# FY21 PRO-FORMA FINANCIAL REPORT

## 2nd Quarter

## UNAUDITED

# DISCLAIMER

This Interim Financial Reporting Presentation is provided for general information and convenience only and does not constitute an offer to sell or a solicitation of an offer to buy securities. The information contained herein is provided as of the respective dates and for the periods specified herein, and the information does not, under any circumstances, imply that there has been no change in the affairs of the Houston Airport System since the specified date as of which such information is provided. The dates as of and periods for which information is provided occurred just after the worldwide COVID-19 pandemic and the measures instituted to slow it. The pandemic has adversely affected travel, commerce, and financial markets globally and is expected to adversely affect economic output worldwide and in Texas. While the potential impact of the Pandemic on the Houston Airport System cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the Houston Airport System's operations and financial condition. Accordingly, the historical information set forth in this Interim Financial Reporting Presentation is not indicative of future results or performance due to these and other factors. For more information regarding the effects of the pandemic on the Houston Airport System, see the Voluntary Event Filing dated as of April 20, 2020, available at https://emma.msrb.org/RE1332721-RE1037976-RE1445656.pdf.

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This Interim Financial Reporting Presentation is produced by adjusting certain general ledger accounts to produce pro-forma financial statements reflective of the revenues and expenses of the period presented. Some general ledger accounts contain expense accruals that are

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completed at the end of each fiscal year. In order to produce pro-forma financial statements on a quarterly basis, these year-end accruals must be estimated and spread throughout the year. Each year-end accrual estimate is spread evenly over 12 months to produce these interim financial reports. These estimates are subject to inherent risks, uncertainties and assumptions, and are subject to change without notice.

Year-end accrual estimates cause the total expenses in this Interim Financial Reporting Presentation to differ from those presented in the City of Houston MoFR for the Houston Airport System. Such estimates are made on the following general ledger accounts:

- GL 503050 Health Insurance Ret Civ (OPEB)
- GL 504010 Pension-GASB 27 Accr
- GL 520110 Mgmt Consulting Svcs
- GL 520114 Misc Support Svcs
- GL 520120 Commun Equip Svcs
- GL 520121 Application Svcs
- GL 503090 Workers Comp-Civ Adm
- GL 531065 Rev Bonds Interest (Cap Interest)

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# PROFORMA FINANCIAL REPORT EXECUTIVE SUMMARY – YTD 2Q FY21

| ($s in millions) | YTD 2Q FY21 | YTD 2Q FY20 | $ Variance | % Variance |
|---|---|---|---|---|
| Proforma Operating Revenues | $142.9 | $265.1 | -$122.2 | -46.1% |
| Proforma Operating Expenses | $241.7 | $245.1 | -$3.4 | -1.4% |
| Proforma Non-Operating Revenues/Expenses and Capital Contributions | $67.7 | $44.6 | +$23.1 | +51.8% |

## Highlights

**Proforma Operating Revenues (-$122.2M)**

- Decrease in Landing Fees (-$18.0M) primarily due to lower landed weight (-$10.8M) and use of CARES Act funding to reduce expenses allocated to airfields (-$7.4M).
- Decrease in Rentals, Building and Ground Area (-$35.5M) due to use of CARES Act funding to reduce expenses allocated to the terminals (-$20.2M), and lower passenger volume resulted a decrease in rental revenue (-$14.5M).
- Decrease in Parking (-$40.1M) mainly due to 62% reduction in the enplanements. In addition, the daily parking rate for the garages was reduced from $24/day to $10/day in July 2020 through November 2020. In December 2020, the daily rate was increased to $15/day.
- Decrease in Concessions (-$28.5M) due to lower enplanements associated with COVID-19, resulting in lower auto rental (-$8.0M), ground transportation concessions (-$4.2M) and retail concessions (-$16.2M).

**Proforma Operating Expenses -$3.4M**

- Decrease in Personnel Costs (-$4.4M) due to lower pension cost associated with amortization of prior year deferred amounts (-$4.2M) and lower overtime (-$2.3M), partially offset by an increase in headcount (+$2.1M).
- Decrease in Supplies (-$1.5M) primarily due to a decrease in passenger volume resulting a decrease in expenditures on various supplies and parts for operations and maintenance of the airports.
- Increase in Services (+$2.8M) due to various airport maintenance and repairs (+$7.5M) and planning and design consulting service fee for various airport projects (+$1.0M); offset by a decrease in electricity, miscellaneous services, credit card fees, and parking expenses (-$5.8M).

**Proforma Non-Operating Revenues/Expenses and Capital Contributions +$23.1M**

- Decrease in Investment Income (-$30.2M) mainly due to lower interest rates, 2.0% vs. 1.2% during the periods, for pooled investment accounts (-$5.5M) and a decrease in fair value of the investments (-$24.6M).
- Increase in Interest Expense (+$4.5M) due to over-accrual of interest expense (-$9.3M) and savings associated with issuance of 2020 Series bonds for refunding of various outstanding debt in October 2020 (+$4.8M). Interest expense will be trued up during 3Q FY21 as the Airport System finalize review of the calculations..
- Decrease in Passenger Facility Charges (-$35.0M) mainly due to a decrease in passenger volume caused by the pandemic.
- Customer Facility Charges (-$4.6M) mainly due to a decrease in passenger volume caused by the pandemic.
- Increase in Costs of Issuance of Debt (+$5.1M) due to issuance of 2020 Series Bonds in October 2020.
- Increase in Other Revenue (Expense) (+$5.8M) primarily due to the interests recognized from the adoption of GASBS 87 (+$5.1M) .
- Increase in Capital Contributions (+$96.8M) due to grants received from CARES Act (+$92.6M) and from TSA (+$3.6M).

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# PROFORMA FINANCIAL REPORT EXECUTIVE SUMMARY – 2Q FY21

| ($s in millions) | 2Q FY21 | 2Q FY20 | $ Variance | % Variance |
|---|---|---|---|---|
| Proforma Operating Revenues | $75.4 | $132.2 | -$56.8 | -43.0% |
| Proforma Operating Expenses | $126.6 | $123.7 | +$2.9 | +2.4% |
| Proforma Non-Operating Revenues/Expenses and Capital Contributions | $14.9 | $25.9 | -$11.0 | -42.3% |

## Highlights

**Proforma Operating Revenues (-$56.8M)**

- Decrease in Landing Fees (-$8.3M) primarily due to lower landed weight and use of CARES Act funding to reduce expenses allocated to airfields (-$7.9M).
- Decrease in Rentals, Building and Ground Area (-$17.4M) primarily due to the use of CARES Act funding to reduce expenses allocated to the terminals (-$14.8M) and lower rental revenue as a result of lower passenger volume during 2Q FY2021 (-$2.2M).
- Decrease in Parking (-$17.9M) mainly due to 56% reduction in passengers in 2Q FY21 associated with COVID-19 . Also, the daily parking rate for the garages was reduced from $24/day to $10/day in July 2020 through November 2020. In December 2020, the daily rate was increased to $15/day.
- Decrease in Concessions (-$13.5M) due to 56% reduction in passenger numbers for 2Q FY21 versus 2Q FY20 causing a reduction of all concessions, including auto rental concessions (-$3.2M), ground transportation concessions (-$1.4M) and retail concessions (-$8.9M) .

**Proforma Operating Expenses +$2.9M**

- Decrease in Personnel Costs (-$1.9M) due to lower pension cost associated with amortization of prior year deferred amounts (-$2.4M) and lower overtime (-$1.2M), partially offset by an increase in headcount (+$1.6M).
- Decrease in Supplies (-$1.2M) primarily due to a decrease in passenger volume during 2Q FY2021 resulting a decrease in expenditures on various supplies and parts for operations and maintenance of the airports.
- Increase in Services (+$6.2M) primarily due to higher airport maintenance/repairs and management consulting fee for various airport projects (+$9.4M), partially offset by decreases in electricity and parking expenses (-$2.4M).

**Proforma Non-Operating Revenues/Expenses and Capital Contributions (-$11.0M)**

- Decrease in Investment Income (-$5.7M) mainly due to lower interest rates, 2.0% vs. 1.2% in 2Q FY2020 and 2Q FY2020, respectively, for pooled investment accounts.
- Increase in Interest Expense (+$4.7M) due to over-accrual of interest expense (-$9.3M) partially offset by savings associated with issuance of 2020 Series bonds for refunding of various outstanding debt in October 2020 (+$4.8M). Interest expense will be trued up during 3Q FY21 as the Airport System finalize review of the calculations.
- Decrease in Passenger Facility Charges (-$15.7M) mainly due to 56% reduction in passenger volume caused by the pandemic.
- Decrease in Customer Facility Charges (-$2.7M) mainly due to 56% reduction in passenger volume caused by the pandemic.
- Increase in Costs of Issuance of Debt (+$5.1M) due to issuance of 2020 Series Bonds in October 2020.
- Increase in Other Revenue (Expense) (+$4.0M) primarily due to interest revenue recognized from the adoption of GASBS 87 (+$2.5M) and the proceeds from a bank to finance the debt issuance costs, which will be reclassified as a reduction to issuance costs during 3Q FY2021 (+$1.3M).
- Increase in Capital Contributions (+$19.1M) due to grants received from CARES Act (+$14.5M) and from TSA (+$3.6M).

| FAVORABLE | UNFAVORABLE |
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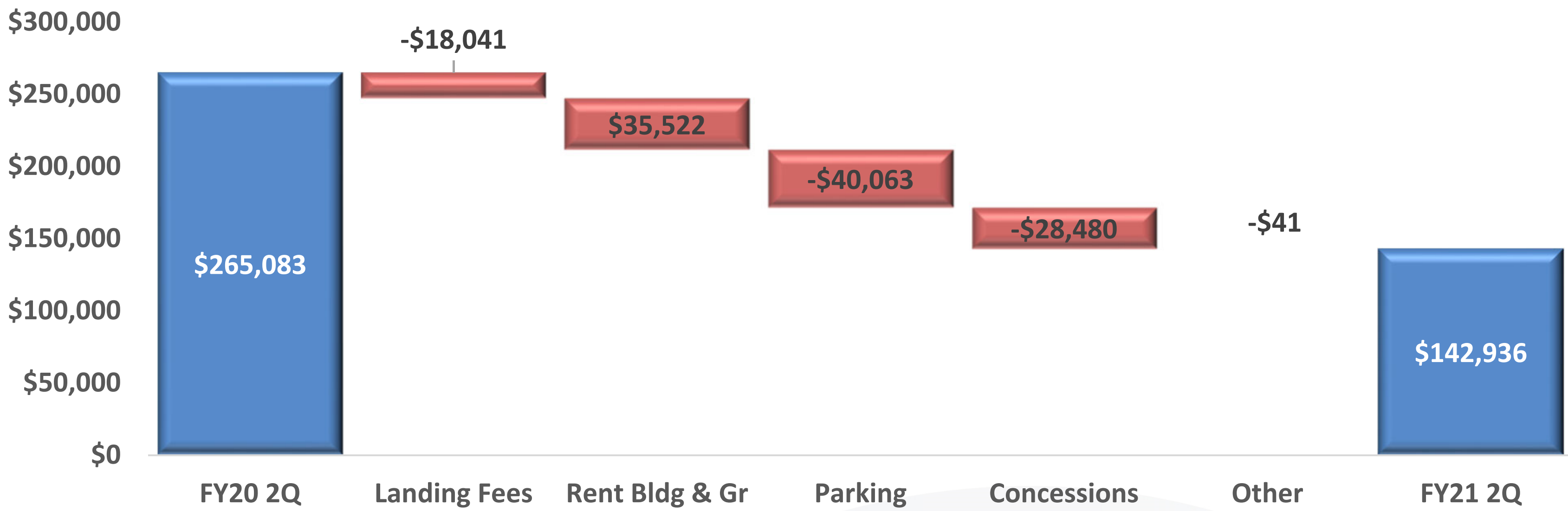
# PROFORMA OPERATING REVENUES – YTD 2Q FY21 vs. YTD 2Q FY20 (in 000's)

HOUSTON AIRPORTS




**VARIANCE COMMENTS**

- **Operating Revenues Total: (-$122.2M)**
- **Landing Fees** (-$18.0M) primarily due to lower landed weight (-$10.8M), and use of CARES Act funding to reduce expenses allocated to airfields (-$7.4M).
- **Rentals, Buildings and Ground Area**: (-$35.5M) due to use of CARES Act funding to reduce expenses allocated to the terminals (-$20.2M), and lower passenger volume resulted a decrease in rental revenue (-$14.5M).
- **Parking:** (-$40.1M) due to 62% reduction in the enplanements. In addition, the daily parking rate for the garages was reduced from $24/day to $10/day in July 2020 through November 2020. In December 2020, the daily rate was increased to $15/day.
- **Concessions:** (-$28.5M) due to lower enplanements associated with COVID-19, resulting in lower auto rental (-$8.0M), ground transportation concessions (-$4.2M) and retail concessions (-$16.2M).

| FAVORABLE | UNFAVORABLE |
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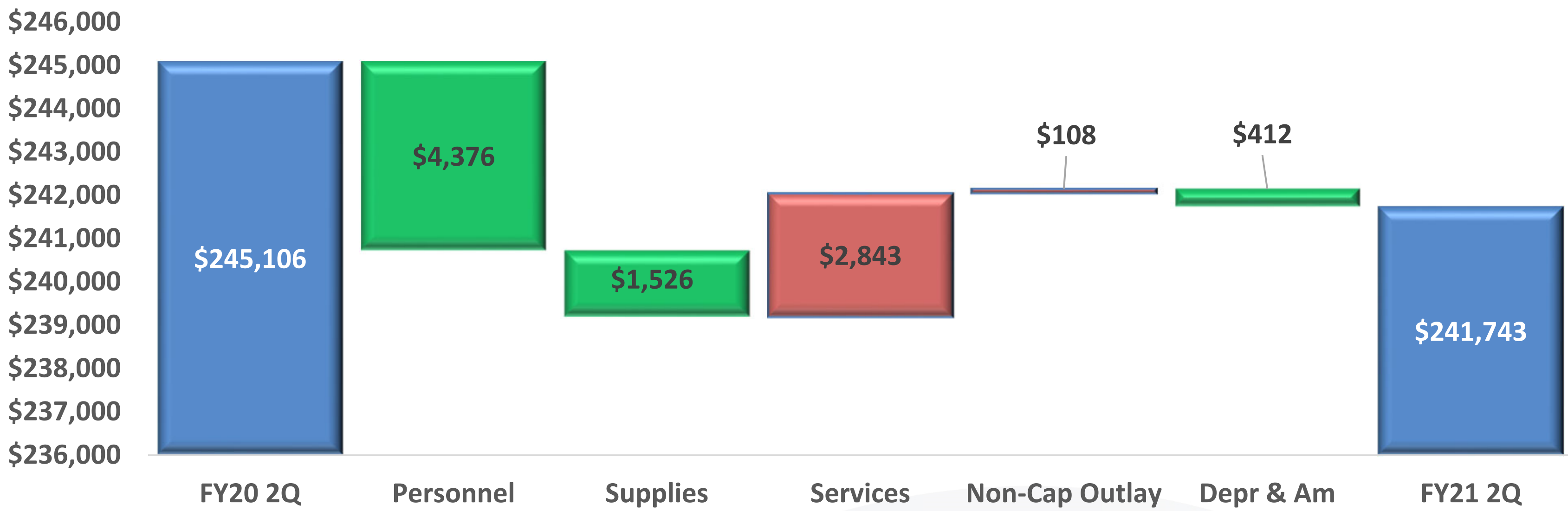
# PROFORMA OPERATING EXPENSES – YTD 2Q FY21 vs. YTD 2Q FY20 (in 000's)




**VARIANCE COMMENTS**

- **Operating Expenses Total: (-$3.4M)**
- **Personnel:** (-$4.4M) mainly due to lower pension cost associated with amortization of prior year deferred amounts (-$4.2M) and lower overtime (-$2.3M), partially offset by an increase in headcount from 1,084 employees in the first six months of FY20 to 1,130 employee in the first six months of FY21 (+$2.1M).
- **Supplies:** (-$1.2M) primarily due to a decrease in passenger volume during 2Q FY21 resulting a decrease in expenditures on various supplies and parts for operations and maintenance of the airports.
- **Services:** (+$2.8M) due to various airport maintenance and repairs (+$7.5M) and planning and design consulting service fee for various airport projects (+$1.0M); offset by a decrease in electricity, miscellaneous services, credit card fees, and parking expenses (-$5.8M).

FAVORABLE | UNFAVORABLE

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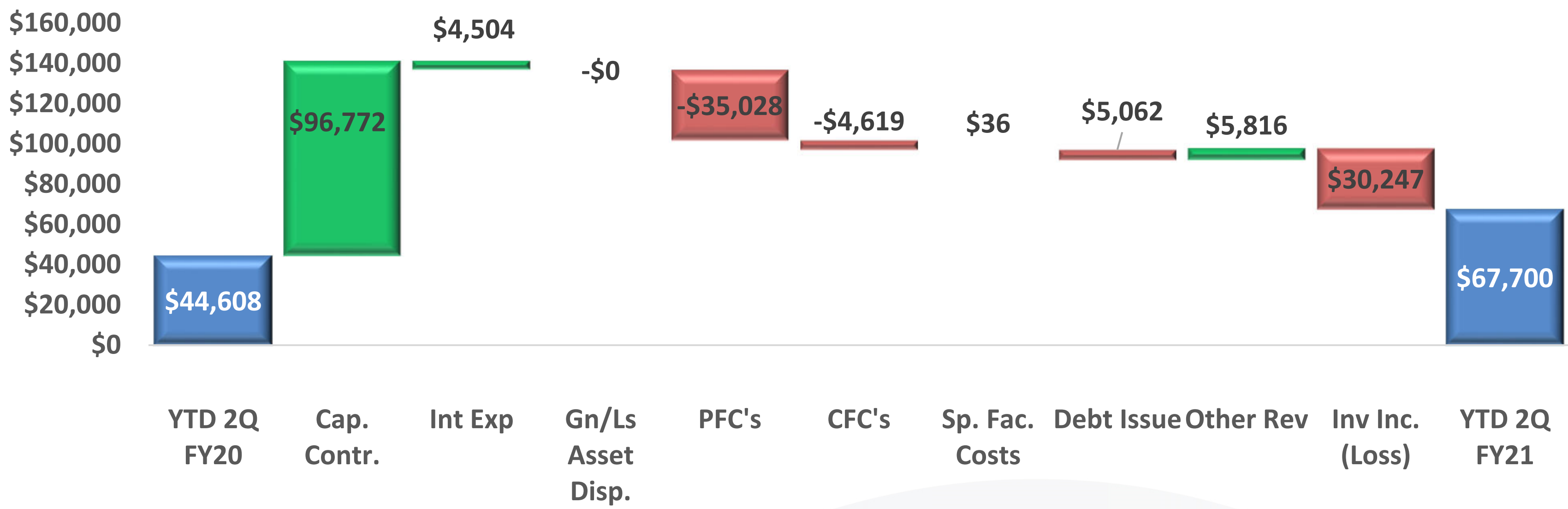
# PROFORMA NON-OP REVENUE (EXPENSES) AND CAPITAL CONTRIBUTION – YTD 2Q FY21 vs. YTD 2Q FY20 (in 000's)




**VARIANCE COMMENTS**

- **Non-Op Revenue and Capital Contribution Total**: **+$23.1M**
- **Investment Income:** (-$30.2M) mainly due to lower interest rates, 2.0% vs. 1.2% during the periods, for pooled investment accounts (-$5.5M) and a decrease in fair value of the investments (-$24.6M).
- **Interest Expense:** (-$4.5M) due to over-accrual of interest expense (-$9.3M) and savings associated with issuance of 2020 Series bonds for refunding of various outstanding debt in October 2020 (+$4.8M). Interest expense will be trued up during 3Q FY21 as the Airport System finalize review of the calculations.
- **Passenger Facility Charges** (-$35.0M) mainly due to a decrease in passenger volume caused by the pandemic.
- **Customer Facility Charges:** (-$4.6M) mainly due to a decrease in passenger volume caused by the pandemic.
- **Costs of Issuance of Debt:** (-$5.1M) due to issuance of 2020 Series Bonds in October 2020.
- **Other Revenue (Expense):** (+$5.8M) primarily due to the interest revenue recognized from the adoption of GASBS 87 Lease Accounting (+$5.1M).
- **Capital Contributions:** (+$96.8M) due to grants received from CARES Act (+$92.6M) and from TSA (+$3.6M).

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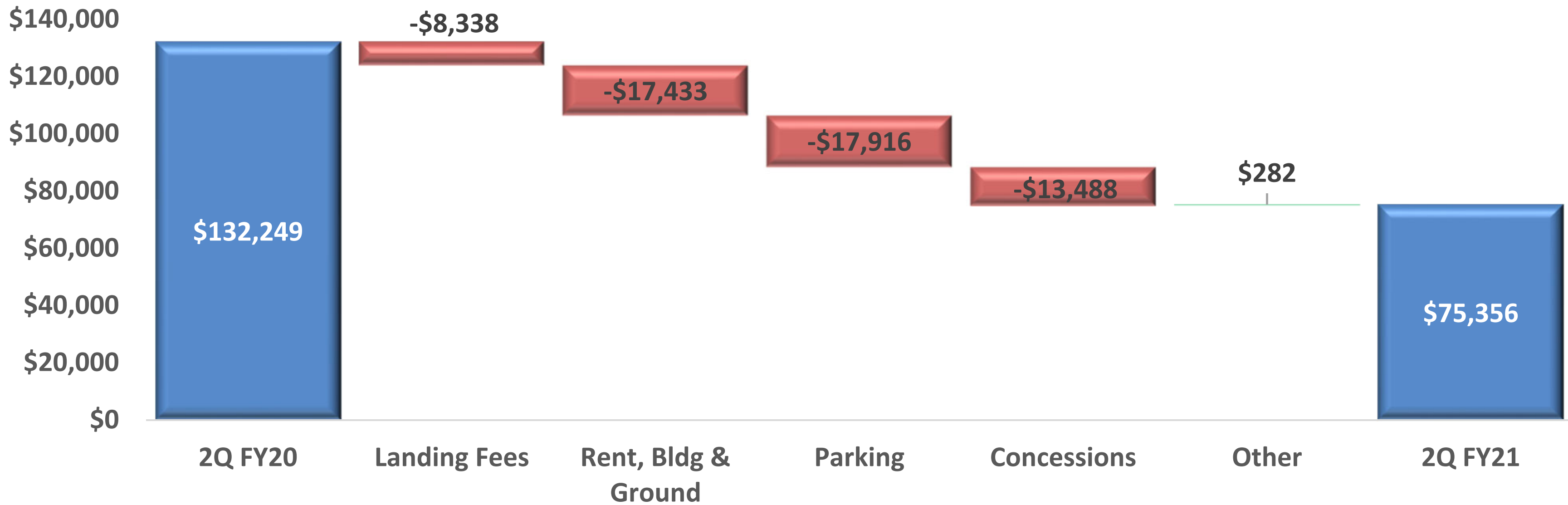
# PROFORMA OPERATING REVENUES – 2Q FY21 vs. 2Q FY20 (in 000's)




**VARIANCE COMMENTS**

- **Operating Revenues: (-$56.8M)**
- Decrease in Landing Fees (-$8.3M) primarily due to lower landed weight and use of CARES Act funding to reduce expenses allocated to airfields (+$7.9M).
- Decrease in Rentals, Building and Ground Area (-$17.4M) primarily due to the use of CARES Act funding to reduce expenses allocated to the terminals (-$14.8M) and lower rental revenue from the lower passenger volume during 2Q FY2021 (-$2.2M).
- Decrease in Parking (-$17.9M) due an 56% reduction in passengers in 2Q FY21 associated with COVID-19 . Also, the daily parking rate for the garages was reduced from $24/day to $10/day in July 2020 through November 2020. In December 2020, the daily rate was increased to $15/day.
- Decrease in Concessions (-$13.5M) due to 56% reduction in passenger numbers for 2Q FY21 versus 2Q FY20 causing a reduction of all concessions including auto rental concessions (-$3.2M), ground transportation concessions (-$1.4M) and retail concessions (-$8.9M).

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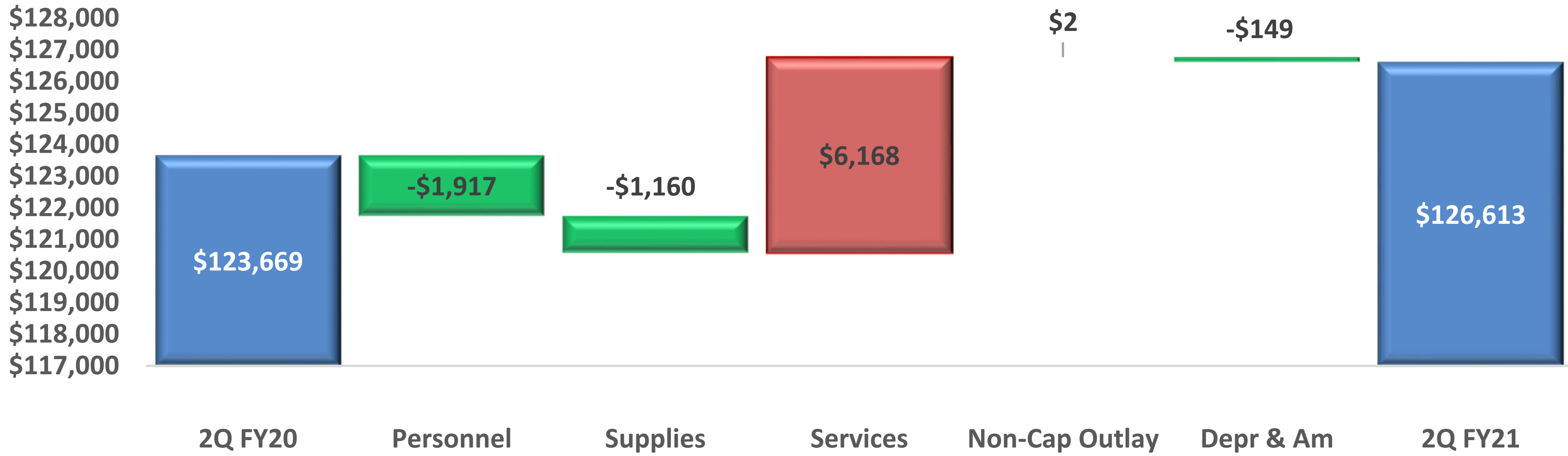
# PROFORMA OPERATING EXPENSES – 2Q FY21 vs. 2Q FY20 (in 000's)




**VARIANCE COMMENTS**

- **Operating Expenses**: **(+$2.9M)**
- Decrease in Personnel Costs (-$1.9M) due to lower pension cost associated with amortization of prior year deferred amounts (-$2.4M) and lower overtime (-$1.2M), partially offset by an increase in headcount, average headcount increased from 1,074 employees in 2Q FY20 to 1,135 employee in 2Q FY21, (+$1.6M).
- Decrease in Supplies (-$1.2M) primarily due to a decrease in passenger volume during 2Q FY21 resulting a decrease in expenditures on various supplies and parts for operations and maintenance of the airports.
- Increase in Services (+$6.2M) primarily due to higher airport maintenance/repairs and management consulting fee for various airport projects (+$9.4M), partially offset by decreases in electricity and parking expenses (-$2.4M).

| FAVORABLE | UNFAVORABLE |
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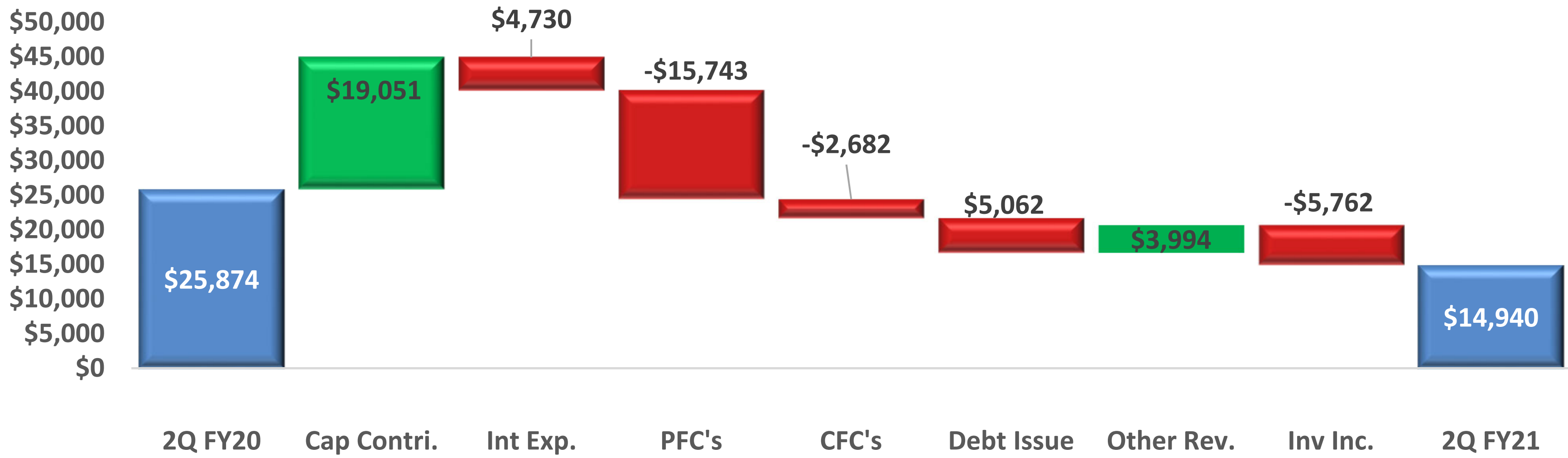
## PROFORMA NON-OP REVENUE (EXPENSES) AND CAPITAL CONTRIBUTION – 2Q FY21 vs. 2Q FY20 (in 000's)




**VARIANCE COMMENTS**

- **Non-Op Revenue and Capital Contributions Total**: **(-$11.0M)**
- Increase in Capital Contributions (+$19.1M) due to grants received from CARES Act (+$14.5M) and from TSA (+$3.6M).
- Increase in Interest Expense (+$4.7M) primarily due to over-accrual of interest expense (-$9.3M) partially offset by savings associated with issuance of 2020 Series bonds for refunding of various outstanding debt in October 2020 (+$4.8M). Interest expense will be trued up during 3Q FY21 as the Airport System finalizes review of the calculations.
- Decrease in Passenger Facility Charges (-$15.7M) mainly due to 56% reduction in passenger volume caused by the pandemic.
- Decrease in Customer Facility Charges (-$2.7M) mainly due to 56% reduction in passenger volume caused by the pandemic.
- Increase in Costs of Issuance of Debt (+$5.1M) due to issuance of 2020 Series Bonds in October 2020.
- Increase in Other Revenue (Expense) (+$4.0M) primarily due to interest revenue recognized from the adoption of GASBS 87 (+$2.5M) and the proceeds from a bank to finance the debt issuance costs, which will be reclassified as a reduction to issuance costs during 3Q FY21 (+$1.3M).
- Decrease in Investment Income (-$5.7M) mainly due to lower interest rates, 2.0% vs. 1.2% in 2Q FY20 and 2Q FY20, respectively, for pooled investment accounts.

| FAVORABLE | UNFAVORABLE |
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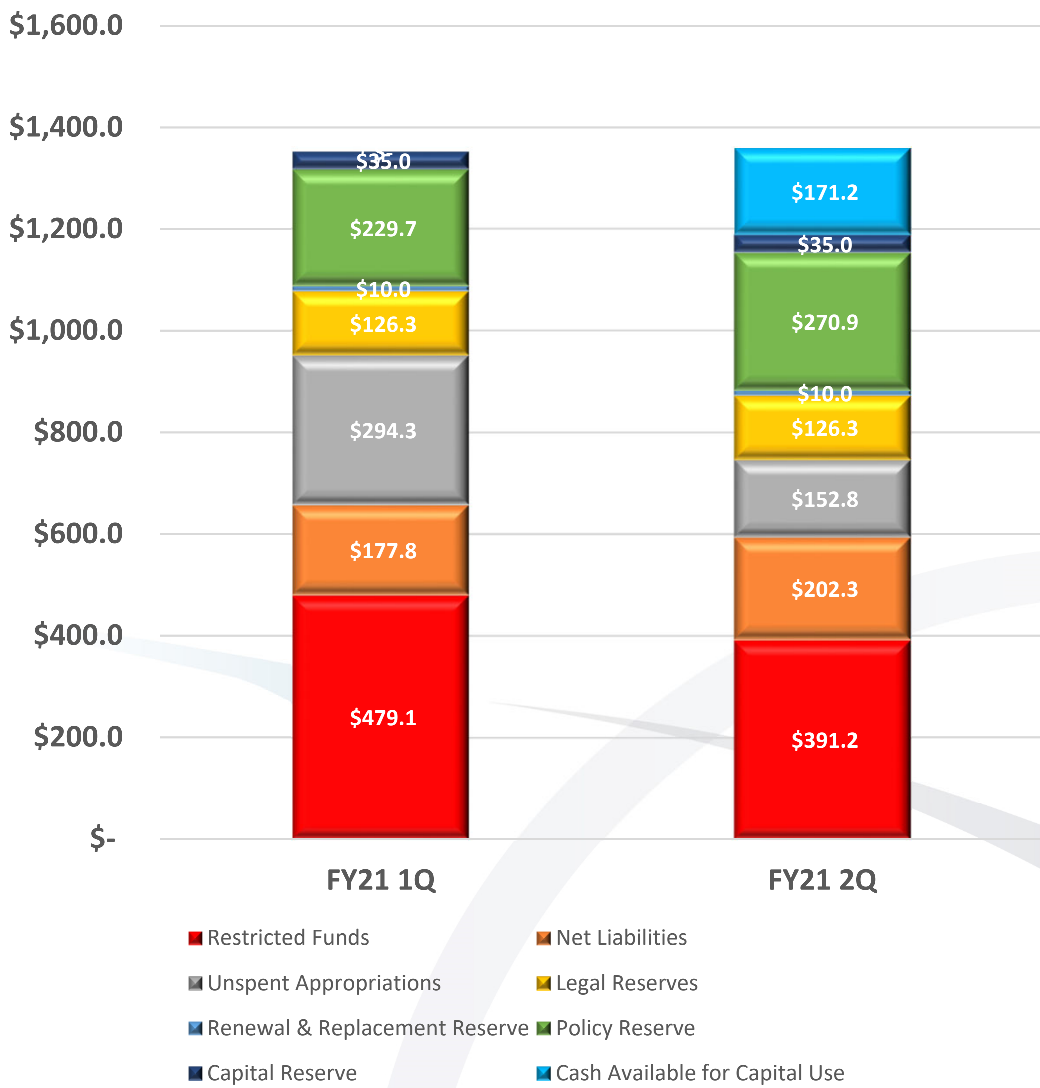
# PROFORMA CASH REPORTS

# PROFORMA AVAILABLE CASH AS OF 2Q FY21 vs. 1Q FY21 (in millions)

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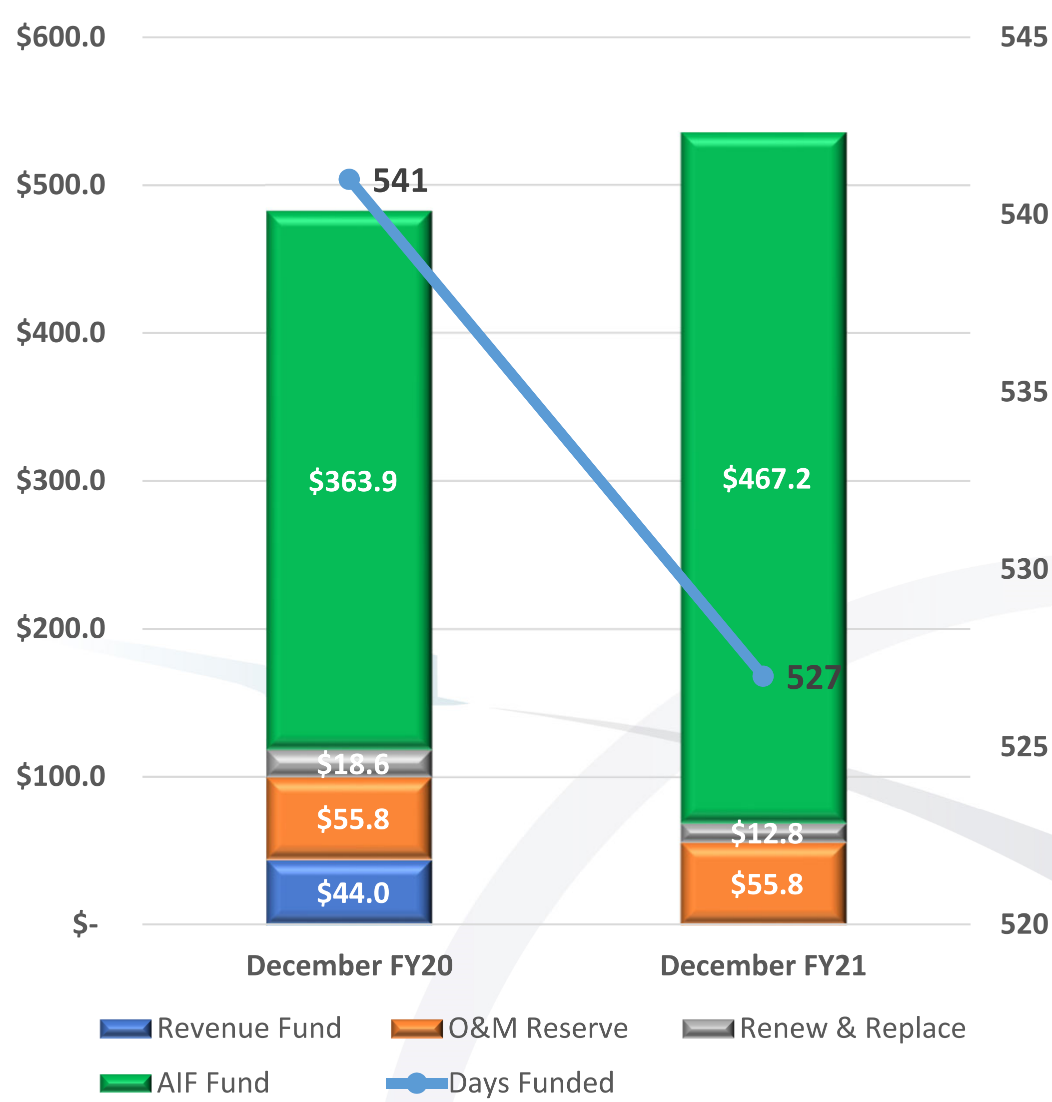
- Cash balance at December 31, 2020 was $1.360 billion, an increase of (+$7.5M) when compared to $1.352 billion at September 30, 2020 primarily due to an increase in Revenue Fund (+$29.6M), Debt Service Fund (+$25.0M), and Revenue-Funded Capital Funds (+$99.0M), partially offset by a decrease in Passenger Facility Charges (-$96.4M), Grant funds (-$15.5M) and construction fund balances (-$33.2M).

- Cash Available for Operations at $469.1M as of 2Q FY21 increased by +$140.2M when compared to 1Q FY21.

# PROFORMA DAYS FUNDED W/ CASH AVAILABLE AS OF DECEMBER FY21 vs. DECEMBER FY20 ($'s in millions)

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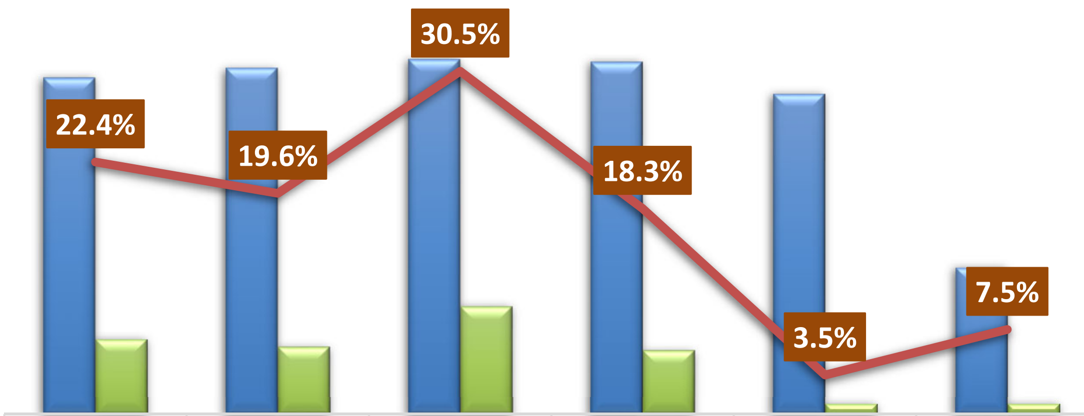
- Days funded decreased by 14 days.
- Cash available for operations decreased by $26.4M.
- Budgeted Daily cash requirement is $24.8K lower in FY21.

# PROFITABILITY AND TREND ANALYSIS

# PROFORMA ADJUSTED OPERATING PROFIT % TREND (in 000's)




| | FY16 | FY17 | FY18 | FY19 | FY20 | 2Q FY21 |
|---|---|---|---|---|---|---|
| **Operating Revenue** | **$598,105** | **$615,668** | **$630,948** | **$626,217** | **$569,314** | **$261,411** |
| **Adj Operating Profit/(Loss)** | **$134,065** | **$120,852** | **$192,286** | **$114,475** | **$19,814** | **$19,668** |
| **Adj. Operating Profit %** | **22.4%** | **19.6%** | **30.5%** | **18.3%** | **3.5%** | **7.5%** |

**VARIANCE COMMENTS**

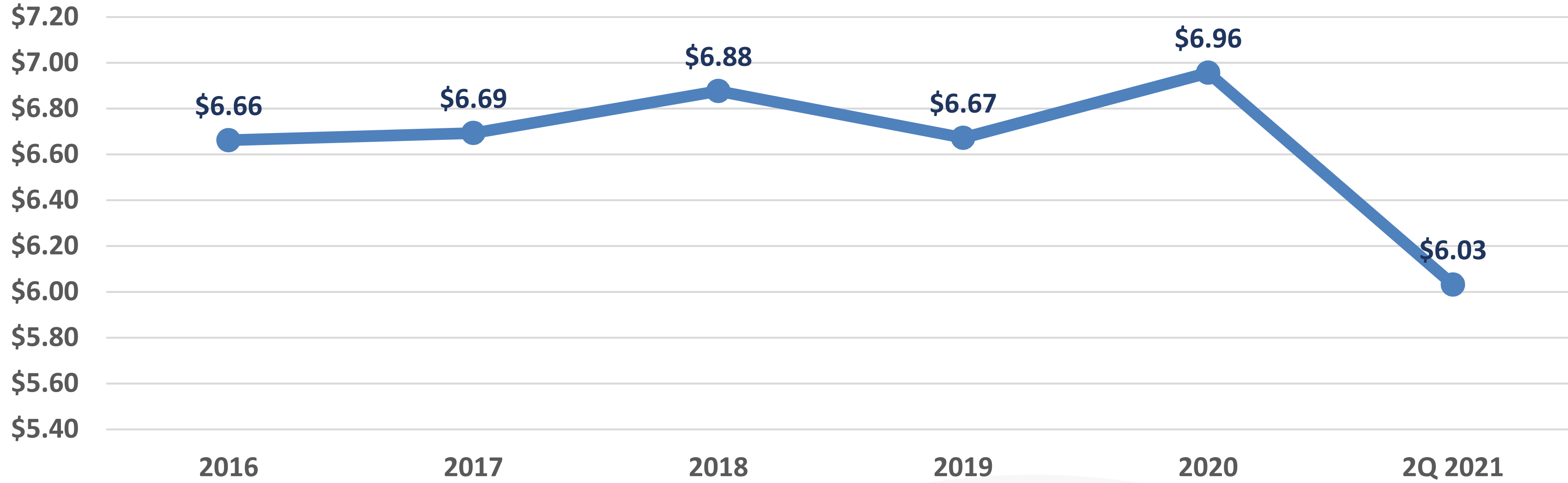
- 2Q FY21 adjusted operating profit % was higher than FY20 due to higher Capital Contribution (+$78.8M).
- FY20 adjusted operating profit % was lower than FY19 due to lower parking and concession revenue, and lower PFCs due to COVID-19, higher personnel costs (+$4.9M) and higher Non-Capital outlay (+$25.3M).

Note: Operating Revenues exclude Passenger Facility Charges and Capital Contributions, which are considered non-operating for statutory accounting purposes. Passenger Facility Charges and Capital Contributions are included in operating income for managerial reporting purposes to arrive at adjusted operating profit.

# KEY PERFORMANCE INDICATORS

# NON-AIRLINE REVENUE PER ENPLANEMENT TREND

HOUSTON AIRPORTS

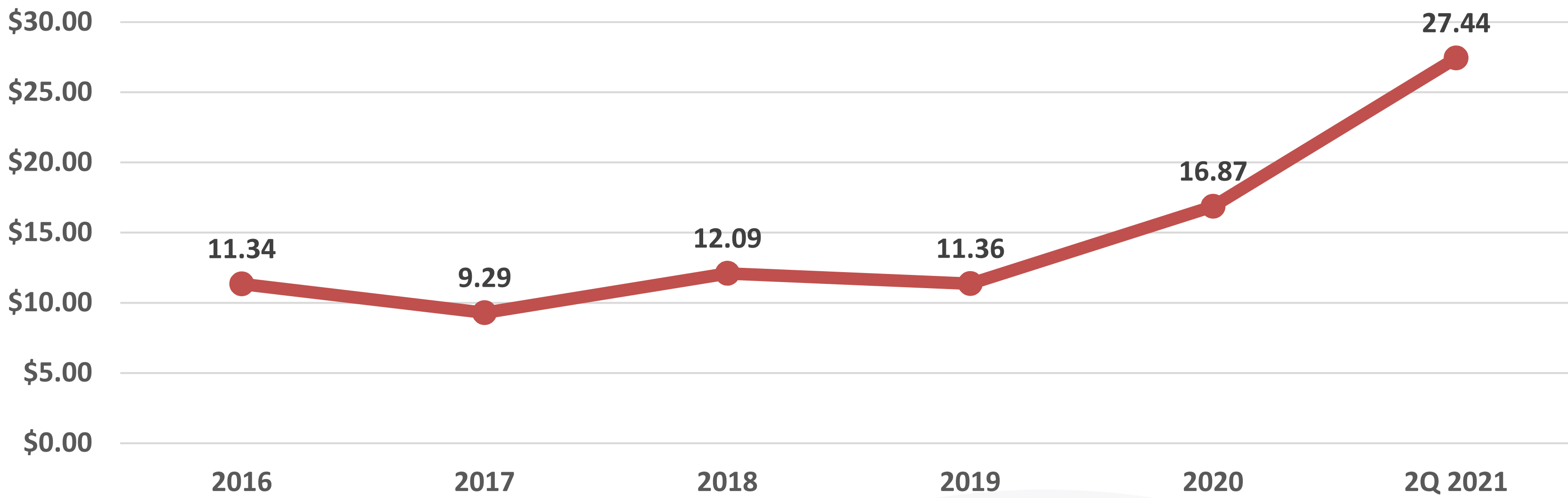



**VARIANCE COMMENTS**

- The 2Q FY21 decrease in Non-Airline Revenue per Enplanement primarily due the daily parking rate for the garages was reduced from $24/day to $10/day in July 2020 through November 2020. In December 2020, the daily rate was increased to $15/day.
- The FY20 vs FY19 increase in Non-Airline Revenue per Enplanement is due to the decrease of enplanements resulting from the impact of COVID-19 in mid-March to June. Total enplanements of 21,778K in FY20 is 27% lower than in FY19.
- The FY19 vs. FY18 decline in Non-Airline Revenue per Enplanement is primarily due to enplanement growth exceeding non-airline revenue categories (e.g. Parking, Concessions and Auto Rentals).
- The slight upward trend from FY17 to FY18 in non-airline revenue per Enplanement is primarily driven by an increase in parking revenues associated with an increase in rate from $20 to $22 in May 2017, at both IAH and HOU.

NOTE: This measure of non-airline revenue excludes all revenues not expected to vary in direct correlation with an increase in enplaned passengers (fixed rent, aviation fuel, hangar rentals, etc.)

# O&M EXPENSE PER ENPLANEMENT TREND



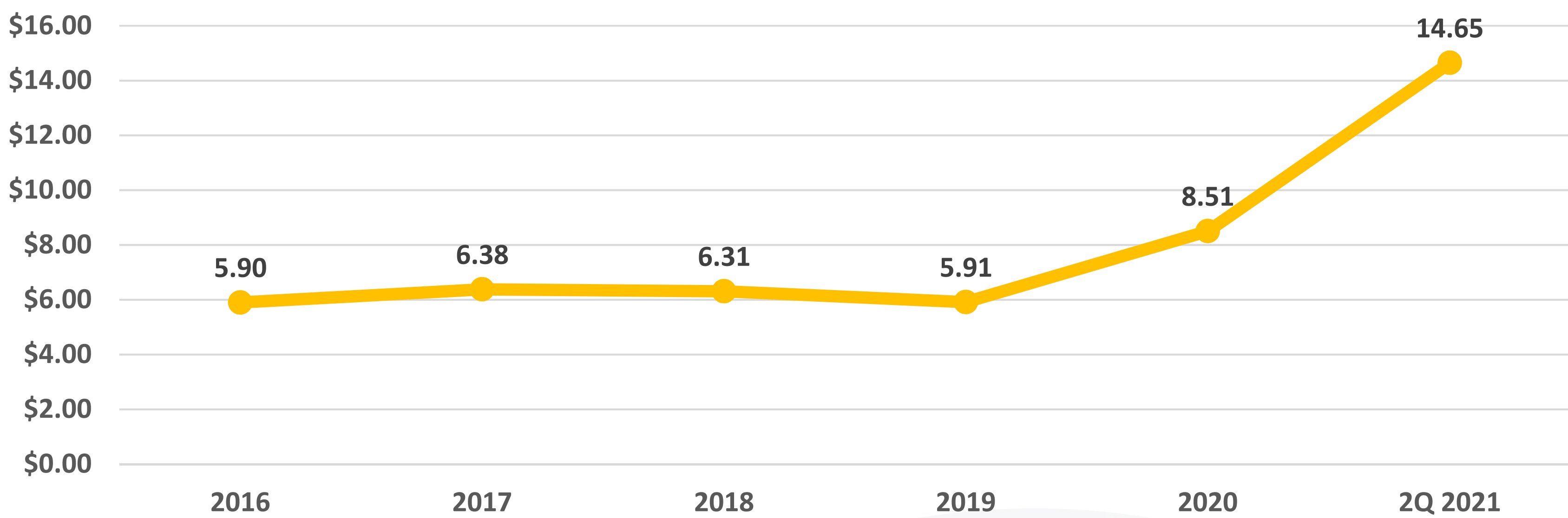

**VARIANCE COMMENTS**

- 2Q FY21 O&M Expense per Enplanement increased when compared to FY20 due to a significant decline in enplanements due to COVID-19. YTD 2Q FY21 enplanements is down 62% compared to YTD 2Q FY20.

- FY20 O&M Expense per Enplanement increased when compared to FY19 due to a significant decline in enplanements since the second half of March 2020 to June 2020, an increase in Personnel costs (+$4.9M), and an increase in Non-Capital Outlay (+$25.3M).

- FY19 vs. FY18 O&M Expense per Enplanement decreased primarily due to an increase in enplanements in FY19, which saw no impact of Hurricane Harvey.

# DEBT SERVICE PER ENPLANEMENT TREND




**VARIANCE COMMENTS**

- The higher 2Q FY21 debt service per Enplanement was due to a significant decrease in enplanements associated with COVID-19. YTD 2Q FY21 enplanements is 62% lower than YT D2Q FY20.

- FY20 Debt Service per Enplanement was higher due to the significant decrease in enplanements associated with COVID-19, and a slight increase in debt service requirement year over year.
  - FY20 vs. FY19 debt service requirement was higher by $9.0 million ($185M in FY20 vs $176M in FY19).

- The FY19 vs. FY18 lower debt service per enplanement was primarily due to the decrease in debt service associated with bond refinancing in FY18 and an increase in enplanements in FY19 compared to FY18.

# FINANCIAL STATEMENTS