EXPENSES				
Interest expense and others	44,354	64,825	44,165	46,538
TOTAL NONOPERATING EXPENSES	44,354	64,825	44,165	46,538
TOTAL EXPENSES	204,186	239,829	247,203	261,066
CONTRIBUTIONS	18,693	19,873	51,286	45,527
TOTAL CHANGES IN NET ASSETS	$ 48,857	$ 69,892	$ 70,109	$ 56,187

NET ASSETS AT YEAR-END	**2000**	**2001**	**2002**	**2003**
Invested in capital assets, net of related debt			$ 690,014	$ 648,027
Restricted net assets				
Restricted for debt service			32,281	84,529
Restricted for maintenance and operations			28,035	28,123
Restricted for renewal and replacement			13,819	13,572
Restricted for capital improvement			202,808	251,061
Other restricted			1,952	2,092
Unrestricted			6,265	3,957
TOTAL NET ASSETS	$ 835,173	$ 905,065	$ 975,174	$ 1,031,361

2004	2005	2006	2007	2008	2009
$ 57,011	$ 102,072	$ 101,758	$ 92,140	$ 99,017	$82,823
115,777	151,417	179,951	199,720	211,786	174,433
97,625	100,152	112,152	124,278	136,373	128,501
270,413	353,641	393,861	416,138	447,176	385,757
5,967	14,968	18,507	33,722	41,694	37,332
-	-	-	6,530	11,608	32,398
203	4,295	56	541	514	1,093
6,170	19,263	18,563	40,793	53,816	70,823
276,583	372,904	412,424	456,931	500,992	456,580
168,923	223,972	202,496	214,611	229,551	$ 241,303
88,371	105,891	134,150	126,953	125,951	136,554
257,294	329,863	336,646	341,564	355,502	377,857
54,853	75,908	94,586	101,193	104,019	93,376
54,853	75,908	94,586	101,193	104,019	93,376
312,147	405,771	431,232	442,757	459,521	471,233
42,000	63,989	84,105	41,681	91,175	70,936
$ 6,436	$ 31,122	$ 65,297	$ 55,855	$ 132,646	$ 56,283

2004	2005	2006	2007	2008	2009
$ 668,742	$ 695,039	$ 671,640	$ 648,933	$ 685,286	$ 790,731
40,229	32,267	37,868	53,373	67,847	78,014
31,337	34,160	38,322	39,638	41,048	41,899
12,947	12,852	10,000	10,000	10,000	10,000
282,494	292,416	376,386	438,127	518,536	458,356
2,048	2,185	-	-	-	-
-	-	-	-	-	-
$ 1,037,797	$ 1,068,919	$ 1,134,216	$ 1,190,071	$ 1,322,717	$ 1,379,000

PLEDGED REVENUES (in thousands)
STATISTICAL SECTION

	2000	2001	2002	2003
Net Revenues				
Operating revenues	$ 209,135	$ 222,174	$ 227,455	$ 240,767
Interest income	9,677	12,396	11,816	10,650
Other nonoperating revenues	99	680	5,520	504
Gross revenues	218,911	235,250	244,791	251,921
Less: Maintenance & Operating expenses	(113,442)	(122,594)	(142,950)	(154,541)
Net pledged revenues	$ 105,469	$ 112,656	$ 101,841	$ 97,380
Required revenue per bond covenant	$ 42,401	$ 55,203	$ 56,782	$ 70,396
Less grant revenue available for debt service	-	(2,798)	(37,153)	(30,282)
Net required revenue per bond covenant	$ 42,401	$ 52,405	$ 19,629	$ 40,114
Ratio of required revenue	2.49	2.15	5.19	2.43
Debt Service				
Principal	$ 18,395	$ 19,460	$ 4,380	$ 17,985
Interest	20,060	30,567	47,231	46,003
	38,455	50,027	51,611	63,988
Less: Grants and PFCs available for debt service	-	(2,798)	(37,153)	(30,282)
Total debt service	$ 38,455	$ 47,229	$ 14,458	$ 33,706
Debt Service Coverage	2.74	2.39	7.04	2.89

Gross revenues include all operating revenue of the Airport Fund, and all non-operating revenue except for interest and other revenue earned by the construction funds. Maintenance and operating expenses include all operating expenses of the system except for depreciation. Net revenues in each fiscal year are required to be at least equal to the larger of either: (1) the debt service and reserve transfer requirements of each fiscal year or; (2) 125%, 110%, and 100% of the debt service requirements for such fiscal year of the Senior Lien Bonds (or Commercial Paper assumed to be refinanced as Senior Lien Revenue Bonds), Subordinate Lien Revenue Bonds, and Inferior Lien debt, respectively.

Debt service requirement is equal to interest expense (excluding amortization of bond discount, and amounts provided for payment of interest from bond proceeds and other sources and deposited into restricted fund for that purpose) for each respective fiscal year ended June 30, plus principal payment payable on the next July 1. Starting in Fiscal Year 1998, debt service requirements include interest on commercial paper whereas the other fiscal years do not. Certain grant revenue and passenger facility charge revenue is available to cover net required revenue and required debt service.

2004	2005	2006	2007	2008	2009
$ 270,413	$ 353,641	$ 393,861	$ 416,138	$ 447,176	$ 385,758
8,406	10,499	17,742	26,847	30,064	23,664
114	4,175	(58)	483	182	1522
278,933	368,315	411,545	443,468	477,422	410,944
(161,645)	(191,093)	(205,565)	(217,720)	(221,309)	(233,158)
$ 117,288	$ 177,222	$ 205,980	$ 225,748	$ 256,113	$ 177,786
$ 83,382	$ 123,266	$ 154,127	$ 158,734	$ 173,064	$ 165,394
(32,823)	(25,506)	(46,621)	(20,679)	(28,022)	(51,739)
$ 50,559	$ 97,760	$ 107,506	$ 138,055	$ 145,042	$ 113,655
2.32	1.81	1.92	1.64	1.77	1.56
$ 18,865	$ 28,182	$ 31,737	$ 33,377	$ 45,996	$ 49,692
56,932	84,066	108,776	111,118	111,623	101,049
75,797	112,248	140,513	144,495	157,619	150,741
(32,823)	(25,506)	(46,621)	(20,679)	(28,022)	(51,739)
$ 42,974	$ 86,742	$ 93,892	$ 123,816	$ 129,597	$ 99,002
2.73	2.04	2.19	1.82	1.98	1.80

OUTSTANDING DEBT (in thousands)
STATISTICAL SECTION

	2000	2001	2002	2003
Outstanding debt by type				
Current liabilities				
Revenue bonds payable	$ 18,395	$ 19,460	$ 4,380	$ 17,985
Inferior lien contract payable	-	-	-	-
Commercial paper payable	-	-	-	-
Total current liabilities	18,395	19,460	4,380	17,985
Long-term liabilities				
Revenue bonds payable	813,155	1,490,160	1,484,860	2,191,380
Inferior lien contract payable	-	-	-	-
Commercial paper payable	50,000	-	20,000	-
Total long-term liabilities	863,155	1,490,160	1,504,860	2,191,380
Total outstanding debt	$ 881,550	$ 1,509,620	$ 1,509,240	$ 2,209,365
Total enplaned passengers	21,576,999	22,438,632	20,941,865	20,604,509
Outstanding debt per enplaned passenger	$ 40.86	$ 67.28	$ 72.07	$ 107.23

2004	2005	2006	2007	2008	2009
$ 18,865	$ 27,665	$ 28,385	$ 34,500	$ 43,050	$ 40,840
-	3,255	3,450	3,660	3,880	4,085
20,000	-	-	-	-	-
38,865	30,920	31,835	38,160	46,930	44,925
2,172,515	2,146,205	2,117,820	2,083,320	2,083,255	2,042,415
-	56,810	53,360	49,700	45,820	41,735
-	48,500	59,000	95,000	83,000	93,000
2,172,515	2,251,515	2,230,180	2,228,020	2,212,075	2,177,150
$ 2,211,380	$ 2,282,435	$ 2,262,015	$ 2,266,180	$ 2,259,005	$ 2,222,075
21,779,196	23,357,155	24,912,085	25,830,387	26,202,152	24,030,602
$ 101.54	$ 97.72	$ 90.80	$ 87.73	$ 86.21	$ 92.47

SUMMARY OF CERTAIN FEES AND CHARGES
STATISTICAL SECTION

IAH	2000	2001	2002	2003
Landing Rates (1)	$1.075	$1.269	$1.518 - $1.750	$1.651
Terminal Space Rentals (2)	$20.36 - $42.31	$23.96 - $53.25	$22.54 - $45.76	$24.36 - $53.83
Apron Rentals (2)	$1.099 - $2.730	$.632 - $3.281	$1.133 - $2.454	$1.296 - $2.903
Parking Rates (3)				
Economy	$5.00	$5.00	$5.00 - $6.00	$6.00
Structured	$10.00	$10.00	$10.00 - $12.00	$12.00
Surface	$7.00 - $9.00	$7.00 - $9.00	$7.00 - $9.00	$9.00
Short-Term	$30.00	$30.00	$30.00	$30.00
Sure Park	--	$15.00	$15.00	$15.00

HOU	2000	2001	2002	2003
Landing Rates (1)	$1.931	$1.817	$1.905	$2.078
Terminal Space Rentals (2)	$30.62 - $48.96	$31.38 - $50.01	$35.63 - $56.68	$35.19 - $54.82
Apron Rentals (2)	$1.260	$1.175	$1.936	$1.831
Parking Rates (3)				
Economy	$5.00	$5.00	$5.00 - $6.00	$6.00
Structured	$10.00	$10.00	$10.00 - $12.00	$12.00
Surface	--	--	--	--
Short-Term	$30.00	$30.00	$30.00	$30.00
Sure Park	--	--	--	--

(1) Per 1,000 pounds of landing weight
(2) Range per square foot
(3) Maximum per day

2004	2005	2006	2007	2008	2009
$1.654	$3.164	$3.190	$3.069	$2.928	$2.948
$18.92 - $62.19	$20.69 - $92.74	$19.28 - $86.56	$25.32 - $99.05	$27.52 - $112.85	$27.06 - $93.85
$1.465 - $3.094	$1.652 - $3.339	$1.759 - $3.243	$2.373 - $3.636	$2.443 - $2.889	$2.265 - $2.865
$6.00	$6.00	$6.00	$6.00	$6.00	$6.00
$12.00	$12.00	$13.00	$13.00	$15.00	$15.00
$9.00	$9.00	--	--	--	--
$30.00	$30.00	--	--	--	--
$15.00	$15.00	$15.00	$15.00	$15.00	$15.00

2004	2005	2006	2007	2008	2009
$2.232	$2.587	$2.711	$2.814	$2.255	$2.186
$34.41 - $60.69	$40.73 - $67.24	$42.90 - $73.02	$40.39 - $72.44	$86.07 - $91.45	$94.18 - $94.36
$2.019 - $3.468	$2.628 - $3.626	$2.529 - $3.722	$2.477 - $3.245	$2.288	$2.202
$6.00	$6.00	$6.00	$6.00	$6.00	$6.00
$12.00	$12.00	$13.00	$13.00	$15.00	$15.00
--	--	--	--	--	--
$30.00	$30.00	--	--	--	--
--	--	--	--	--	--

CITY OF HOUSTON, TEXAS

PASSENGER STATISTICS
LAST TEN YEARS

	Domestic Passengers					
	Intercontinental		Hobby		Ellington Field	
Fiscal Year	Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change
2000	28,892	5.9%	9,053	2.9%	89	-11.0%
2001	30,105	4.2%	9,038	-0.2%	64	-28.1%
2002	28,168	-6.4%	8,192	-9.4%	68	6.3%
2003	27,931	-0.8%	7,796	-4.8%	81	19.1%
2004	29,473	5.5%	8,089	3.8%	80	-1.2%
2005	31,609	7.2%	8,247	2.0%	14	-82.5%
2006	34,105	7.9%	8,423	2.1%	0	-100.0%
2007	35,260	3.4%	8,642	2.6%	0	0.0%
2008	35,200	-0.2%	9,097	5.3%	0	0.0%
2009	31,995	-9.1%	8,286	-8.9%	0	0.0%

Domestic Passengers Total		International Passengers Intercontinental		Total Passengers	
Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change	Enplanements & Deplanements (in thousands)	Percentage Change
38,034	5.2%	5,340	11.2%	43,374	5.9%
39,207	3.1%	5,811	8.8%	45,018	3.8%
36,428	-7.1%	5,556	-4.4%	41,984	-6.7%
35,808	-1.7%	5,526	-0.5%	41,334	-1.5%
37,642	5.1%	5,952	7.7%	43,594	5.5%
39,870	5.9%	6,818	14.5%	46,688	7.1%
42,528	6.7%	7,126	4.5%	49,654	6.4%
43,902	3.2%	7,555	6.0%	51,457	3.6%
44,297	0.9%	7,976	5.6%	52,273	1.6%
40,281	-9.1%	7,642	-4.2%	47,923	-8.3%

PASSENGER STATISTICS BY CARRIER
FOR YEARS ENDED JUNE 30, 2009 and 2008

Domestic

	Intercontinental				Hobby			
	Fiscal Year 2009		Fiscal Year 2008		Fiscal Year 2009		Fiscal Year 2008	
Airlines	Total Passengers	Market Share	Total Passengers	Market Share	Total Passengers	Market Share	Total Passengers	Market Share
Air Tran	0	0.0%	0	0.0%	341,408	4.1%	366,915	4.0%
America West	0	0.0%	57,210	0.1%	0	0.0%	0	0.0%
American Airlines, Inc.	837,903	2.1%	994,819	2.3%	0	0.0%	0	0.0%
American Eagle - AA	19,470	0.0%	0	0.0%	198,308	2.4%	191,167	2.1%
ATA Airlines	0	0.0%	0	0.0%	0	0.0%	445	0.0%
Atlantic Southeast - DL	15,509	0.0%	41,348	0.1%	24,475	0.3%	53,704	0.6%
Charter Airlines	8,655	0.0%	3,938	0.0%	4,728	0.1%	3,843	0.0%
Chautauqua Airlines - CO	1,440,873	3.6%	2,268,617	5.3%	0	0.0%	0	0.0%
Chautauqua Airlines - DL	7,595	0.0%	0	0.0%	0	0.0%	0	0.0%
Colgan - Air Inc, - CO	528,210	1.3%	643,964	1.5%	0	0.0%	0	0.0%
Comair - DL	85,899	0.2%	80,215	0.2%	2,809	0.0%	0	0.0%
Compass Airlines - NW	43,804	0.1%	28,860	0.1%	0	0.0%	0	0.0%
Continental	19,878,793	50.2%	22,024,869	51.0%	0	0.0%	0	0.0%
Delta	256,327	0.6%	317,654	0.7%	40,069	0.5%	59,166	0.7%
Executives - AA	0	0.0%	0	0.0%	35,560	0.4%	0	0.0%
ExpressJet Airlines, Inc. - CO	6,258,498	15.8%	6,245,810	14.5%	0	0.0%	0	0.0%
Freedom Airlines - DL	11,365	0.0%	3,349	0.0%	0	0.0%	0	0.0%
Frontier	204,441	0.5%	183,898	0.4%	0	0.0%	0	0.0%
JetBlue	0	0.0%	0	0.0%	140,014	1.7%	167,605	1.8%
Mesa Airlines, Inc. - UA	37,737	0.1%	57,996	0.1%	0	0.0%	0	0.0%
Mesa Airlines, Inc. - US	149,331	0.4%	282,825	0.7%	0	0.0%	0	0.0%
Mesaba Aviation , Inc. - NW	209,092	0.5%	44,375	0.1%	0	0.0%	0	0.0%
Northwest	203,254	0.5%	461,797	1.1%	0	0.0%	0	0.0%
Pinnacle Airlines, Inc. - DL	41,251	0.1%	47,751	0.1%	128,905	1.6%	79,472	0.9%
Pinnacle Airlines, Inc. - NW	54,151	0.1%	35,239	0.1%	0	0.0%	0	0.0%
Republic Airlines - US	160,727	0.4%	168,307	0.4%	0	0.0%	0	0.0%
Republic Airlines - Frontier	0	0.0%	18,644	0.0%	0	0.0%	0	0.0%
Shuttle America Corporation - DL	20,081	0.1%	34,517	0.1%	48,180	0.6%	50,128	0.6%
Shuttle America Corporation - UA	88,012	0.2%	117,001	0.3%	0	0.0%	0	0.0%
SkyWest Airlines - DL	286,040	0.7%	176,186	0.4%	40,982	0.5%	54,690	0.6%
SkyWest Airlines - UA	70,375	0.2%	71,504	0.2%	0	0.0%	0	0.0%
Southwest Airlines Company	0	0.0%	0	0.0%	7,280,157	87.9%	8,070,262	88.7%
United Air Lines, Inc.	530,174	1.3%	450,723	1.0%	0	0.0%	0	0.0%
US Airways	547,794	1.4%	338,390	0.8%	0	0.0%	0	0.0%
Total Domestic	31,995,361	80.7%	35,199,806	81.5%	8,285,595	100.0%	9,097,397	100.0%

International

	Fiscal Year 2009		Fiscal Year 2008		Fiscal Year 2009		Fiscal Year 2008	
	Total Passengers	Market Share	Total Passengers	Market Share	Total Passengers	Market Share	Total Passengers	Market Share
AeroMexico	114,883	0.3%	159,364	0.4%				
Air Canada	0	0.0%	74,496	0.2%				
Air Canada Jazz	172,349	0.4%	121,241	0.3%				
Air France	202,616	0.5%	244,877	0.6%				
Aviacsa	0	0.0%	21,558	0.0%				
British Airways	208,497	0.5%	208,026	0.5%				
Cayman Airways	0	0.0%	2,149	0.0%	Domestic only			
Charter Airlines	876	0.0%	1,834	0.0%				
China Airlines	0	0.0%	28,473	0.1%				
Continental	5,040,542	12.7%	5,157,748	11.9%				
Emirates	147,654	0.4%	79,888	0.2%				
ExpressJet Airlines, Inc. - CO	1,213,999	3.1%	1,365,774	3.2%				
KLM	183,641	0.5%	202,222	0.5%				
Lufthansa	178,574	0.5%	199,064	0.5%				
Qatar Airways	32,653	0.1%	0	0.0%				
Singapore Airlines	59,181	0.1%	15,126	0.0%				
TACA	59,849	0.2%	64,797	0.2%				
World Airways	27,024	0.1%	29,226	0.1%				
Total International	7,642,338	19.3%	7,975,863	18.5%				
Total Airlines	39,637,699	100.0%	43,175,669	100.0%	8,285,595	100.0%	9,097,397	100.0%

(1) Commercial passenger traffic at Ellington ceased in September 2004.

Houston Airport System [1]

Fiscal Year 2009 Total Passengers	Market Share	Fiscal Year 2008 Total Passengers	Market Share
341,408	0.7%	366,915	0.7%
0	0.0%	57,210	0.1%
837,903	1.7%	994,819	1.9%
217,778	0.5%	191,167	0.4%
0	0.0%	445	0.0%
39,984	0.1%	95,052	0.2%
13,383	0.0%	7,781	0.0%
1,440,873	3.0%	2,268,617	4.3%
7,595	0.0%	0	0.0%
528,210	1.1%	643,964	1.2%
88,708	0.2%	80,215	0.2%
43,804	0.1%	28,860	0.1%
19,878,793	41.5%	22,024,869	42.1%
296,396	0.6%	376,820	0.7%
35,560	0.1%	0	0.0%
6,258,498	13.1%	6,245,810	11.9%
11,365	0.0%	3,349	0.0%
204,441	0.4%	183,898	0.4%
140,014	0.3%	167,605	0.3%
37,737	0.1%	57,996	0.1%
149,331	0.3%	282,825	0.5%
209,092	0.4%	44,375	0.1%
203,254	0.4%	461,797	0.9%
170,156	0.4%	127,223	0.2%
54,151	0.1%	35,239	0.1%
160,727	0.3%	168,307	0.3%
0	0.0%	18,644	0.0%
68,261	0.1%	84,645	0.2%
88,012	0.2%	117,001	0.2%
327,022	0.7%	230,876	0.4%
70,375	0.1%	71,504	0.1%
7,280,157	15.2%	8,070,262	15.4%
530,174	1.1%	450,723	0.9%
547,794	1.1%	338,390	0.6%
40,280,956	84.1%	44,297,203	84.7%

Houston Airport System [1]

Fiscal Year 2009 Total Passengers	Market Share	Fiscal Year 2008 Total Passengers	Market Share
114,883	0.2%	159,364	0.3%
0	0.0%	74,496	0.1%
172,349	0.4%	121,241	0.2%
202,616	0.4%	244,877	0.5%
0	0.0%	21,558	0.0%
208,497	0.4%	208,026	0.4%
0	0.0%	2,149	0.0%
876	0.0%	1,834	0.0%
0	0.0%	28,473	0.1%
5,040,542	10.5%	5,157,748	9.9%
147,654	0.3%	79,888	0.2%
1,213,999	2.5%	1,365,774	2.6%
183,641	0.4%	202,222	0.4%
178,574	0.4%	199,064	0.4%
32,653	0.1%	0	0.0%
59,181	0.1%	15,126	0.0%
59,849	0.1%	64,797	0.1%
27,024	0.1%	29,226	0.1%
7,642,338	15.9%	7,975,863	15.3%
47,923,294	100.0%	52,273,066	100.0%

ORIGINATING PASSENGER ENPLANEMENTS
STATISTICAL SECTION

George Bush Intercontinental Airport

Fiscal Year	Originating Enplanements	Connecting Enplanements	Total Enplaned Passengers	Originating Enplanement Percentage
2000	8,839,346	8,172,995	17,012,341	52.0%
2001	9,139,616	8,746,479	17,886,095	51.1%
2002	7,934,632	8,876,817	16,811,449	47.2%
2003	7,820,907	8,842,781	16,663,688	46.9%
2004	8,626,935	9,066,201	17,693,136	48.8%
2005	9,326,276	9,872,313	19,198,589	48.6%
2006	9,983,652	10,692,215	20,675,867	48.3%
2007	10,477,803	11,008,827	21,486,630	48.8%
2008	10,449,631	11,190,625	21,640,256	48.3%
2009	9,190,724	10,680,955	19,871,679	46.3%

William P. Hobby Airport

Fiscal Year	Originating Enplanements	Connecting Enplanements	Total Enplaned Passengers	Originating Enplanement Percentage
2000	3,585,312	932,620	4,517,932	79.4%
2001	3,564,988	953,505	4,518,493	78.9%
2002	3,166,701	927,932	4,094,633	77.3%
2003	2,994,073	904,483	3,898,556	76.8%
2004	3,103,828	940,732	4,044,560	76.7%
2005	3,236,719	914,007	4,150,726	78.0%
2006	3,313,974	922,244	4,236,218	78.2%
2007	3,396,182	947,575	4,343,757	78.2%
2008	3,605,540	956,631	4,562,171	79.0%
2009	3,322,678	836,245	4,158,923	79.9%

Houston Airport System (1)

Fiscal Year	Originating Enplanements	Connecting Enplanements	Total Enplaned Passengers	Originating Enplanement Percentage
2000	12,471,384	9,105,615	21,576,999	57.8%
2001	12,738,648	9,699,984	22,438,632	56.8%
2002	11,137,116	9,804,749	20,941,865	53.2%
2003	10,857,245	9,747,264	20,604,509	52.7%
2004	11,772,263	10,006,933	21,779,196	54.1%
2005	12,570,835	10,786,320	23,357,155	53.8%
2006	13,297,626	11,614,459	24,912,085	53.4%
2007	13,873,986	11,956,401	25,830,387	53.7%
2008	14,055,171	12,147,256	26,202,427	53.6%
2009	12,513,402	11,517,200	24,030,602	52.1%

(1) The Houston Airport System Totals also include enplanements for Ellington between fiscal years 2000-2005. In its highest year, Ellington had 57,403 originating and total enplaned passengers. All commercial passenger service at Ellington ceased in September 2004.

AIRCRAFT OPERATIONS AND LANDING WEIGHT
STATISTICAL SECTION

	Aircraft Operations (in thousands)			Aircraft Landed Weight (in million pounds)		
Fiscal Year	Total	Increase (Decrease)	Percentage Change	Total	Increase (Decrease)	Percentage Change
2000	827	31	3.89%	31,495	1,376	4.57%
2001	823	(4)	-0.48%	32,083	588	1.87%
2002	790	(33)	-4.01%	30,496	(1,587)	-4.95%
2003	811	21	2.66%	30,803	307	1.01%
2004	856	45	5.55%	31,444	641	2.08%
2005	887	31	3.62%	32,543	1,099	3.50%
2006	933	46	5.19%	32,808	265	0.81%
2007	983	50	5.36%	33,930	1,122	3.42%
2008	974	(9)	-0.92%	34,096	166	0.49%
2009	892	(82)	-8.42%	31,907	(2,189)	-6.42%

PERFORMANCE MEASURES
STATISTICAL SECTION

	2000	2001	2002	2003
Revenue per Enplaned Passenger	$ 10.86	$ 12.92	$ 12.70	$ 13.19
Maintenance and Operations Expenses per Enplaned Passenger	$ 5.26	$ 5.46	$ 6.83	$ 7.50
Debt Service per Enplaned Passenger	$ 1.78	$ 2.23	$ 2.46	$ 3.11
Outstanding Debt per Enplaned Passenger	$ 40.86	$ 67.28	$ 72.07	$ 107.23
Intercontinental Budgeted Airline Cost per Est. Enplaned Passenger (1)	$ 4.64	$ 4.99	$ 5.34	$ 6.47
Intercontinental Actual Airline Cost per Enplaned Passenger (1)	$ 4.47	$ 4.91	$ 5.59	$ 6.49
Hobby Budgeted Airline Cost per Est. Enplaned Passenger (1)	$ 4.90	$ 4.61	$ 5.02	$ 5.81
Hobby Actual Airline Cost per Enplaned Passenger (1)	$ 5.11	$ 4.53	$ 5.10	$ 6.32

(1) Airline Costs include terminal building charges, aircraft parking apron charges, and landing fees only for passenger carriers. The costs are calculated during the rates and charges process based on budget and estimated passengers. They are then recalculated, after the annual audit, during the rates and charges reconciliation process. Therefore, there is a lag in obtaining the actual cost per enplaned passenger. This is reconciliation revenue, not actual revenue booked, since the accrual is unknown and therefore not booked.

2004	2005	2006	2007	2008	2009
$ 12.70	$ 15.97	$ 16.56	$ 17.69	$ 19.12	$ 19.00
$ 7.76	$ 9.59	$ 8.13	$ 8.31	$ 8.76	$ 10.04
$ 3.48	$ 4.81	$ 5.64	$ 5.59	$ 6.02	$ 6.27
$ 101.54	$ 97.72	$ 90.80	$ 87.73	$ 86.21	$ 92.47
$ 7.17	$ 10.25	$ 11.54	$ 11.34	$ 11.26	$ 11.04
$ 6.96	$ 10.27	$ 10.38	$ 10.56	$ 11.03	$ -
$ 7.57	$ 8.49	$ 8.52	$ 8.26	$ 8.40	$ 8.20
$ 7.35	$ 8.23	$ 6.95	$ 7.83	$ 7.79	$ -

AIRPORT INFORMATION
STATISTICAL SECTION

George Bush Intercontinental Airport

Location:	22 miles north of downtown Houston			
Area:	10,030 acres			
Elevation:	97 MSL			
Airport Code:	IAH			
Runways:	8R-26L	9,402 x 150 ft		
	9-27	10,000 x 150 ft		
	15L-33R	12,001 x 150 ft		
	15R-33L	9,999 x 150 ft		
	8L-26R	9,000 x 150 ft		
Terminal:	Airlines		2,725,090	sf
	Tenants		195,785	sf
	Public/common		718,705	sf
	Mechanical		240,365	sf
	Other		284,853	sf
		Total	4,164,798	sf
	Number of gates		131	
	Apron for Commercial Airlines		4,109,497	sf
Consolidated Rental Car Facility:	Number of rental car agencies		9	
Parking:	Spaces assigned:	Short-term hourly	13,786	
		Long-term economy	8,526	
		Employee	1,505	
		Total	23,817	

AIRPORT INFORMATION
STATISTICAL SECTION

William P. Hobby Airport

Location:	7 miles southeast from downtown Houston			
Area:	1,524 acres			
Elevation:	46 MSL			
Airport Code:	HOU			
Runways:	12L-30R	5,148 x 100 ft		
	12R-30L	7,602 x 150 ft		
	17-35	6,000 x 150 ft		
	4-22	7,602 x 150 ft		
Terminal:	Airlines		263,098	sf
	Tenants		29,399	sf
	Public/common		138,241	sf
	Mechanical		51,333	sf
	Other		45,071	sf
		Total	527,142	sf
	Number of gates		25	
	Apron for Commercial Airlines		681,239	sf
	Number of rental car agencies in terminal		9	
Parking:	Spaces assigned:	Short-term hourly	3,465	
		Long-term economy	566	
		Employee	0	
		Total	4,031	

Ellington Airport (1)

Location:	15 miles southeast of downtown Houston	
Area:	2,000 acres	
Elevation:	32 MSL	
Airport Code:	EFD	
Runways:	17L-35R	4,609 x 75 ft
	17R-35L	9,001 x 150 ft
	4-22	8,001 x 150 ft

Note 1: No scheduled commercial flights.

EMPLOYEE STAFFING BY FUNCTION
STATISTICAL SECTION

	Full Time Equivalent (FTE) Number of Employees (1)		
Department	**2007**	**2008**	**2009**
Executive Administration	8.7	9.0	8.6
F&A Administration	18.0	11.0	14.2
Finance	50.5	51.7	52.3
Human Resources	34.1	32.0	34.3
Purchasing	77.7	76.6	73.8
Property Management	10.8	9.1	9.1
Marketing, Communications & Community Affairs	17.4	16.2	17.3
Airports Services	16.9	21.3	24.0
George Bush Intercontinental (IAH) Operations (2)	719.3	689.0	674.2
William P. Hobby (HOU) Operations (2)	245.6	240.6	252.2
Ellington Airport Operations (2)	29.0	28.9	30.7
Security and Safety-All Airports (3)	295.0	291.9	290.2
Planning, Design & Construction	65.6	68.0	72.1
Information Technology	34.1	41.9	51.8
Total FTE Employees	1,622.7	1,587.2	1,604.8

Note 1: A full-time employee is scheduled to work 2,080 hours per year (including vacation and sick leave).
Full-time equivalent employment is calculated by dividing total labor hours including overtime by 2,080.

Note 2: Includes Airside, Landside, Communication Center and Ground Transportation.

Note 3: Police and Fire Operations are not included in employee counts for the Houston Airport System.
They are provided by the City of Houston and paid for through interfund service charges.
See Note #9 in the Notes to the Financial Statements.

The Fund is including only three years of employee staffing information because of a change
in cost center allocations during the implementation of a new accounting system in fiscal year 2007.

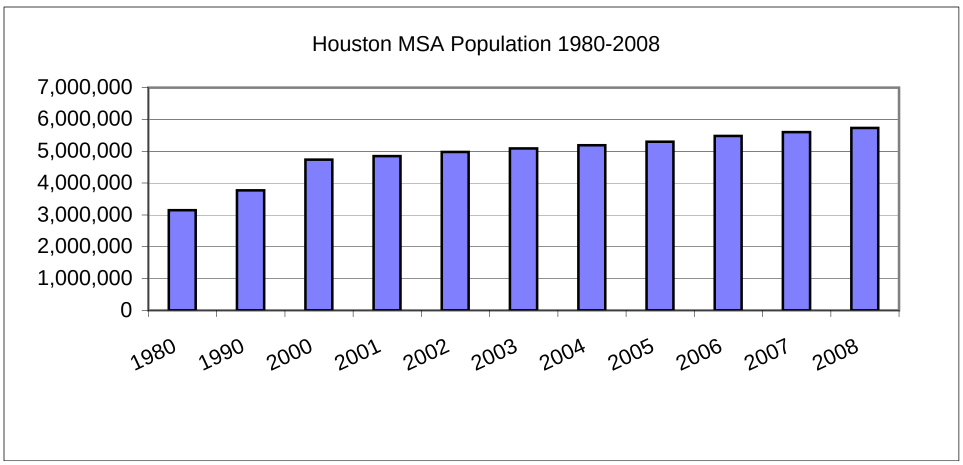
SERVICE AREA
STATISTICAL SECTION

The primary service region for the Houston Airport System, the 10-county Houston-Sugar Land-Baytown, Texas Metropolitan Statistical Area ("MSA"), has a diverse economic base and is recognized as a major national and international energy, financial, medical, transportation, retail, and distribution center. The MSA extends out two additional counties for the broader Houston-Baytown-Huntsville Combined Statistical Area ("CSA"). According to U.S. Bureau of the Census, the population estimate was 5.73 million for the MSA and 5.83 million for the CSA as of July 1, 2008. The air service region also encompasses other smaller markets such as Beaumont/Port Arthur, Victoria, Brownsville and Del Rio in Texas and Lake Charles, Louisiana as those airports only provide air service to and from Intercontinental.

Houston, the nation's fourth most populous city, is the largest in the Southwest. The Houston MSA ranks sixth in population among the nation's metropolitan areas.

Service Area Population

Year	Houston MSA Population
1980	3,148,991
1990	3,767,335
2000	4,739,625
2001	4,851,949
2002	4,979,939
2003	5,086,012
2004	5,193,029
2005	5,302,908
2006	5,485,545
2007	5,597,958
2008	5,728,143



Source: Texas State Data Center 1980-2008, US Census Bureau 2008

Largest Private Employers Houston MSA

<u>At June 30, 2009</u>

Memorial Herman Healthcare Systems
Continental Airlines, Inc.
ExxonMobil
Shell Oil Company
Kroger Company
National Oilwell Varco
Methodist Hospital System
Baylor College of Medicine
Hewlett-Packard Corporation
St. Luke's Episcopal Health System
ARAMARK Corp.
Halliburton

Sources: Greater Houston Partnership; Business Houston

CITY OF HOUSTON
TEXAS